

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

FORM 8-K

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

Date of Report (Date of earliest event reported): August 6, 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 August 6, 2013, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and six month periods ended June 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 August 6, 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 August 6, 2013.

Exhibit 99.2 Pixelworks, Inc. Second Quarter Results Conference Call Script dated August 6, 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: August 6, 2013

/s/ Steven L. Moore

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



Pixelworks Reports Second Quarter 2013 Financial Results

SAN JOSE, Calif., August 6, 2013 -- Pixelworks, Inc. (NASDAQ: PXLW), a pioneer in innovative video and display processing technology, today announced financial results for the second quarter ended June 30, 2013.

Second quarter 2013 revenue was up 15.5% to \$9.6 million, compared to \$8.3 million reported in the prior quarter and \$15.5 million in the second quarter of 2012. The sequential increase in revenue was due to increased sales of chips for both Projectors and TVs. Revenue declined compared to the prior year quarter primarily as the result of lower licensing revenue during the second quarter.

On a GAAP basis, gross profit margin in the second quarter of 2013 was 48.4%, compared to 48.1% in the prior quarter and 49.3% in the second quarter of 2012. Second quarter 2013 GAAP operating expenses were \$9.3 million, compared to \$9.5 million in the previous quarter and \$8.5 million in the second quarter of 2012. For the second quarter of 2013, the Company recorded a GAAP net loss of \$4.9 million, or \$0.26 per share, compared to a GAAP net loss of \$5.4 million, or \$0.29 per share in the first quarter of 2013 and a GAAP net loss of \$1.1 million, or \$0.06 per share in the second quarter of 2012.

On a non-GAAP basis, gross profit margin in the second quarter of 2013 was 49.7%, compared to 49.7% in the prior quarter and 50.6% in the second quarter of 2012. Second quarter 2013 operating expenses on a non-GAAP basis were \$8.7 million, compared to \$8.8 million in the prior quarter and \$8.1 million in the second quarter of 2012. The year-over-year increase in operating expenses was primarily due to higher net investment in research and development during the second quarter. For the second quarter of 2013, the Company recorded a non-GAAP net loss of \$4.2 million, or \$0.23 per share, compared with a net loss of \$4.7 million, or \$0.25 per share, in the prior quarter and a net loss of \$0.3 million, or \$0.02 per share, in the second quarter of 2012.

“Growth resumed in the second quarter as order patterns improved, and we expect a significant increase in third quarter revenue driven by an improving environment, ramping of the PA168 advanced video processor and success in our licensing initiative,” said Bruce Walicek, President and CEO of Pixelworks. “We are seeing outstanding demand for Pixelworks' Video Processing Technology, which is proving to be essential for delivering the highest video quality as resolution requirements increase across a growing number of displays.”

The Company will discuss the details of its business outlook for the third quarter of 2013 during its conference call scheduled for today, August 6, 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 866-700-0133 and using passcode 62804626. 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 Tuesday, August 13, 2013, and can be accessed by calling 888-286-8010 and using passcode 22926666.

About Pixelworks, Inc.

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

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

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

Non-GAAP Financial Measures

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

Safe Harbor Statement

This release contains statements, including, without limitation, the statements in Bruce Walicek's quote that are 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. 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 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			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2013	2013	2012	2013	2012
Revenue, net	\$ 9,554	\$ 8,271	\$ 15,524	\$ 17,825	\$ 29,854
Cost of revenue (1)	4,932	4,294	7,865	9,226	14,386
Gross profit	4,622	3,977	7,659	8,599	15,468
Operating expenses:					
Research and development (2)	6,010	5,884	4,715	11,894	9,808
Selling, general and administrative (3)	3,274	3,598	3,792	6,872	7,811
Total operating expenses	9,284	9,482	8,507	18,766	17,619
Loss from operations	(4,662)	(5,505)	(848)	(10,167)	(2,151)
Interest expense and other, net	(97)	(98)	(101)	(195)	(199)
Loss before income taxes	(4,759)	(5,603)	(949)	(10,362)	(2,350)
Provision (benefit) for income taxes	165	(198)	150	(33)	(613)
Net loss	\$ (4,924)	\$ (5,405)	\$ (1,099)	\$ (10,329)	\$ (1,737)
Net loss per share - basic and diluted	\$ (0.26)	\$ (0.29)	\$ (0.06)	\$ (0.56)	\$ (0.10)
Weighted average shares outstanding - basic and diluted	18,652	18,456	18,238	18,554	18,133

(1) Includes:

Additional amortization of non-cancelable prepaid royalty	\$ 98	\$ 91	\$ 156	\$ 189	\$ 288
Stock-based compensation	31	40	37	71	76
(2) Includes stock-based compensation	215	258	183	473	405
(3) Includes stock-based compensation	354	386	256	740	497

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

	Three Months Ended			Six Months Ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	\$ 4,622	\$ 3,977	\$ 7,659	\$ 8,599	\$ 15,468
Additional amortization of non-cancelable prepaid royalty	98	91	156	189	288
Stock-based compensation	31	40	37	71	76
Total reconciling items included in cost of revenue	129	131	193	260	364
Non-GAAP gross profit	<u>\$ 4,751</u>	<u>\$ 4,108</u>	<u>\$ 7,852</u>	<u>\$ 8,859</u>	<u>\$ 15,832</u>
Non-GAAP gross profit margin	<u>49.7%</u>	<u>49.7%</u>	<u>50.6%</u>	<u>49.7%</u>	<u>53.0%</u>
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	\$ 9,284	\$ 9,482	\$ 8,507	\$ 18,766	\$ 17,619
Reconciling item included in research and development:					
Stock-based compensation	215	258	183	473	405
Reconciling item included in selling, general and administrative:					
Stock-based compensation	354	386	256	740	497
Total reconciling items included in operating expenses	569	644	439	1,213	902
Non-GAAP operating expenses	<u>\$ 8,715</u>	<u>\$ 8,838</u>	<u>\$ 8,068</u>	<u>\$ 17,553</u>	<u>\$ 16,717</u>
Reconciliation of GAAP and non-GAAP net loss					
GAAP net loss	\$ (4,924)	\$ (5,405)	\$ (1,099)	\$ (10,329)	\$ (1,737)
Reconciling items included in cost of revenue	129	131	193	260	364
Reconciling items included in operating expenses	569	644	439	1,213	902
Tax effect of non-GAAP adjustments	18	(43)	136	(25)	(8)
Non-GAAP net loss	<u>\$ (4,208)</u>	<u>\$ (4,673)</u>	<u>\$ (331)</u>	<u>\$ (8,881)</u>	<u>\$ (479)</u>
Non-GAAP net loss per share - basic and diluted	<u>\$ (0.23)</u>	<u>\$ (0.25)</u>	<u>\$ (0.02)</u>	<u>\$ (0.48)</u>	<u>\$ (0.03)</u>
Non-GAAP weighted average shares outstanding - basic and diluted	<u>18,652</u>	<u>18,456</u>	<u>18,238</u>	<u>18,554</u>	<u>18,133</u>

* Our non-GAAP gross profit, non-GAAP operating expenses, non-GAAP net loss and non-GAAP net loss per share differs from GAAP gross profit, GAAP operating expenses, GAAP net loss and GAAP net loss per share due to the exclusion of 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 loss and non-GAAP net loss per share provides useful information to investors regarding Pixelworks' results of operations by allowing investors to better evaluate underlying cash flow dynamics. Pixelworks' management also uses each of these non-GAAP measures internally to better evaluate underlying cash flow dynamics. Pixelworks, however, cautions investors to consider these non-GAAP financial measures in addition to, and not as a substitute for, our GAAP financial measures.

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

	Three Months Ended			Six Months Ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Reconciliation of GAAP net loss and adjusted EBITDA					
GAAP net loss	\$ (4,924)	\$ (5,405)	\$ (1,099)	\$ (10,329)	\$ (1,737)
Stock-based compensation	600	684	476	1,284	978
Additional amortization of non-cancelable prepaid royalty	98	91	156	189	288
Tax effect of non-GAAP adjustments	18	(43)	136	(25)	(8)
Non-GAAP net loss	\$ (4,208)	\$ (4,673)	\$ (331)	\$ (8,881)	\$ (479)
EBITDA adjustments:					
Depreciation and amortization	\$ 1,081	\$ 1,058	\$ 1,176	\$ 2,139	\$ 2,348
Interest expense and other, net	97	98	101	195	199
Non-GAAP provision (benefit) for income taxes	147	(155)	14	(8)	(605)
Adjusted EBITDA	<u>\$ (2,883)</u>	<u>\$ (3,672)</u>	<u>\$ 960</u>	<u>\$ (6,555)</u>	<u>\$ 1,463</u>

* Adjusted EBITDA differs from GAAP net 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)

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,231	\$ 13,404
Accounts receivable, net	2,613	3,772
Inventories	1,909	2,702
Prepaid expenses and other current assets	1,516	1,727
Total current assets	17,269	21,605
Property and equipment, net	4,544	6,283
Other assets, net	1,562	1,653
Total assets	\$ 23,375	\$ 29,541
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,861	\$ 2,224
Accrued liabilities and current portion of long-term liabilities	9,065	8,666
Current portion of income taxes payable	183	207
Short-term line of credit	3,500	—
Total current liabilities	14,609	11,097
Long-term liabilities, net of current portion	912	1,445
Income taxes payable, net of current portion	2,071	2,331
Total liabilities	17,592	14,873
Shareholders' equity	5,783	14,668
Total liabilities and shareholders' equity	\$ 23,375	\$ 29,541

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**Pixelworks, Inc. Q2 2013 Conference Call
August 6, 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 second quarter ended June 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, Tuesday, August 6, 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 loss, and net 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 loss and GAAP net 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 Q2 financial results and discuss our outlook for the third quarter of 2013.

Bruce Walicek - CEO

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

Q2 13 Recap:

- Q2 2013 revenues of \$9.6M were up 16% over Q1, slightly below the range of guidance provided on our Q1 2013 conference call, as the slow environment experienced in Q1 extended into Q2 as customers finished working through their inventory overhang.
- While the quarter started on a sluggish note, overall Book to Bill was greater than one, reflecting a steadily improving environment and customers beginning to ramp the PA168, our next generation video processor, into volume production.
- All other non-GAAP metrics came within the range of guidance, and we made significant progress on our previously noted co-development project that will result in marketshare gains in 2014.
- Based on an improving environment, ramp of the PA168, and success with our licensing initiative, we expect Q3 revenues to be up more than 50%, and see non-GAAP profitability for the balance of 2013.
- And as mentioned last quarter, we continue to experience strong demand for our technology, as we exited Q2 with a robust licensing pipeline which points to the growing importance of our portfolio of advanced video display processing technologies.
- To that point, in the current quarter, we captured a significant license for our advanced video technology, as noted in our 8K release today, which is a major validation of our technology and expertise, and reinforces our thesis regarding the growing importance and need for video processing to improve the visual experience across all screens.

In our PA SERIES Product line for Large Screen Display Applications:

- In Q2 we began mass production shipments of the PA168 video display processor, which is targeted for Ultra HD applications and expect volume production to build during the balance of 2013.
 - The PA168 is designed to meet the performance requirements of new ultra high resolution screens by handling the most demanding and difficult video quality problems and it includes our patented halo free technology to create the best video quality in the industry.
 - Pixelworks has a robust portfolio of over 120 issued patents and we continue focus on developing and advancing our Intellectual Property around the key areas of next generation video processing.
 - As noted in last quarter's conference call, at the Computex show in Taiwan in June, we performed technology demonstrations to key industry partners and customers of our next generation technology to improve the video quality of tablets and Ultrabooks running Windows 8.
 - With the increase of resolutions and media consumption across all screens, users are demanding the best visual experience for their content.
 - Traditionally this type of video display processing has only been applied to large screens, but by utilizing an innovative new approach in 2014, Pixelworks will bring the highest display quality to all screens, mobile and stationary alike.
 - "Pixelworks has always been about video quality, and we believe the highest resolution tablets and Ultrabooks, are ideal platforms for the very best video processing technology."
-

Trends:

- We are seeing strong demand for our technology, driven by powerful trends, as we enter the 3rd wave of video processing requirements.
- This shift is much broader and more pervasive than the last major transition from standard resolution 480i CRT analog displays, to high definition flat panel digital displays.
- It will impact all aspects of the video capture/creation/delivery ecosystem as the industry enters a period of massive change and innovation, remaking the concept and use model of a TVs, PCs, and phones as these platforms converge.
- In this third wave of requirements, we see several key trends that play to our strengths:
- First, resolutions are increasing across all displays. We are at the beginning of an explosive transition to higher resolutions driven by the capability of display manufacturing technology to pack an increasing number of pixels into less space.
 - Displays with over 300 pixels per square inch are currently coming to market enabling a wave of products such as tablets, phones, and Ultrabooks that are just now moving to Full HD 1080p, creating a growing number of high volume products with increasing resolutions.
- Secondly, video consumption is increasing across all screens, as content consumption use models change and “TV Everywhere” becomes a reality.
 - Industry research all points to the same thing: across all these screens, video content consumption is going up, and it's being consumed on a wide variety of new platforms.
 - A good example of this trend is observed in a recent DisplaySearch study noting that eight in ten global smartphone and tablet owners view multiple screens while watching TV.
 - ABI research notes that nearly 1/3 of US Telco and Cable TV households are expected to access multi-screen or “TV Everywhere” services by the end of 2013.
 - Also, Cisco notes in their 2012 Visual Networking Report, that by 2017, video will be 80 to 90% of all types of global consumer internet traffic.
 - In this new era, video is the “killer application”, and with more screens delivering high resolution than ever, the number of pixels to be processed will continue growing exponentially.
- And finally, as the three megatrends of higher resolutions, more video content, and more opportunities to view that content collide, the quality of the visual user experience is becoming a key element in product quality and brand differentiation.
 - Higher resolution implies that video quality problems, such as halo and judder, become more noticeable to the user.
 - Removing these video quality issues requires considerable processing performance, even as designers are seeking more computer power just to continue the race to ever smarter products.
 - To stay within the bounds of size and power consumption, while not becoming a drag on overall system performance, innovative approaches to high-efficiency video processing are required.
- Pixelworks has a 15+ year legacy of solving the most difficult video quality problems for large screens and will focus on applying our technology, IP, and expertise to solving the video quality challenges of all screens and we are in the best position to deliver the innovative solutions customers need.

Projection Market:

- During the quarter we announced our VueMagic Mobile Presenter application with our partner Sony, who is a leader in the projection display market.
 - Our VueMagic™ app is designed to offer wireless connectivity to projectors based on our Topaz platform, for mobile devices such as tablets, mobile phones and Ultrabooks.
 - With the explosive growth of tablets and smartphones, mobile connectivity is becoming a key feature for next-generation projectors.
 - Sony is a valued customer and partner for our Mobile Presenter development effort, and together we are enabling mobile connectivity for the projection display market.
 - All of these new solutions and value-add capabilities have been introduced to drive marketshare gains across the projector market, and demonstrate Pixelworks' commitment to innovative leadership.
-

Closing Summary:

- In closing, while Q2 growth was muted, we see revenues up more than 50% in Q3 and non-GAAP profitability for the balance of 2013, driven by an improving environment, ramp of the PA168, and success in our licensing business.
- We demonstrated our next generation technology at Computex to bring the highest quality video to Windows 8™ tablets and Ultrabooks, and will bring innovative mobile solutions to market in 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.
- And, as the technology leader and independent company in the industry solely focused on creating the highest quality, visual user experience, we believe these trends are increasing the value proposition of our video display processing technology and we intend to focus our efforts to take advantage of them.
- Now, I'd now 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 second quarter 2013 was \$9.6 million, compared to \$8.3 million in the first quarter of 2013 and \$15.5 million in the year-ago quarter. As Bruce mentioned, the sequential increase in revenue was due to increased sales of chips for both Projectors and TVs. Revenue declined compared to the prior year quarter primarily as the result of lower licensing revenue during the second quarter.

The split of our second quarter revenue by market was:

70% digital projection,
17% TV and panel,
13% embedded video display

Licensing revenue was negligible during the quarter.

Revenue from digital projection was up over \$1.2 million sequentially to approximately \$6.7 million in Q2 as our customer's demand began to improve in spite of continued macroeconomic challenges and as customers continued to balance their inventories.

Revenue from TV and panel was up nearly \$300K sequentially to \$1.6 million in Q2, primarily due to the beginning of the production ramp of our PA168 for Ultra High Definition televisions.

Embedded video display revenue in Q2 was approximately \$1.2 million.

Non-GAAP gross profit margin was 49.7% in the second quarter, essentially flat compared to 49.7% in the previous quarter and 50.6% in the second quarter of 2012.

Non-GAAP operating expenses were \$8.7 million in the second quarter of 2013 compared to \$8.8 million in the prior quarter and \$8.1 million in Q2 2012. Second quarter 2013 research and development expense included costs for, but no reimbursement credits for, the previously disclosed co-development agreement, which resulted in higher operating expenses year-over-year.

We expect that we will complete milestones related to this co-development agreement and realize \$3.5 million of reimbursement credits during the remainder of 2013, which should reduce operating expenses in the second half of the year. The chip created as a part of this co-development agreement is expected to result in significant revenue beginning in 2014.

Adjusted EBITDA was a negative \$2.9 million in Q2 2013, compared to a negative \$3.7 million in the first quarter of 2013 and positive \$1 million in Q2 2012. A reconciliation of adjusted EBITDA to GAAP net loss may be found in today's press release.

On a non-GAAP basis we recorded a net loss of \$4.2 million, or a 23 cent loss per share, in the second quarter of 2013. This compares with a net loss of \$4.7 million or a 25 cent loss per share in Q1 and a net loss of \$300,000, or a 2 cent loss per share in the second quarter of 2012.

Moving to the balance sheet, cash and marketable securities ended the quarter at approximately \$11.2 million, compared to \$12.6 million at the end of the previous quarter. The Company had a balance of \$3.5 million on its preexisting line of credit at the end of Q2.

Other balance sheet metrics include day's sales outstanding of 25 days at June 30, compared with 26 days at the end of the prior quarter, and inventory turns of 8.8 times in Q2 compared to 6.5 times for the first quarter of 2013.

Guidance

Looking at Q3, 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 59% to 63% on a non-GAAP basis and 58% to 62% on a GAAP basis.

We expect operating expenses in the third quarter to range between \$6.5 million and \$7.5 million on a non-GAAP basis, and \$7 million to \$8 million on a GAAP basis.

And finally, we expect to record a non-GAAP net profit of between 2 cents and 17 cents per share; and on a GAAP basis we expect a net loss per share of between 1 cent and net profit of 14 cents per share.

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