

**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): October 18, 2012

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 October 18, 2012, Pixelworks, Inc. (the "Company") issued a press release announcing financial results for the three and nine month periods ended September 30, 2012 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 October 18, 2012 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 October 18, 2012.

Exhibit 99.2 Pixelworks, Inc. Third Quarter Results Conference Call Script dated October 18, 2012.

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: October 18, 2012

/s/ Steven L. Moore

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



Pixelworks Reports Third Quarter 2012 Financial Results

SAN JOSE, Calif., October 18, 2012 -- Pixelworks, Inc. (NASDAQ:PXLW), an innovative provider of powerful video and pixel processing technology, today announced financial results for the third quarter ended September 30, 2012.

Third quarter 2012 revenue was \$16.3 million, compared to \$15.5 million reported in the prior quarter and \$17.4 million in the third quarter of 2011. The 4.9% sequential increase in total revenue was driven by higher sales of the Company's products in its primary end markets with chip revenue increasing 18.5% over the prior quarter. Licensing revenue was approximately \$0.6 million, compared to \$2.3 million in the prior quarter.

On a GAAP basis, gross profit margin in the third quarter of 2012 was 47.8%, compared to 49.3% in the second quarter and 48.6% in the third quarter of 2011. The sequential decline in gross profit was primarily driven by lower licensing revenue recognized in the third quarter of 2012. Third quarter GAAP operating expenses were \$8.3 million, compared to \$8.5 million in the previous quarter and \$9.6 million in the third quarter of 2011. Operating expenses in the current and prior quarter include a reimbursement to research and development expense related to a previously announced customer co-development agreement. For the third quarter of 2012, the Company recorded a GAAP net loss of \$0.4 million, or \$0.02 per share, compared to a GAAP net loss of \$1.1 million, or \$0.06 per share, in the second quarter and a GAAP net loss of \$1.1 million, or \$0.06 per share, in the third quarter of 2011.

On a non-GAAP basis, third quarter gross profit margin was 49.0%, compared to 50.6% in the second quarter and 49.4% in the third quarter of 2011. Third quarter operating expenses on a non-GAAP basis were \$7.7 million, compared to \$8.1 million in the prior quarter and \$9.1 million in the third quarter of 2011. On a non-GAAP basis, the Company recorded net income during the third quarter of \$0.3 million, or \$0.02 per share, compared with a net loss of \$0.3 million, or \$0.02 per share, in the second quarter and a net loss of \$0.5 million, or \$0.03 per share, in the third quarter of 2011.

"I am pleased to report sequential revenue growth of 5 percent and the achievement of non-GAAP profitability during the quarter," said Bruce Walicek, President and CEO of Pixelworks. "Our results for the quarter were driven by increased chip sales in both of our end markets as well as continued execution on our engagements with key technology partners. These engagements with industry leaders are further validation of Pixelworks' recognized leadership in video technology, as the industry introduces the next level of realism and an exponential increase in resolutions across all displays."

Also during the third quarter, the Company hired and appointed Richard Miller as senior vice president of technology. Mr. Miller most recently served as CTO for the multimedia group at RMI Corporation where he managed and developed video processor products prior to RMI being acquired by Netlogic Microsystems. Previous to his role at RMI he was the CTO, vice president and general manager of the wireless products group at PortalPlayer. Mr. Miller has extensive experience in technology leadership and product development at companies such as Genesis Microchip, VM Labs and Atari Corporation.

The Company will discuss the details of its business outlook for the fourth quarter of 2012 during its conference call scheduled for today, October 18, 2012, 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 866-700-7441 and using passcode 32295076. 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, October 25, 2012, and can be accessed by calling 888-286-8010 and using passcode 89769240.

About Pixelworks, Inc.

Pixelworks, headquartered in San Jose, California, is an innovative designer, developer and marketer of video and pixel processing technology, semiconductors and software for high-end digital video applications. At design centers in Shanghai and San Jose, Pixelworks engineers push pixel performance to new levels for leading manufacturers of consumer electronics and professional displays worldwide.

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, gain on sale of patents, gain on the sale of marketable securities and additional amortization of a non-cancelable prepaid royalty, all of which are required under GAAP. The press release also reconciles GAAP net loss and adjusted EBITDA which Pixelworks defines as GAAP net income (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, 2011 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, 2012	June 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Revenue, net	\$ 16,285	\$ 15,524	\$ 17,391	\$ 46,139	\$ 47,781
Cost of revenue (1)	8,497	7,865	8,935	22,883	25,334
Gross profit	7,788	7,659	8,456	23,256	22,447
Operating expenses:					
Research and development (2)	4,702	4,715	5,982	14,510	17,531
Selling, general and administrative (3)	3,557	3,792	3,641	11,368	11,132
Total operating expenses	8,259	8,507	9,623	25,878	28,663
Loss from operations	(471)	(848)	(1,167)	(2,622)	(6,216)
Interest expense and other, net	(105)	(101)	(89)	(304)	(395)
Gain on sale of patents	—	—	—	—	1,600
Gain on sale of marketable securities	—	—	—	—	264
Total other income (expense)	(105)	(101)	(89)	(304)	1,469
Loss before income taxes	(576)	(949)	(1,256)	(2,926)	(4,747)
Provision (benefit) for income taxes	(176)	150	(173)	(789)	(138)
Net loss	\$ (400)	\$ (1,099)	\$ (1,083)	\$ (2,137)	\$ (4,609)
Net loss per share - basic and diluted	\$ (0.02)	\$ (0.06)	\$ (0.06)	\$ (0.12)	\$ (0.29)
Weighted average shares outstanding - basic and diluted	18,338	18,238	17,905	18,202	15,787

(1) Includes:

Additional amortization of non-cancelable prepaid royalty	\$ 142	\$ 156	\$ 103	\$ 430	\$ 321
Stock-based compensation	42	37	34	118	93
(2) Includes stock-based compensation	214	183	214	619	624
(3) Includes stock-based compensation	296	256	260	793	771

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, 2012	June 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Reconciliation of GAAP and non-GAAP gross profit					
GAAP gross profit	\$ 7,788	\$ 7,659	\$ 8,456	\$ 23,256	\$ 22,447
Additional amortization of non-cancelable prepaid royalty	142	156	103	430	321
Stock-based compensation	42	37	34	118	93
Total reconciling items included in cost of revenue	184	193	137	548	414
Non-GAAP gross profit	<u>\$ 7,972</u>	<u>\$ 7,852</u>	<u>\$ 8,593</u>	<u>\$ 23,804</u>	<u>\$ 22,861</u>
Non-GAAP gross profit margin	<u>49.0%</u>	<u>50.6%</u>	<u>49.4%</u>	<u>51.6%</u>	<u>47.8%</u>
Reconciliation of GAAP and non-GAAP operating expenses					
GAAP operating expenses	\$ 8,259	\$ 8,507	\$ 9,623	\$ 25,878	\$ 28,663
Reconciling item included in research and development:					
Stock-based compensation	214	183	214	619	624
Reconciling item included in selling, general and administrative:					
Stock-based compensation	296	256	260	793	771
Total reconciling items included in operating expenses	510	439	474	1,412	1,395
Non-GAAP operating expenses	<u>\$ 7,749</u>	<u>\$ 8,068</u>	<u>\$ 9,149</u>	<u>\$ 24,466</u>	<u>\$ 27,268</u>
Reconciliation of GAAP and non-GAAP net income (loss)					
GAAP net loss	\$ (400)	\$ (1,099)	\$ (1,083)	\$ (2,137)	\$ (4,609)
Reconciling items included in cost of revenue	184	193	137	548	414
Reconciling items included in operating expenses	510	439	474	1,412	1,395
Gain on sale of patents	—	—	—	—	(1,600)
Gain on sale of marketable securities	—	—	—	—	(264)
Tax effect of non-GAAP adjustments	28	136	2	20	(7)
Non-GAAP net income (loss)	<u>\$ 322</u>	<u>\$ (331)</u>	<u>\$ (470)</u>	<u>\$ (157)</u>	<u>\$ (4,671)</u>
Non-GAAP net income (loss) per share - basic and diluted	<u>\$ 0.02</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>	<u>\$ (0.30)</u>
Non-GAAP weighted average shares outstanding - basic	<u>18,338</u>	<u>18,238</u>	<u>17,905</u>	<u>18,202</u>	<u>15,787</u>
Non-GAAP weighted average shares outstanding - diluted	<u>19.105</u>	<u>18,238</u>	<u>17,905</u>	<u>18,202</u>	<u>15,787</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 loss and GAAP net loss per share due to the exclusion of gain on the sale of patents, gain on the sale of marketable securities, 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,	June 30,	September 30,	September 30,	September 30,
	2012	2012	2011	2012	2011
Reconciliation of GAAP net loss and adjusted EBITDA					
GAAP net loss	\$ (400)	\$ (1,099)	\$ (1,083)	\$ (2,137)	\$ (4,609)
Stock-based compensation	552	476	508	1,530	1,488
Additional amortization of non-cancelable prepaid royalty	142	156	103	430	321
Gain on sale of patents	—	—	—	—	(1,600)
Gain on sale of marketable securities	—	—	—	—	(264)
Tax effect of non-GAAP adjustments	28	136	2	20	(7)
Non-GAAP net income (loss)	\$ 322	\$ (331)	\$ (470)	\$ (157)	\$ (4,671)
EBITDA adjustments:					
Depreciation and amortization	\$ 1,193	\$ 1,176	\$ 1,290	\$ 3,541	\$ 3,800
Interest expense and other, net	105	101	89	304	395
Non-GAAP provision (benefit) for income taxes	(204)	14	(175)	(809)	(131)
Adjusted EBITDA	<u>\$ 1,416</u>	<u>\$ 960</u>	<u>\$ 734</u>	<u>\$ 2,879</u>	<u>\$ (607)</u>

* Adjusted EBITDA differs from GAAP net loss due to the exclusion of gain on the sale of patents, gain on the sale of marketable securities, 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, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,566	\$ 15,092
Accounts receivable, net	3,756	4,557
Inventories	4,729	4,107
Prepaid expenses and other current assets	2,176	2,341
Total current assets	26,227	26,097
Property and equipment, net	7,019	7,366
Other assets, net	1,918	2,914
Total assets	\$ 35,164	\$ 36,377
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,347	\$ 4,428
Accrued liabilities and current portion of long-term liabilities	9,183	8,247
Current portion of income taxes payable	129	212
Total current liabilities	13,659	12,887
Long-term liabilities, net of current portion	1,729	2,467
Income taxes payable, net of current portion	2,139	3,223
Total liabilities	17,527	18,577
Shareholders' equity	17,637	17,800
Total liabilities and shareholders' equity	\$ 35,164	\$ 36,377

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**Pixelworks, Inc. Q3 2012 Conference Call
October 18, 2012**

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, 2012.

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, October 18, 2012, 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, 2011, 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, gain on sale of patents, gain on sale of marketable securities, 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 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 third quarter financial results and discuss our outlook for the fourth quarter of 2012.

Bruce Walicek - CEO

Thanks Steve. Good afternoon everyone and thank you for taking the time to join us today. I will start by making a few comments and observations about our 3rd quarter 2012, and then Steve will follow with details on our financial results and outlook for Q4.

Q3 12 Recap

- Q3 was a solid quarter, as overall revenues were up 5%, driven by chip revenue which increased 19% sequentially across our product lines.
- This performance, combined with in the range metrics across the P&L, resulted in positive net income and EPS.
- The quarter was positively impacted by the continuing production ramp of our new TOPAZ family of Projector Products and our PA series Products for Advanced Large Displays, as well as the continuing execution of our licensing and co-development engagements.
- These key engagements with Industry Leaders, are a significant validation and recognition of Pixelworks' video quality excellence.
- And Pixelworks was selected because of our market leadership and IP position in video display technology.
- Overall product revenues for "Advanced Large Display" applications were 20% of revenues up 8% year over year and 38% sequentially, driven by seasonal strength and volume production of our PA Series products,
- Projector products came in at 70% of revenues and were up 12% sequentially, reflecting the production ramp of Topaz Family products.
- Overall book to bill was less than one, impacted by a slowing global economy and semiconductor industry, as order patterns weakened at end of the quarter, and customers adjusted to a weak global macro environment, resulting in lower visibility than normal going into Q4.
- Non-GAAP gross margin came in at the top of the range of guidance at 49 % and combined with low end of the range operating expenses of \$7.7M, resulted in positive EBITDA and cash generation, as well as, positive non-GAAP EPS of .02 per share.

Products:

- In our PA series Product line for Large Screen Display Applications.
 - Our current generation products, continued to experience good design win performance with customers.
 - But most importantly, in Q3, the first 84" 4Kx2K Ultra Definition Display from industry leader LG Electronics was introduced to the market with Pixelworks leading video quality technology, powered by the PA138.
 - 4Kx2K ultra-definition displays are 4 times the resolution of the Full HD Displays available today, raising the bar for image quality and creating stunning realism in a completely immersive experience.
 - The depth and richness of the ultra-definition experience is a revolutionary improvement over today's full HD displays.
 - This display from LG sets the standard for high resolution and realism, and validates Pixelworks' industry leadership position in advanced video technology.
 - Continuing the momentum, in Q3 we sampled the PA168, which is targeted for the High Resolution Advanced Display Market, and solidifies Pixelworks Leadership position.
 - The PA168 is our 6th generation device, and it provides industry leading video quality performance.
-

Trends:

- We are at the beginning of a massive shift to higher resolutions across all displays.
- This shift is analogous to the major transition from 480i analog to 1080P Digital Displays but much more pervasive.
- As content sources expand exponentially and Video consumption is increasingly the killer application across all displays.
- Resolutions are increasing everywhere, as evidenced by the introduction of 4Kx2K large screens displays as well as 2Kx1K Tablet devices.
- And the video quality problems associated with Large Screens are migrating to smaller screens as the visual user experience is increasingly a key element in product differentiation.
- As the leader in creating the highest quality, visual user experience, these trends are increasing the value prop and opportunity for Pixelworks video technology.

In our Digital Projector product line:

- During the quarter, we ramped the Topaz Lite into volume production and we continued to experience strong design-win traction overall for Topaz products.
- In Q4 we will expand the Topaz family of products further by introducing the PWC 858 which is specifically targeted for DLP based projectors, further enhancing our market opportunity.
- In addition to Pixelworks' leading video quality, it includes key features for DLP systems, such as 4 corner correction as well as robust connectivity features.
- In Q3 we released version 2.4, of our next generation software, which enables the advanced features of the Topaz platform and includes connectivity capability to enable mobile and connected applications for the education and enterprise markets.
- The Topaz and Topaz Lite family of products are in mass production and cover the full range of the projector market.
- And during the quarter we continued to experience outstanding design win momentum and received additional design commitments from Tier 1 3LCD and DLP customers.

Closing:

- Overall Q3 was a solid Quarter of product growth and profitability, driven by the ramping of new products.
 - Pixelworks video technology was adopted by industry leader LG Electronics to power their flagship 4Kx2K ultra definition display.
 - We sampled the next generation PA168, which is the industry's leading video quality solution for high resolution Large Displays.
 - We ramped the Topaz lite into volume production, and experienced outstanding design win momentum for our Topaz family.
 - Also during the Quarter, Richard Miller joined us as our Sr VP Technology as we look to apply our leading video technology across a wider spectrum of video quality problems.
 - Richard brings to Pixelworks a long track record of success at companies such as PortalPlayer, where he was instrumental in leading successful new product development projects.
 - Now, I'd now like to turn the call over to Steve to review the financial details of the quarter and our outlook for Q4 2012.
-

Steven Moore - CFO

Thank you, Bruce.

Revenue in the third quarter 2012 was \$16.3 million, compared to \$15.5 million in the second quarter and \$17.4 million in the year-ago quarter. Revenue increased 4.9% sequentially as a result of increased sales of our chip products for both the digital projection and advanced large display markets.

The split of our third quarter revenue by market was:

70% digital projection,
20% advanced large display,
10% embedded video display

Licensing revenue during the quarter totaled approximately \$600,000, compared to \$2.3 million in the second quarter, and was largely attributable to the digital projection market.

Digital projection revenue increased by approximately \$1.2 million during the quarter to \$11.3 million. Projector revenue increased on continued ramping of our Topaz family products as well as the recognition of licensing revenue.

Advanced large display revenue decreased approximately \$1.1 million to \$3.3 million in the third quarter primarily as a result of lower licensing revenue from advanced large display development agreements.

Embedded video display revenue during the third quarter was approximately \$1.7 million.

Non-GAAP gross profit margin was 49% in the third quarter, compared to 50.6% in the second quarter and 49.4% in the third quarter of 2011. The sequential decrease in gross margin was driven primarily by lower licensing revenue recognized during the quarter. Also of note, we recorded certain costs related to licensing revenue during the quarter that were largely in-line with our corporate average gross margin.

As mentioned in the past, Pixelworks' gross margin is subject to variability based on changes in revenue levels, recognition of license revenue, product mix, startup costs, and the timing and execution of manufacturing ramps, as well as other factors.

Non-GAAP operating expenses were \$7.7 million in the third quarter, compared to \$8.1 million in the second quarter and \$9.1 million during the year-ago quarter. Operating expenses in Q3 and Q2 include reimbursement to research and development expense related to a previously announced customer co-development agreement.

Adjusted EBITDA was a positive \$1.4 million in the third quarter, a sequential and year-over-year improvement compared to \$960,000 in the prior quarter and \$734,000 in the third quarter of 2011. A reconciliation of adjusted EBITDA to GAAP net loss may be found in today's press release.

On a non-GAAP basis we recorded net income of \$322,000, or 2 cent per share, in the third quarter. This compares with a non-GAAP net loss in the second quarter of \$331,000, or a 2 cent loss per share and a net loss of \$470,000, or 3 cent loss per share in the third quarter of 2011.

Moving to the balance sheet, cash and cash equivalents increased to approximately \$15.6 million from \$15.1 million at the end of the second quarter. The nearly \$500,000 increase in net cash was due in part to generating approximately \$1.4 million from operating activities during the quarter. At quarter-end the Company had no long-term debt and a zero balance on its short-term line of credit.

Other balance sheet metrics include days sales outstanding which improved to 21 days as of September 30, compared with 31 days at June 30, primarily due to the timing of sales through the quarter. Inventory turns were 7.6 times in Q3 compared to 8.5 times during the second quarter.

Guidance

For the fourth quarter of 2012, we expect revenue to be in the range of \$13.5 million to \$14.5 million.

We expect gross profit margin for the fourth quarter to range between 47% to 49% on a non-GAAP basis and 46% to 48% on a GAAP basis.

We expect operating expenses in the fourth quarter to range between \$9 million and \$10 million on a non-GAAP basis, and \$9.5 million to \$10.5 million on a GAAP basis. This guidance for operating expenses includes expenses related to a previously announced customer co-development agreement. However, we do not expect to receive reimbursement of these expenses in the fourth quarter as our next reimbursement milestone is anticipated to be met in the first half of 2013.

And finally, we expect non-GAAP fourth quarter 2012 results of between a net loss of 12 cents and 23 cents per share; and on a GAAP basis we expect a net loss per share of between 16 cents and 26 cents.

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