

**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): May 8, 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))
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Item 2.02 Results of Operations and Financial Condition.

On May 8, 2014, Pixelworks, Inc. (the "Company") issued a press release announcing financial results for the three month period ended March 31, 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 May 8, 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 May 8, 2014.
99.2	Pixelworks, Inc. First Quarter Results Conference Call Script dated May 8, 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: May 8, 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 May 8, 2014.
99.2	Pixelworks, Inc. First Quarter Results Conference Call Script dated May 8, 2014.



Pixelworks Reports First Quarter 2014 Financial Results

SAN JOSE, Calif., May 8, 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 first quarter ended March 31, 2014.

Revenue for the first quarter 2014 was \$13.5 million, compared to \$15.0 million in the prior quarter and \$8.3 million in the first quarter of 2013. Revenue declined sequentially as a result of typical seasonality for sales of the Company's chip products.

On a GAAP basis, gross profit margin in the first quarter of 2014 was 59.0%, compared to 56.7% in the fourth quarter of 2013 and 48.1% in the first quarter of 2013. First quarter 2014 GAAP operating expenses were \$10.4 million, compared to \$8.3 million in the previous quarter and \$9.5 million in the first quarter of 2013. For the first quarter of 2014, the Company recorded a GAAP net loss of \$2.5 million, or \$0.11 per share, compared to a GAAP net loss of \$50,000, or \$0.00 per share, in the fourth quarter of 2013 and a GAAP net loss of \$5.4 million, or \$0.29 per share, in the first quarter of 2013.

On a non-GAAP basis, first quarter 2014 gross profit margin was 60.1%, compared to 57.8% in the fourth quarter of 2013 and 49.7% in the first quarter of 2013. First quarter gross margin improved primarily due to a more favorable mix. First quarter 2014 operating expenses on a non-GAAP basis were \$8.8 million, compared to \$7.1 million in the previous quarter and \$8.8 million in the first quarter of 2013. Operating expenses for the fourth quarter of 2013 included a reimbursement to research and development expense as the result of achieving the final payment milestone related to a previously announced customer co-development agreement.

For the first quarter of 2014, the Company recorded a non-GAAP net loss of \$0.8 million, or \$0.04 per share, compared to net income of \$1.3 million, or \$0.05 per diluted share, in the fourth quarter of 2013 and a net loss of \$4.7 million, or \$0.25 per share, in the first quarter of 2013. Adjusted EBITDA in the first quarter of 2014 was positive \$0.5 million, compared to positive \$2.7 million in the previous quarter and a negative \$3.7 million in the first quarter of 2013.

"Pixelworks is off to a solid start in 2014 with first quarter revenue up 64% year-over-year, driven by growth in our chip business and continued successful execution on our licensing partnerships," said Bruce Walicek, President and CEO of Pixelworks. "We begin Q2 with significant momentum driven by strong product demand, further monetization of our technology portfolio, and the introduction this quarter of our first product for the mobile market. We are excited about Pixelworks' potential and are well positioned for the future."

The Company will discuss the details of its business outlook for the second quarter of 2014 during its conference call scheduled for today, May 8, 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 29483023. 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, May 15, 2014, and can be accessed by calling 855-859-2056 and using passcode 29483023.

About Pixelworks, Inc.

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

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

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

Non-GAAP Financial Measures

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

Safe Harbor Statement

This release contains forward-looking statements, including, without limitation, the statements in Bruce Walicek's quote with respect to the Company's growth opportunities, product demand, technology portfolio, expected new product introduction in 2014, 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		
	March 31, 2014	December 31, 2013	March 31, 2013
Revenue, net	\$ 13,541	\$ 14,984	\$ 8,271
Cost of revenue (1)	5,546	6,495	4,294
Gross profit	7,995	8,489	3,977
Operating expenses:			
Research and development (2)	6,385	4,536	5,884
Selling, general and administrative (3)	4,049	3,715	3,598
Total operating expenses	10,434	8,251	9,482
Income (loss) from operations	(2,439)	238	(5,505)
Interest expense and other, net	(122)	(109)	(98)
Income (loss) before income taxes	(2,561)	129	(5,603)
Provision (benefit) for income taxes	(54)	179	(198)
Net loss	\$ (2,507)	\$ (50)	\$ (5,405)
Net loss per share - basic and diluted	\$ (0.11)	\$ (0.00)	\$ (0.29)
Weighted average shares outstanding - basic and diluted	22,204	21,985	18,456

(1) Includes:

Additional amortization of non-cancelable prepaid royalty	\$ 56	\$ 103	\$ 91
Stock-based compensation	89	64	40
(2) Includes stock-based compensation	826	522	258
(3) Includes stock-based compensation	788	599	386

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

	Three Months Ended		
	March 31, 2014	December 31, 2013	March 31, 2013
Reconciliation of GAAP and non-GAAP gross profit			
GAAP gross profit	\$ 7,995	\$ 8,489	\$ 3,977
Additional amortization of non-cancelable prepaid royalty	56	103	91
Stock-based compensation	89	64	40
Total reconciling items included in cost of revenue	145	167	131
Non-GAAP gross profit	\$ 8,140	\$ 8,656	\$ 4,108
Non-GAAP gross profit margin	60.1%	57.8%	49.7%
Reconciliation of GAAP and non-GAAP operating expenses			
GAAP operating expenses	\$ 10,434	\$ 8,251	\$ 9,482
Reconciling item included in research and development:			
Stock-based compensation	826	522	258
Reconciling item included in selling, general and administrative:			
Stock-based compensation	788	599	386
Total reconciling items included in operating expenses	1,614	1,121	644
Non-GAAP operating expenses	\$ 8,820	\$ 7,130	\$ 8,838
Reconciliation of GAAP and non-GAAP net income (loss)			
GAAP net loss	\$ (2,507)	\$ (50)	\$ (5,405)
Reconciling items included in cost of revenue	145	167	131
Reconciling items included in operating expenses	1,614	1,121	644
Tax effect of non-GAAP adjustments	(38)	17	(43)
Non-GAAP net income (loss)	\$ (786)	\$ 1,255	\$ (4,673)
Non-GAAP net income (loss) per share:			
Basic	\$ (0.04)	\$ 0.06	\$ (0.25)
Diluted	\$ (0.04)	\$ 0.05	\$ (0.25)
Non-GAAP weighted average shares outstanding:			
Basic	22,204	21,985	18,456
Diluted	22,204	23,468	18,456

* Our non-GAAP gross profit, non-GAAP gross profit margin, 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 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		
	March 31, 2014	December 31, 2013	March 31, 2013
Reconciliation of GAAP net loss and adjusted EBITDA			
GAAP net loss	\$ (2,507)	\$ (50)	\$ (5,405)
Stock-based compensation	1,703	1,185	684
Additional amortization of non-cancelable prepaid royalty	56	103	91
Tax effect of non-GAAP adjustments	(38)	17	(43)
Non-GAAP net income (loss)	\$ (786)	\$ 1,255	\$ (4,673)
EBITDA adjustments:			
Depreciation and amortization	\$ 1,144	\$ 1,167	\$ 1,058
Interest expense and other, net	122	109	98
Non-GAAP provision (benefit) for income taxes	(16)	162	(155)
Adjusted EBITDA	<u>\$ 464</u>	<u>\$ 2,693</u>	<u>\$ (3,672)</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)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,920	\$ 20,805
Accounts receivable, net	4,362	4,761
Inventories	2,027	1,663
Prepaid expenses and other current assets	1,567	2,858
Total current assets	29,876	30,087
Property and equipment, net	6,172	4,084
Other assets, net	2,122	2,573
Total assets	\$ 38,170	\$ 36,744
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,564	\$ 1,327
Accrued liabilities and current portion of long-term liabilities	10,694	10,505
Current portion of income taxes payable	138	92
Short-term line of credit	3,000	3,000
Total current liabilities	15,396	14,924
Long-term liabilities, net of current portion	2,131	677
Income taxes payable, net of current portion	1,874	2,201
Total liabilities	19,401	17,802
Shareholders' equity	18,769	18,942
Total liabilities and shareholders' equity	\$ 38,170	\$ 36,744

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**Pixelworks, Inc. Q1 2014 Conference Call
May 8, 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 first quarter ended March 31, 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, May 8, 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 income/loss, and net income/loss per share. These non-GAAP measures exclude stock-based compensation expense and additional amortization of a prepaid royalty. We use these non-GAAP measures internally to assess our operating performance. The Company believes these non-GAAP measures provide a meaningful perspective on our core operating results and underlying cash flow dynamics, but we caution investors to consider these measures in addition to, not as a substitute for, nor superior to, the Company's consolidated financial results as presented in accordance with GAAP.

Included in the Company's press release are definitions and reconciliations of GAAP to non-GAAP net income/loss and GAAP net 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 first quarter financial results, and then provide our outlook for the second quarter of 2014.

Bruce Walicek, CEO

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

Q1 2014 Results

- Q1 2014, came in above the midpoint of guidance, and was another solid quarter, as revenues of \$13.5M were up 64% year over year, driven by growth in our product business, which grew 28% year over year, as well as the continued successful execution of our licensing partnerships.
- All other Non-GAAP metrics came within the range of guidance, and we generated positive EBITDA, and cash flow for the quarter.
- 2014 is off to a strong start as overall Book to Bill was greater than one, reflective of good visibility going into Q2 driven by strong product demand, due to an improving overall environment at our customers and the ramping of new products.
- More importantly though, Q1 was a key quarter of progress as we completed a number of critical milestones during the quarter, that advanced progress on our key initiatives.

Projection Market

- First, we delivered the mass production version of the advanced SOC for large screen applications, we developed under our co-development partnership, and during the quarter we received mass production qualification from our customer.
- This is a major milestone on this project and we are on track for volume production to begin in the current quarter and ramp in the second half of this year which we believe will result in significant market share gains in 2014 and beyond.
- Also in our projection product line, we released the latest version of our VueMagic software which provides wireless connectivity for mobile devices to Topaz based projectors and adds features such as live video and virtual remote access, as well as advanced content sharing capabilities.
- Topaz continues to receive wide adoption, and 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.

Video Processors

- We also made significant progress on our initiative for the mobile market as we taped out our device for low power mobile applications and will be launching this product and sampling devices this quarter.
 - This will be the industry's first video display processor that brings the video quality of large screens to mobile screens.
 - Typically, this type of dedicated video processing pipeline has only been applied to large screens, but we believe the time has come to apply this technology to all displays.
 - Pixelworks has a long track record of delivering innovative video processing solutions for large screens, and we are now bringing that expertise and innovation to mobile screens as well.
 - For large 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 Ultra HD video quality problems.
 - 6th generation PA168 level technology is just one of the technologies we have in our expanding video IP portfolio, and we continue to experience a robust licensing pipeline for all of our technology.
 - Building on a 15 year legacy in video and a portfolio of over 120 issued patents, our latest technology represents the culmination of many generations of video processing innovation.
 - In 2014 we will continue to drive an aggressive technology roadmap focusing on the critical areas of next generation video processing, especially for low power applications.
-

Trends

- Key trends from this year's Mobile World Congress in February confirm our thesis of the growing importance of mobile displays as a number of new products with increasing screen size and resolution were introduced.
 - Smartphones with screen size greater than 5" and FHD resolution were launched, as well as high definition Ultrabooks™ and Tablets with 2K products on the horizon and initial 4K UHD demos at the show.
 - 4K video capture was a key trend among manufacturers with products introduced from Samsung, Sony, and others. The increasing availability of 4K capture devices is adding to the flood of high resolution content beginning in the video ecosystem.
 - And as an indication of things to come, NPD Displaysearch predicts that 2015 will be the first year that 4K Ultra HD smartphones will become available to consumers.
 - All of these statistics point to the fact that we are just at the beginning of a multi-year trend of increasing display sizes, resolutions, and video consumption across all screens.
 - At the show in February we provided demonstrations of our technology, designed to improve the video quality of high resolution mobile displays to key industry partners and customers.
 - We provided a number of compelling side by side comparisons that illustrated the power savings, performance, and video quality benefits of our technology for mobile video and we will be delivering our first product based on this technology this quarter.
 - These high resolution screens have 2 to 4 times more pixels than today's full HD displays, resulting in an exponential increase in the number of pixels to be processed.
 - And it's clear that high resolution mobile displays suffer from the same problems as large screens as higher resolution magnifies video quality issues in addition to the added performance and power consumption burden on the system.
 - Video consumption on mobile devices is growing rapidly as consumers increasingly view their favorite video content on their Ultrabook™, Tablet, or smartphone, which are rapidly becoming the first screen consumers reach for to view their video content.
 - Recent studies point to the trend toward increasing video consumption on mobile devices
 - According to a newly released AdReaction study, daily time spent on mobile devices is now out pacing TV in the U.S. for the first time.
 - Demographics increasingly favor video consumption on mobile devices as well, borne out by a new study from Deloitte that finds teens and young twentysomethings spend more time watching movies and TV shows on their computers, smartphones and tablets than they do on their TV screens.
 - Video is a crucial element driving the transformation of an increasing number of mobile devices, as more video is created, more devices are capable of displaying video, and more people are consuming video on an growing number and variety of displays.
 - With the increase of resolutions and media consumption growing across all screens, users are demanding the best visual experience for their content, regardless of screen they're viewing it on.
 - Screen resolution and display quality are key product features that increasingly drive brand and product differentiation, as manufacturers compete for market share.
 - And a recent study by Strategy Analytics noted that the drivers of increased mobile video viewing are video quality along with larger screens and 4G bandwidth.
 - Pixelworks has a long track record of solving the most difficult video quality problems for large screens, and because this is our singular focus, and we do it better than anyone, we are in the best position to deliver the innovative solutions customers need for next generation high resolution mobile displays.
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Closing Summary

- In closing, 2014 is off to a great start with strong Q1 revenues up 64% and we enter the year with significant momentum for our products, our technology, and an expanding set of opportunities.
- During the quarter we achieved a number of critical milestones that advanced our key initiatives.
- We have positioned the company to address a large, fast growing market opportunity as we demonstrated our latest generation technology for mobile applications, and are on track to introduce products in the current quarter.
- 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 first quarter of 2014 was \$13.5 million, up 64% year-over-year due to growth in product and license revenues and down 10% compared to the prior quarter reflecting typical seasonality.

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

69% digital projection,
31% TV and panel

Please note that beginning this quarter we will no longer be breaking out Embedded Video Display as a separate end market, as it represented less than \$1 million of revenue in the fourth quarter of 2013. For the first quarter and going forward, we will be classifying all chip revenue as either digital projection or TV/panel revenue.

Digital projection revenue was \$7.3 million in the first quarter, compared to \$8.3 million in the prior quarter, and was in-line with typical seasonality.

Revenue from TV and panel, which also includes Ultra HD Monitors, totaled \$3.3 million in the first quarter, compared to \$3.5 million in the prior quarter.

Licensing revenue was \$2.9 million in the first quarter, compared to approximately \$3.2 million during the prior quarter.

Non-GAAP gross profit margin was 60.1% in the first quarter, compared to 57.8% in the prior quarter. The sequential increase in gross margin was primarily driven by a more favorable mix.

Non-GAAP operating expenses were \$8.8 million in the first quarter, compared to \$7.1 million in the prior quarter. As a reminder, operating expenses for the prior quarter included a credit to research and development expense as the result of achieving the final payment milestone related to a previously announced customer co-development agreement.

Adjusted EBITDA was a positive \$464,000 for the first quarter, compared to \$2.7 million 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 \$786,000, or loss of 4 cents per share, in the first quarter of 2014. This compares with non-GAAP net income of \$1.3 million, or 5 cents per diluted share in the prior quarter.

Moving to the balance sheet, we ended the first quarter with cash and marketable securities of approximately \$21.9 million, up \$1.1 million from \$20.8 million at year-end. The company has no long-term debt and as of the end of both the first quarter of 2014 and the fourth quarter of 2013, 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 29 days at March 31st, unchanged compared to 29 days at the end of the prior quarter, and inventory turns of 12 times in the first quarter compared to 13 times in the prior quarter.

Guidance

Looking ahead to the second quarter of 2014, we expect revenue to increase to a range of \$14 to \$16 million, driven by increased product sales. At the midpoint this would represent over 10 percent sequential growth and growth of over 50 percent compared to the year-ago second quarter.

We expect gross profit margin for the quarter to range between 50% to 52% on a non-GAAP basis and 49% to 51% on a GAAP basis.

In terms of operating expenses, we expect the second quarter to range between \$8 and \$9 million on a non-GAAP basis, and \$9 to \$10 million on a GAAP basis. Similar to the first quarter, we will not record any R&D reimbursement credits in the second quarter of 2014.

And finally, we expect a non-GAAP second 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.