

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

FORM 8-K

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

Date of Report (Date of earliest event reported): July 31, 2014

PIXELWORKS, INC.

(Exact name of registrant as specified in its charter)

OREGON
(State or other jurisdiction of
incorporation)

000-30269
(Commission File Number)

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

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 2.02 Results of Operations and Financial Condition.

On July 31, 2014, Pixelworks, Inc. (the “Company”) issued a press release announcing financial results for the three and six month periods ended June 30, 2014 and held a conference call to discuss the Company's financial results. The press release and conference call contain forward-looking statements regarding the Company, and include cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

The press release issued July 31, 2014 is furnished herewith as Exhibit 99.1, to this Report and a copy of the Company's conference call script announcing these financial results is furnished herewith as Exhibit 99.2. The information in this Item 2.02, including Exhibits 99.1 and 99.2, is being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that Section, nor shall such information be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

| Exhibit No. | Description |
|--------------------|-------------------------------------------------------------------------------------|
| 99.1 | Press Release issued by Pixelworks, Inc. dated July 31, 2014. |
| 99.2 | Pixelworks, Inc. Second Quarter Results Conference Call Script dated July 31, 2014. |

SIGNATURE

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

PIXELWORKS, INC.
(Registrant)

Dated: July 31, 2014

/s/ Steven L. Moore

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

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|-------------------------------------------------------------------------------------|
| 99.1 | Press Release issued by Pixelworks, Inc. dated July 31, 2014. |
| 99.2 | Pixelworks, Inc. Second Quarter Results Conference Call Script dated July 31, 2014. |

Pixelworks Reports Second Quarter 2014 Financial Results

SAN JOSE, Calif., July 31, 2014 -- Pixelworks, Inc. (NASDAQ: PXLW), an innovative provider of video display processing technology enabling the highest quality viewing experience for displays of all sizes, today announced financial results for the second quarter ended June 30, 2014.

Revenue for the second quarter 2014 was \$15.2 million, compared to \$13.5 million in the prior quarter and \$9.6 million in the second quarter of 2013. The sequential and year-over-year increase in revenue was a result of strong chip sales across our products for large screen display applications. Second quarter chip revenue increased 42% from the previous quarter and 58% compared to the year-ago quarter.

On a GAAP basis, gross profit margin in the second quarter of 2014 was 50.5%, compared to 59.0% in the first quarter of 2014 and 48.4% in the second quarter of 2013. Second quarter 2014 GAAP operating expenses were \$9.6 million, compared to \$10.4 million in the previous quarter and \$9.3 million in the second quarter of 2013. For the second quarter of 2014, the Company recorded a GAAP net loss of \$2.4 million, or \$0.11 per share, compared to a GAAP net loss of \$2.5 million, or \$0.11 per share, in the first quarter of 2014 and a GAAP net loss of \$4.9 million, or \$0.26 per share, in the second quarter of 2013.

On a non-GAAP basis, second quarter 2014 gross profit margin was 51.0%, compared to 60.1% in the first quarter of 2014 and 49.7% in the second quarter of 2013. Second quarter gross margin declined sequentially due to a higher percentage of chip revenue as compared to the prior quarter. Second quarter 2014 operating expenses on a non-GAAP basis were \$8.7 million, compared to \$8.8 million in the previous quarter and \$8.7 million in the second quarter of 2013.

For the second quarter of 2014, the Company recorded a non-GAAP net loss of \$1.5 million, or \$0.06 per share, compared to a net loss of \$0.8 million, or \$0.04 per share, in the first quarter of 2014 and a net loss of \$4.2 million, or \$0.23 per share, in the second quarter of 2013. Adjusted EBITDA in the second quarter of 2014 was positive \$0.2 million, compared to positive \$0.5 million in the previous quarter and a negative \$2.9 million in the second quarter of 2013.

“Pixelworks’ strong start to 2014 continued in Q2 with revenue increasing 59% year-over-year, driven by strong chip sales in our products for large screen display applications,” said Bruce Walicek, President and CEO of Pixelworks. “Also during the quarter, we sampled our first mobile video processor solution, Iris, which brings cinematic picture quality to mobile screens, while improving performance and reducing system power. The interest-level in Pixelworks’ technology has never been higher, and Iris represents a significant milestone as we are now well positioned from a product and technology standpoint to address the explosive growth in video regardless of screen size.”

The Company will discuss the details of its business outlook for the third quarter of 2014 during its conference call scheduled for today, July 31, 2014, 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 877-359-9508 and using passcode 72511052. A Web broadcast of the call can be accessed by visiting the Company's investor page at www.pixelworks.com. For those unable to listen to the live Web broadcast, it will be archived for approximately 30 days. A replay of the conference call will also be available through Thursday, August 7, 2014, and can be accessed by calling 855-859-2056 and using passcode 72511052.

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 (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's growth opportunities, product demand, technology portfolio, and the Company's potential and position for the future, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements may be identified by use of terms such as "begin," "continue," "will," "believe," and similar terms or the negative of such terms. All statements other than statements of historical fact are forward-looking statements for purposes of this release, including any projections of revenue or other financial items or any statements regarding the plans and objectives of management for future operations. Such statements are based on management's current expectations, estimates and projections about the Company's business. These statements are not guarantees of future performance and involve numerous risks, uncertainties and assumptions that are difficult to predict. Actual results could vary materially from those contained in forward looking statements due to many factors, including, without limitation: our ability to deliver new products in a timely fashion; our new product yield rates; changes in estimated product costs; product mix; supply of products from third-party foundries; failure or difficulty in achieving design wins; timely customer transition to new product designs; competitive factors, such as rival chip architectures, introduction or traction by competing designs, or pricing pressures; risks related to licensing our intellectual property; the success of our products in expanded markets; current global economic challenges; levels of inventory at distributors and customers; changes in the digital display and projection markets; changes in customer ordering patterns or lead times; seasonality in the consumer electronics market; our efforts to achieve profitability from operations; insufficient, excess or obsolete inventory and variations in inventory valuation; the outcome of any litigation related to our intellectual property rights; our limited financial resources and our ability to attract and retain key personnel. 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, 2013 as well as subsequent SEC filings.

The forward-looking statements contained in this release speak as of the date of this release, and we do not undertake any obligation to update any such statements, whether as a result of new information, future events or otherwise.

- Financial Tables Follow -

PIXELWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended | | | Six Months Ended | |
|---------------------------------------------------------|--------------------|------------|------------|------------------|-------------|
| | June 30, | March 31, | June 30, | June 30, | June 30, |
| | 2014 | 2014 | 2013 | 2014 | 2013 |
| Revenue, net | \$ 15,166 | \$ 13,541 | \$ 9,554 | \$ 28,707 | \$ 17,825 |
| Cost of revenue (1) | 7,505 | 5,546 | 4,932 | 13,051 | 9,226 |
| Gross profit | 7,661 | 7,995 | 4,622 | 15,656 | 8,599 |
| Operating expenses: | | | | | |
| Research and development (2) | 5,887 | 6,385 | 6,010 | 12,272 | 11,894 |
| Selling, general and administrative (3) | 3,709 | 4,049 | 3,274 | 7,758 | 6,872 |
| Total operating expenses | 9,596 | 10,434 | 9,284 | 20,030 | 18,766 |
| Loss from operations | (1,935) | (2,439) | (4,662) | (4,374) | (10,167) |
| Interest expense and other, net | (130) | (122) | (97) | (252) | (195) |
| Loss before income taxes | (2,065) | (2,561) | (4,759) | (4,626) | (10,362) |
| Provision (benefit) for income taxes | 317 | (54) | 165 | 263 | (33) |
| Net loss | \$ (2,382) | \$ (2,507) | \$ (4,924) | \$ (4,889) | \$ (10,329) |
| Net loss per share - basic and diluted | \$ (0.11) | \$ (0.11) | \$ (0.26) | \$ (0.22) | \$ (0.56) |
| Weighted average shares outstanding - basic and diluted | 22,667 | 22,204 | 18,652 | 22,437 | 18,554 |

(1) Includes:

| | | | | | |
|-----------------------------------------------------------|-------|-------|-------|-------|--------|
| Additional amortization of non-cancelable prepaid royalty | \$ 35 | \$ 56 | \$ 98 | \$ 91 | \$ 189 |
| Stock-based compensation | 41 | 89 | 31 | 130 | 71 |
| (2) Includes stock-based compensation | 413 | 826 | 215 | 1,239 | 473 |
| (3) Includes stock-based compensation | 487 | 788 | 354 | 1,275 | 740 |

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, 2014 | March 31, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| Reconciliation of GAAP and non-GAAP gross profit | | | | | |
| GAAP gross profit | \$ 7,661 | \$ 7,995 | \$ 4,622 | \$ 15,656 | \$ 8,599 |
| Additional amortization of non-cancelable prepaid royalty | 35 | 56 | 98 | 91 | 189 |
| Stock-based compensation | 41 | 89 | 31 | 130 | 71 |
| Total reconciling items included in cost of revenue | 76 | 145 | 129 | 221 | 260 |
| Non-GAAP gross profit | \$ 7,737 | \$ 8,140 | \$ 4,751 | \$ 15,877 | \$ 8,859 |
| Non-GAAP gross profit margin | 51.0% | 60.1% | 49.7% | 55.3% | 49.7% |
| Reconciliation of GAAP and non-GAAP operating expenses | | | | | |
| GAAP operating expenses | \$ 9,596 | \$ 10,434 | \$ 9,284 | \$ 20,030 | \$ 18,766 |
| Reconciling item included in research and development: | | | | | |
| Stock-based compensation | 413 | 826 | 215 | 1,239 | 473 |
| Reconciling item included in selling, general and administrative: | | | | | |
| Stock-based compensation | 487 | 788 | 354 | 1,275 | 740 |
| Total reconciling items included in operating expenses | 900 | 1,614 | 569 | 2,514 | 1,213 |
| Non-GAAP operating expenses | \$ 8,696 | \$ 8,820 | \$ 8,715 | \$ 17,516 | \$ 17,553 |
| Reconciliation of GAAP and non-GAAP net loss | | | | | |
| GAAP net loss | \$ (2,382) | \$ (2,507) | \$ (4,924) | \$ (4,889) | \$ (10,329) |
| Reconciling items included in cost of revenue | 76 | 145 | 129 | 221 | 260 |
| Reconciling items included in operating expenses | 900 | 1,614 | 569 | 2,514 | 1,213 |
| Tax effect of non-GAAP adjustments | (47) | (38) | 18 | (85) | (25) |
| Non-GAAP net loss | \$ (1,453) | \$ (786) | \$ (4,208) | \$ (2,239) | \$ (8,881) |
| Non-GAAP net loss per share - basic and diluted | \$ (0.06) | \$ (0.04) | \$ (0.23) | \$ (0.10) | \$ (0.48) |
| Non-GAAP weighted average shares outstanding - basic and diluted | 22,667 | 22,204 | 18,652 | 22,437 | 18,554 |

* Our non-GAAP gross profit, non-GAAP gross profit margin, non-GAAP operating expenses, non-GAAP net loss and non-GAAP net loss per share differs from GAAP gross profit, GAAP operating expenses, GAAP net loss and GAAP net loss per share due to the exclusion of 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, 2014 | March 31, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 |
| Reconciliation of GAAP net loss and adjusted EBITDA | | | | | |
| GAAP net loss | \$ (2,382) | \$ (2,507) | \$ (4,924) | \$ (4,889) | \$ (10,329) |
| Stock-based compensation | 941 | 1,703 | 600 | 2,644 | 1,284 |
| Additional amortization of non-cancelable prepaid royalty | 35 | 56 | 98 | 91 | 189 |
| Tax effect of non-GAAP adjustments | (47) | (38) | 18 | (85) | (25) |
| Non-GAAP net loss | \$ (1,453) | \$ (786) | \$ (4,208) | \$ (2,239) | \$ (8,881) |
| EBITDA adjustments: | | | | | |
| Depreciation and amortization | \$ 1,141 | \$ 1,144 | \$ 1,081 | \$ 2,285 | \$ 2,139 |
| Interest expense and other, net | 130 | 122 | 97 | 252 | 195 |
| Non-GAAP provision (benefit) for income taxes | 364 | (16) | 147 | 348 | (8) |
| Adjusted EBITDA | <u>\$ 182</u> | <u>\$ 464</u> | <u>\$ (2,883)</u> | <u>\$ 646</u> | <u>\$ (6,555)</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, 2014 | December 31, 2013 |
|------------------------------------------------------------------|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 20,905 | \$ 20,805 |
| Accounts receivable, net | 4,124 | 4,761 |
| Inventories | 3,019 | 1,663 |
| Prepaid expenses and other current assets | 1,426 | 2,858 |
| Total current assets | 29,474 | 30,087 |
| Property and equipment, net | 7,082 | 4,084 |
| Other assets, net | 1,897 | 2,573 |
| Total assets | <u>\$ 38,453</u> | <u>\$ 36,744</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,484 | \$ 1,327 |
| Accrued liabilities and current portion of long-term liabilities | 11,268 | 10,505 |
| Current portion of income taxes payable | 241 | 92 |
| Short-term line of credit | 3,000 | 3,000 |
| Total current liabilities | 16,993 | 14,924 |
| Long-term liabilities, net of current portion | 1,746 | 677 |
| Income taxes payable, net of current portion | 2,026 | 2,201 |
| Total liabilities | 20,765 | 17,802 |
| Shareholders' equity | 17,688 | 18,942 |
| Total liabilities and shareholders' equity | <u>\$ 38,453</u> | <u>\$ 36,744</u> |

Contacts:

Investor Contact

Shelton Group

Brett L Perry

P: +1-214-272-0070

E: bperry@sheltongroup.com

Company Contact

Pixelworks, Inc.

Steven Moore

P: +1-408-200-9221

E: smoore@pixelworks.com

**Pixelworks, Inc. Q2 2014 Conference Call
July 31, 2014**

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, 2014.

Before we begin, I would like to remind you that various remarks we make on this call -- including those about our projected future financial results, economic and market trends, and our competitive position -- constitute forward-looking statements. These forward-looking statements and all other statements made on this call that are not historical facts are subject to a number of risks and uncertainties that may cause actual results to differ materially.

All forward-looking statements are based on the Company's beliefs as of today, Thursday, July 31, 2014, 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, 2013, 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 second quarter financial results, and then provide our outlook for the third quarter of 2014.

Bruce Walicek, CEO

Thanks Steve. Good afternoon everyone and thanks for joining us today.

Q2 2014 Results

- Q2 2014 was another outstanding quarter of growth, as revenues of \$15.2M were up 59% year over year, driven by accelerating growth in our product business, which grew 42% sequentially.
- All other metrics were solidly within the range of guidance, and we generated positive EBITDA and cash flow from operations for the quarter.
- The strong start to 2014 continued in Q2, as overall book to bill was significantly greater than one, with bookings at their highest level since 2009, reflective of good visibility going into Q3, driven by strong product demand, and the continuation of a strengthening overall environment at our customers.
- During the quarter we hit a number of key milestones but most importantly, at Computex in June, we introduced and delivered silicon samples of our first device in a family of mobile video processors, code named Iris.
- Iris is the industry's first mobile video processor designed to bring the cinematic experience of large screens to mobile screens while enhancing system performance and lowering power consumption.
- It represents the culmination of several years of work to leverage Pixelworks' technology and expertise in large screen applications to create the best video quality in mobile screens and positions the Company to address a large market opportunity and ride the explosive 3rd wave of video, as resolutions and video consumption rise across all screens, increasing the importance of advanced video processing.

Mobile

- Historically, the level of dedicated video processing found in Iris, has only been applied to large screens, but we believe the time has come to apply this technology to all displays and Iris is seeing tremendous interest as companies begin to recognize the importance of video to the differentiation of their products.
- By re-targeting our display processing and MEMC technologies for low power mobile devices, Pixelworks was able to produce this mobile video quality breakthrough.
- Iris also offers several important system advancements that improve the overall mobile viewing experience.
- Iris not only optimizes all aspects of the display that affect video quality, but it also incorporates contrast management and back light control for optimal viewing in any lighting condition.
- Additionally, Iris works at the system level, improving battery life and freeing up valuable system resources, allowing designers to significantly reduce overall system power, improve performance, and enhance image quality to create the optimal viewing experience.

Trends

- Each quarter that goes by reinforces our thesis of the growing importance of video processing driven by the explosive growth in mobile video, as the industry is beginning to recognize the need for video quality in mobile devices.
 - Video consumption on mobile devices is growing rapidly as consumers increasingly view their favorite content on their laptop, Ultrabook™, tablet, or smartphone, and bypass the traditional TV screen.
 - Recent studies confirm this trend, as changing patterns of viewing content drive explosive growth in mobile video.
 - Daily time spent on mobile devices is now outpacing TV in the U.S. for the first time and shifting demographics increasingly favor video consumption on mobile devices as well.
 - A recent study by Rhythm Media noted that 72% of their overall audience watched video on a smart phone and 62% on a tablet, with 90% of Millennials viewing video on a smartphone and 77% on a tablet.
 - Cisco's Visual Networking Index Forecast points to explosive growth in mobile video in the coming years.
 - It notes that video is rapidly becoming the Internet's "killer app" with video traffic predicted to leap to more than 63% of all Internet traffic by 2017, driving higher bandwidth requirements throughout the video ecosystem.
 - The study predicts that mobile video will increase 14-fold between 2013 and 2018 and account over two-thirds of the world's mobile data traffic and that there will be over 10 billion mobile-connected devices by 2018.
-

- Sports are becoming a critical driver of the need for video quality as the real time nature and fast motion of sports content is especially in need of improvement.
- A study of 2014 World Cup soccer fans by Openwave Mobility noted that video quality was one of the main impediments to increased mobile video consumption.
- As mobile screens become the 1st screen consumers watch, the same focus on video quality that has been applied to large screen projection and TV applications is now being brought to mobile screens.
- Mobile displays suffer from the same problems as large screens as higher resolution magnifies video quality issues, diminishing the consumer experience.
- With the increase of resolutions and media consumption growing across all screens, users are demanding the best visual experience for their content, regardless of the screen they're viewing it on.
- In fact, we just released the first in a series of white papers that examine the dynamics of how individuals perceive high resolution on video displays.
- The first paper in the series “High Resolution Displays and Moving Images” is now available on the Company’s website, www.pixelworks.com.
- This white paper series is a compilation of independent research conducted by Pixelworks, as well as third party research and articles that collectively advance the knowledge of how high resolution is perceived.
- Also this quarter, Pixelworks will be speaking at the DisplaySearch Emerging Display Technologies Conference on August 5, in San Jose, CA, where we will explore the benefits of high resolution screens, and how to achieve optimal performance to provide a satisfying, high quality video viewing experience.

Pixelworks Value and Expertise

- We are just at the beginning of a multi-year trend of increasing display sizes, resolutions, and video consumption across all screens.
- Pixelworks has a long history of delivering innovative video processing solutions for large screens, and we have now brought that expertise and innovation to mobile screens as well, building on a 15 year legacy in video and a portfolio of over 120 issued patents, our latest technology represents the culmination of over a decade of video processing innovation.
- As one of the last independent companies solely focused on video quality, we are continuing to drive an aggressive technology road map, especially for low power applications and continue to see increasing demand for video processing technology and licensing opportunities for all of our technology.

Large Screen Applications - Projected and Panel

- For projected and panel large screen display applications we continued to ship volume production of the PA168 during the quarter, which includes our patented halo free technology, and tackles the most demanding video quality problems in UHD TVs and monitors.
 - During the quarter we began shipping the mass production version of the advanced SOC for large screen applications we developed under our co-development partnership.
 - This is a significant milestone on this project and we expect to ramp production in the second half of 2014 and beyond.
 - At Infocomm in Las Vegas in June, we demoed our latest VueMagic™ hardware and software solutions that transform how presenters engage with their audience and increase collaborative sharing of information in business and educational environments.
 - VueMagic software provides wireless connectivity for mobile devices to Topaz based projectors and adds features such as live video as well as advanced content sharing capabilities.
 - We also introduced VueMagic™ Mate, which is a small Topaz based dongle that transforms any display into a connected collaborative environment by enabling the features of VueMagic™ software.
 - This product expands the market opportunity for Topaz to address the entire installed base of non-Topaz projectors as well as extending our opportunity to large screen panel displays used in business conference rooms and digital signage applications.
 - Using the VueMagic™ app on mobile devices, multiple users can project information on a shared display, highlight key points or add additional information.
 - VueMagic™ works over WiFi on smartphones, tablets, PCs and Ultrabooks™ and gives presenters the ability to interactively engage as a team.
-

- We have an exciting roadmap of features and capabilities coming in 2014 for VueMagic™ that will continue to enhance and expand the Topaz platform and provide value to our customers.

Closing Summary

- In closing, Q2 continued the strong start to 2014 with overall revenues up 59% year over year driven by product revenues that were up 42% sequentially, and bookings at their highest level since 2009.
- At Computex in June, we introduced and delivered silicon samples of our first device in our Iris family of mobile video processors.
- During the quarter, we began shipping the mass production version of the advanced SOC for large screen applications we developed under our co-development partnership.
- We introduced exciting VueMagic™ software and VueMagic™ Mate that extends our market opportunity for our Topaz Platform.
- And finally, we strengthened our Board of Directors with the addition of David Tupman who has a long track record of success in mobile products and brings a unique customer perspective to Pixelworks.
- Now, I'd now like to turn the call over to Steve to review the financial results of the quarter.

Steven Moore, CFO

Thank you, Bruce.

Revenue for the second quarter of 2014 was \$15.2 million, up 12% sequentially and up nearly 59% year-over-year. The increase in revenue during the quarter was driven by strong chip sales, particularly for the projector market.

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

74% digital projection,
26% TV and panel

Digital projection revenue was \$11.1 million in the second quarter, compared to \$7.3 million in the prior quarter, as new products began to ramp in-line with previous expectations.

Revenue from TV and panel, which also includes Ultra HD Monitors, totaled \$4 million in the second quarter, compared to \$3.3 million in the prior quarter.

Licensing revenue was approximately \$100,000 in the second quarter, compared to approximately \$2.9 million during the prior quarter.

Non-GAAP gross profit margin was 51.0% in the second quarter, compared to 60.1% in the prior quarter. The sequential decline in gross margin was primarily a result of a higher percentage of chip revenue in the quarter.

Non-GAAP operating expenses were \$8.7 million in the second quarter, compared to \$8.8 million in the prior quarter.

Adjusted EBITDA was a positive \$182,000 for the second quarter, compared to a positive \$464,000 in the prior quarter. 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 \$1.5 million, or loss of 6 cents per share, in the second quarter of 2014. This compares with non-GAAP net loss of \$786,000, or loss of 4 cents per share, in the prior quarter.

Moving to the balance sheet, we ended the second quarter with cash and cash equivalents of approximately \$20.9 million, compared to \$21.9 million at the end of the first quarter. The Company has no long-term debt and similar to the previous quarter, the Company had a balance of \$3 million on its working capital line of credit.

Other balance sheet metrics include day's sales outstanding of 24 days at quarter-end, compared to 29 days at the end of the first quarter, and inventory turns during the second quarter remained in-line with the previous quarter at approximately 12 times.

Guidance

Looking ahead to the third quarter of 2014, we expect revenue to increase to a range of \$16 to \$18 million, driven by a continued increase in chip sales.

We expect gross profit margin for the quarter to range between 49% to 52% on a non-GAAP basis and 48% to 51% on a GAAP basis.

In terms of operating expenses, we expect the third quarter to range between \$9 and \$10 million on a non-GAAP basis, and \$10 to \$11 million on a GAAP basis.

And finally, we expect a non-GAAP third quarter net income of between breakeven and 11 cents loss per share; and we expect a GAAP net loss of between 5 cents and 16 cents per share.

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