

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): August 2, 2018

PDF SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

000-31311

(Commission File Number)

Delaware
(State or Other Jurisdiction of Incorporation)

25-1701361
(I.R.S. Employer Identification No.)

333 West San Carlos Street, Suite 1000
San Jose, CA 95110

(Address of principal executive offices, with zip code)

(408) 280-7900

(Registrant's telephone number, including area code)

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))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934.

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Item 2.02. Results of Operations and Financial Condition.

On August 2, 2018 PDF Solutions (the “Company”) issued a press release regarding its financial results and certain other information related to the second fiscal quarter ended June 30, 2018. The Company also posted on the Investor Relations section of its website (www.pdf.com) a management report with regard to the quarter ended June 30, 2018. Copies of the press release and management report are attached to this report as Exhibit 99.1 and 99.2, respectively. Information on the website is not, and will not be deemed, a part of this report or incorporated into any other filings the Company makes with the Securities and Exchange Commission.

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, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that Section, and shall not be deemed incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	<u>Press Release dated August 2, 2018, regarding financial results and certain other information related to the first fiscal quarter ended June 30, 2018.</u>
99.2	<u>Management Report by PDF Solutions, Inc. as of August 2, 2018.</u>

SIGNATURES

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.

PDF SOLUTIONS, INC.
(Registrant)

By: /s/Gregory C. Walker
Gregory C. Walker
VP, Finance, and Chief Financial Officer
(principal financial and accounting officer)

Dated: August 2, 2018

News Release

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PDF Solutions® Reports Second Fiscal Quarter Results

SAN JOSE, Calif.- August 2, 2018-PDF Solutions, Inc. (“PDF Solutions” or the “Company”) (NASDAQ: PDFS), the leading provider of process-design integration technologies to enhance integrated circuit (IC) manufacturability, today announced financial results for its second fiscal quarter ended June 30, 2018.

Total revenues for the second fiscal quarter of 2018 were \$21.1 million, down 15% from \$24.7 million for the first fiscal quarter of 2018 and down 13% from \$24.3 million for the second fiscal quarter of 2017. Design-to-silicon-yield solutions revenue for the second fiscal quarter of 2018 was \$15.3 million, down 16% from \$18.2 million for the first fiscal quarter of 2018 and down 7% from \$16.5 million for the second fiscal quarter of 2017. Gainshare performance incentives revenue for the second fiscal quarter of 2018 was \$5.9 million, down 11% from \$6.5 million for the first fiscal quarter of 2018 and down 25% from \$7.8 million for the second fiscal quarter of 2017.

On a GAAP basis, net loss for the second fiscal quarter of 2018 was \$2.1 million, or \$0.07 per basic and diluted share, compared to net loss of \$0.4 million, or \$0.01 per basic and diluted share, for the first fiscal quarter of 2018, and compared to net income of \$0.2 million, or \$0.01 per basic and diluted share, for the second fiscal quarter of 2017.

Cash and cash equivalents at June 30, 2018, were \$100.9 million, compared to \$101.3 million at December 31, 2017.

Non-GAAP net income for the second fiscal quarter of 2018 was \$0.8 million, or \$0.02 per diluted share, compared to \$2.2 million, or \$0.07 per diluted share, for the first fiscal quarter of 2018, and compared to \$2.7 million, or \$0.08 per diluted share, for the second fiscal quarter of 2017. EBITDAR for the second fiscal quarter of 2018 was \$1.7 million, compared to \$3.8 million for the first fiscal quarter of 2018 and compared to \$3.7 million for the second fiscal quarter of 2017.

As previously announced, PDF Solutions will discuss these results on a live conference call beginning at 2:00 p.m. Pacific Time/5:00 p.m. Eastern Time today. The call will be simultaneously web cast on PDF Solutions’ website at <http://ir.pdf.com/webcasts>. A replay of the web cast will be available at the same website address beginning approximately two hours after completion of the live call. A copy of this press release, including the disclosure and reconciliation of certain non-GAAP financial measures to the comparable GAAP measures, which non-GAAP measures may be used periodically by PDF Solutions’ management when discussing financial results with investors and analysts, will also be available on PDF Solutions’ website at <http://www.pdf.com/press-releases> following the date of this release.

Second Fiscal Quarter 2018 Financial Commentary Available Online

A Management Report reviewing the Company’s second fiscal quarter 2018 financial results, as well as providing updated third quarter and full year 2018 financial outlook, will be furnished to the SEC on Form 8-K and published on the Company’s website at <http://ir.pdf.com/financial-reports>. Analysts and investors are encouraged to review this commentary prior to participating in the conference call webcast.

Information Regarding Use of Non-GAAP Financial Measures

In addition to providing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), PDF Solutions also provides certain non-GAAP financial measures. Non-GAAP net income excludes the effects of non-recurring items (including severance payments), stock-based compensation expenses, amortization of acquired technology and other acquired intangible assets, and their related income tax effects, as applicable, as well as adjusts for the non-cash portion of income taxes. EBITDAR is calculated by taking GAAP net income, adding back the effects of non-recurring items, stock-based compensation expenses, amortization of acquired technology and other acquired intangibles, depreciation expense and income tax provision (benefit). These non-GAAP financial measures are used by management internally to measure the Company's profitability and performance. PDF Solutions' management believes that these non-GAAP measures provide useful supplemental measures to investors regarding the Company's ongoing operations in light of the fact that none of these categories of expense has a current effect on the future uses of cash (with the exception of certain non-recurring items) nor do they impact the generation of current or future revenues. These non-GAAP results should not be considered an alternative to, or a substitute for, GAAP financial information, and may be different from similarly titled non-GAAP measures used by other companies. In particular, these non-GAAP financial measures are not a substitute for GAAP measures of income or loss as a measure of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity. Since management uses these non-GAAP financial measures internally to measure profitability and performance, PDF Solutions has included these non-GAAP measures to give investors an opportunity to see the Company's financial results as viewed by management. A reconciliation of the comparable GAAP financial measures to the non-GAAP financial measures is provided at the end of the Company's financial statements presented below.

Forward-Looking Statements

The statements made on the planned conference call regarding the Company's future expected business performance and financial results are forward looking and are subject to events and circumstances of the future. Actual results could differ materially from those expressed in these forward-looking statements. Risks and uncertainties that could cause results to differ materially include risks associated with: customers' production volumes at Gainshare-covered facilities; cost and schedule of new product development; continued adoption of the Company's solutions by new and existing customers; project milestones or delays and performance criteria achieved; the provision of technology and services prior to the execution of a final contract; and other risks set forth in PDF Solutions' periodic public filings with the Securities and Exchange Commission, including, without limitation, its Annual Reports on Form 10-K, most recently filed for the year ended December 31, 2017, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K and amendments to such reports. The forward-looking statements made in the conference call are made as of the date hereof, and PDF Solutions does not assume any obligation to update such statements nor the reasons why actual results could differ materially from those projected in such statements.

About PDF Solutions

PDF Solutions enables customers to reduce the time to market of integrated circuits ("ICs"), lower the cost of IC design and manufacturing and improve both quality and profitability. The Company has developed proprietary hardware and software and provides services that target the entire systems value chain, which is a term we use that means the activities from technology development and the design of a semiconductor product through volume manufacturing of devices and subsequent system assembly and test.

PDF Solutions' products and services consist of proprietary test structures and electrical test systems, physical intellectual property, enterprise platform software and professional services. The Company's Characterization Vehicle[®] (CV[®]) electrical test chip infrastructure provides core modeling capabilities, and is used by more leading manufacturers than any other test chips in the industry. The Design-for-Inspection solution includes the proprietary eProbe[®] e-beam tool and extends the Company's electrical characterization technologies into the e-beam measurement of extremely dense test structures, or DFI cells, across an entire fabrication process. Proprietary Template layout patterns for standard cell libraries optimize area, performance, and manufacturability for designing IC products. The Exensio[®] platform for big data unlocks relevant, actionable information buried in wafer fabrication, process control and test data through key components: Exensio[®] -Yield, Exensio[®] -Control, Exensio[®] -Test, Exensio[®] -ALPS, and Exensio[®] -Char. The Exensio[®] platform is available either on-premise or via software as a service (SaaS).

Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in Canada, China, France, Germany, Italy, Japan, Korea, and Taiwan. PDF Solutions is listed on The NASDAQ National Market under the ticker symbol PDFS. For the Company's latest news and information, visit <http://www.pdf.com/>.

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PDF SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 100,916	\$ 101,267
Accounts receivable, net	53,919	57,564
Prepaid expenses and other current assets	8,660	5,069
Total current assets	163,495	163,900
Property and equipment, net	28,095	25,386
Goodwill	1,923	1,923
Intangible assets, net	5,569	6,074
Deferred tax assets	17,747	16,348
Other non-current assets	8,943	10,545
Total assets	<u>\$ 225,772</u>	<u>\$ 224,176</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,495	\$ 2,536
Accrued compensation and related benefits	5,608	6,493
Accrued and other current liabilities	2,330	2,627
Deferred revenues - current portion	9,369	7,981
Total current liabilities	19,802	19,637
Long-term income taxes payable	4,652	3,902
Other non-current liabilities	994	2,269
Total liabilities	<u>25,448</u>	<u>25,808</u>
Stockholders' equity:		
Common stock and additional paid-in-capital	304,953	297,955
Treasury stock at cost	(78,422)	(71,793)
Accumulated deficit	(25,256)	(27,089)
Accumulated other comprehensive loss	(951)	(705)
Total stockholders' equity	200,324	198,368
Total liabilities and stockholders' equity	<u>\$ 225,772</u>	<u>\$ 224,176</u>

PDF SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share amounts)

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues:					
Design-to-silicon-yield solutions	\$ 15,266	\$ 18,190	\$ 16,500	\$ 33,456	\$ 36,198
Gainshare performance incentives	5,853	6,547	7,789	12,400	12,380
Total revenues	<u>21,119</u>	<u>24,737</u>	<u>24,289</u>	<u>45,856</u>	<u>48,578</u>
Costs of Design-to-silicon-yield solutions:					
Direct costs of Design-to-silicon-yield solutions	10,774	11,338	11,283	22,112	22,618
Amortization of acquired technology	143	144	96	287	192
Total costs of Design-to-silicon-yield solutions	<u>10,917</u>	<u>11,482</u>	<u>11,379</u>	<u>22,399</u>	<u>22,810</u>
Gross profit	10,202	13,255	12,910	23,457	25,768
Operating expenses:					
Research and development	7,100	7,245	7,276	14,345	14,557
Selling, general and administrative	5,919	6,375	6,195	12,294	12,095
Amortization of other acquired intangible assets	108	109	92	217	184
Total operating expenses	<u>13,127</u>	<u>13,729</u>	<u>13,563</u>	<u>26,856</u>	<u>26,836</u>
Loss from operations	(2,925)	(474)	(653)	(3,399)	(1,068)
Interest and other income (expense), net	390	(331)	27	59	(202)
Loss before income taxes	(2,535)	(805)	(626)	(3,340)	(1,270)
Income tax benefit	(439)	(381)	(815)	(820)	(1,976)
Net income (loss)	<u>\$ (2,096)</u>	<u>\$ (424)</u>	<u>\$ 189</u>	<u>\$ (2,520)</u>	<u>\$ 706</u>
Net income (loss) per share:					
Basic	<u>\$ (0.07)</u>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ (0.08)</u>	<u>\$ 0.02</u>
Diluted	<u>\$ (0.07)</u>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ (0.08)</u>	<u>\$ 0.02</u>
Weighted average common shares:					
Basic	31,962	32,168	32,111	32,065	32,051
Diluted	31,962	32,168	33,388	32,065	33,491

PDF SOLUTIONS, INC.
RECONCILIATION OF GAAP TO NON-GAAP NET INCOME (UNAUDITED)
(In thousands, except per share amounts)

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
GAAP net income (loss)	\$ (2,096)	\$ (424)	\$ 189	\$ (2,520)	\$ 706
Adjustments to reconcile GAAP net income to non-GAAP net income:					
Stock-based compensation expense	2,701	2,856	2,904	5,557	5,788
Amortization of acquired technology	143	144	96	287	192
Amortization of other acquired intangible assets	108	109	92	217	184
Non-recurring severance payment (1)	-	283	-	283	-
Tax impact of adjustments	(96)	(747)	(629)	(843)	(1,624)
Non-GAAP net income	\$ 760	\$ 2,220	\$ 2,652	\$ 2,981	\$ 5,246
GAAP net income (loss) per diluted share	\$ (0.07)	\$ (0.01)	\$ 0.01	\$ (0.08)	\$ 0.02
Non-GAAP net income per diluted share	\$ 0.02	\$ 0.07	\$ 0.08	\$ 0.09	\$ 0.16
Shares used in diluted shares calculation	32,304	32,645	33,388	32,474	33,491

PDF SOLUTIONS, INC.
RECONCILIATION OF GAAP NET INCOME TO EBITDAR (UNAUDITED)
(In thousands, except per share amounts)

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
GAAP net income (loss)	\$ (2,096)	\$ (424)	\$ 189	\$ (2,520)	\$ 706
Adjustments to reconcile GAAP net income to EBITDAR:					
Stock-based compensation expense	2,701	2,856	2,904	5,557	5,788
Amortization of acquired technology	143	144	96	287	192
Amortization of other acquired intangible assets	108	109	92	217	184
Non-recurring severance payment (1)	-	283	-	283	-
Depreciation expense	1,271	1,260	1,196	2,531	2,286
Income tax benefit	(439)	(381)	(815)	(820)	(1,976)
EBITDAR	\$ 1,688	\$ 3,847	\$ 3,662	\$ 5,535	\$ 7,180

(1) These are non-recurring severance payments related to reduction in workforce. The Company is excluding these costs in order to provide better comparability between periods.



2018 Second Quarter Management Report

August 2, 2018

Statements herein regarding the Company's future expected business performance and financial results are forward looking and are subject to events and circumstances of the future. Actual results could differ materially from those expressed in these forward-looking statements. Risks and uncertainties that could cause results to differ materially include risks associated with: customers' production volumes at Gainshare-covered facilities; continued adoption of the Company's solutions by new and existing customers; project milestones or delays and performance criteria achieved; the provision of technology and services prior to the execution of a final contract; the impact of ASC 606; development costs on our next generation products; and other risks set forth in PDF Solutions' periodic public filings with the Securities and Exchange Commission, including, without limitation, its Annual Reports on Form 10-K, most recently filed for the year ended December 31, 2017, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K and amendments to such reports. The forward-looking statements made in the conference call are made as of the date hereof, and PDF Solutions does not assume any obligation to update such statements nor the reasons why actual results could differ materially from those projected in such statements.



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- Reconciliation of GAAP to Non-GAAP Net Income
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■ 2018 Outlook

■ Related Information

The following commentary is provided by management and should be referenced in conjunction with PDF Solutions' second quarter for fiscal year 2018 financial results press release available on its Investor Relations website at <http://www.pdf.com/financial-news>. These remarks represent management's current views of the Company's financial and operational performance and outlook and are provided to give investors and analysts further insight into its performance in advance of the earnings call webcast. The Company disclaims any duty to update this information for future events.



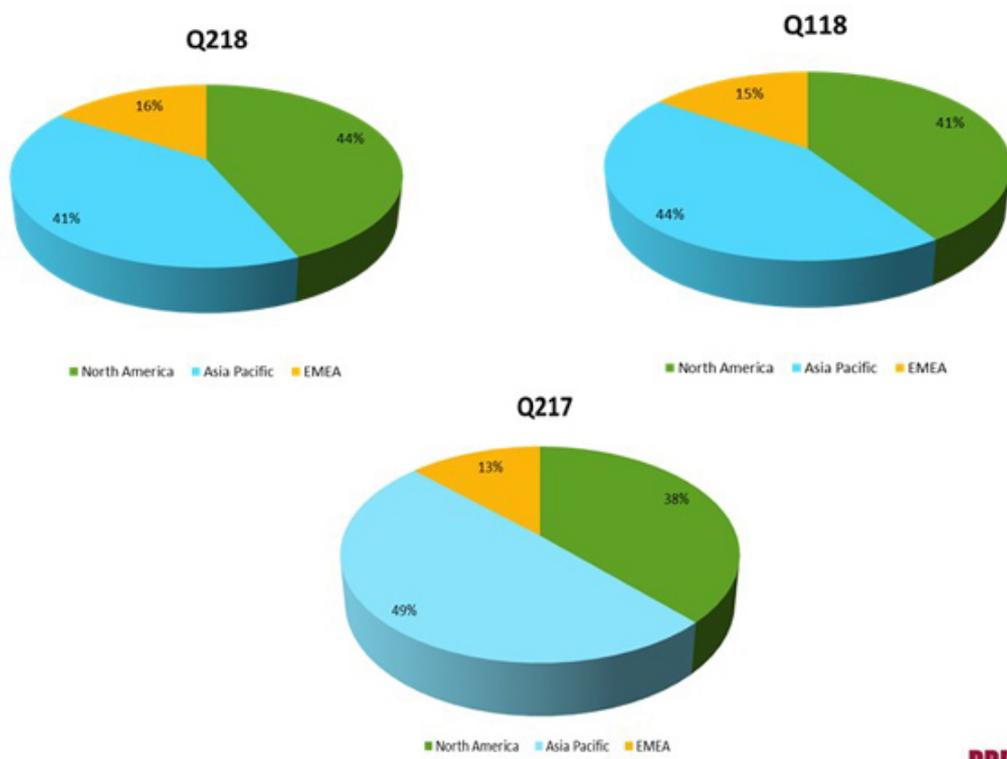
GAAP Income Statement – Quarterly Trend Through Q2 2018

in thousands (except share amounts, percent of revenue, and EPS)

P&L (GAAP)	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18
Design to Silicon Yield Solutions	18,578	20,574	18,552	19,458	19,698	16,500	19,229	19,010	18,190	15,266
Gain Share - Performance Incentive	6,503	6,114	8,707	8,975	4,591	7,789	7,288	7,766	6,547	5,853
Total Revenue	25,081	26,688	27,259	28,433	24,289	24,289	26,517	26,776	24,737	21,119
Cost of Sales	10,206	10,654	11,452	12,136	11,431	11,379	12,431	12,281	11,482	10,917
GROSS MARGIN	14,875	16,034	15,807	16,297	12,858	12,910	14,086	14,495	13,255	10,202
Gross Margin %	59%	60%	58%	57%	53%	53%	53%	54%	54%	48%
OPERATING EXPENSES										
Research & Development	6,311	7,060	7,017	7,171	7,282	7,276	7,875	7,646	7,245	7,100
R&D % of Revenue	25%	26%	26%	25%	30%	30%	30%	29%	29%	34%
Selling, General, & Administrative	5,124	5,094	5,548	6,290	5,899	6,195	5,680	5,909	6,375	5,919
SG&A % of Revenue	20%	19%	20%	22%	24%	26%	21%	22%	26%	28%
Amortization of other acquired intangible assets	117	117	106	92	92	92	107	107	109	108
TOTAL OPERATING EXPENSES	11,552	12,271	12,671	13,553	13,273	13,563	13,662	13,662	13,729	13,127
OPERATING INCOME (LOSS)	3,323	3,763	3,136	2,744	(415)	(653)	424	833	(474)	(2,925)
Other (Income) / Expense, Net	236	51	101	(378)	230	(27)	104	(42)	331	(390)
PRE-TAX INCOME (LOSS)	3,087	3,712	3,035	3,122	(645)	(626)	320	875	(805)	(2,535)
Income Tax Provision (Benefit)	1,026	1,579	1,051	198	(1,162)	(815)	(270)	3,508	(381)	(439)
Net Income	2,061	2,133	1,984	2,924	517	189	590	(2,634)	(424)	(2,096)
GAAP EPS	0.07	0.07	0.06	0.09	0.02	0.01	0.02	(0.08)	(0.01)	(0.07)
Diluted Weighted Avg Shares (in millions)	31.8	32.1	32.6	33.3	33.6	33.4	33.0	32.9	32.2	32.0



GAAP Revenue by Geography Q2 2018 & Comparable Quarters



Q2 2018 CFO Commentary – Revenue

- The top ten customers represented 76% of total revenues in the second quarter of 2018. Two of these customers contributed revenues 10% or greater.
- Solutions revenue consisted of 10 project-based engagements that contributed at least \$100,000 of solutions revenue each in the second quarter of 2018.
- The total number of node-sites, defined as an individual fab and process node combination, contributing to Gainshare revenue, was 14 in the second quarter of 2018.

GAAP Balance Sheet Trend – Quarterly Through Q2 2018

in thousands

	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17	31-Mar-18	30-Jun-18
ASSETS										
Cash and short-term investments	\$ 129,398	\$ 122,222	\$ 118,334	\$ 116,787	\$ 114,926	\$ 109,007	\$ 100,750	\$ 101,267	\$ 98,522	\$ 100,916
Accounts receivable - trade	19,948	19,369	25,550	27,348	27,366	33,005	32,226	35,355	35,366	30,690
Unbilled accounts receivable	9,376	15,417	18,474	20,809	22,722	21,024	20,728	22,209	23,070	23,229
Other current assets	3,479	4,729	5,163	5,335	6,741	8,813	6,579	5,069	9,654	8,660
Total current assets	162,200	161,737	167,521	170,279	171,755	171,849	160,284	163,900	166,612	163,495
Goodwill and intangibles	5,030	4,818	4,626	4,438	4,250	4,062	8,248	7,997	7,744	7,492
Deferred tax assets	14,761	14,201	14,135	15,640	16,201	15,815	18,522	16,348	15,896	17,747
Other non-current assets	7,564	9,496	9,413	12,631	14,615	12,262	11,312	10,544	9,752	8,943
Property plant and equipment	13,236	16,076	18,192	19,341	20,798	23,068	23,604	25,386	26,536	28,095
Total assets	\$ 202,791	\$ 206,328	\$ 214,087	\$ 222,329	\$ 227,619	\$ 227,057	\$ 221,970	\$ 224,176	\$ 226,540	\$ 225,772
LIABILITIES										
Accounts payable	\$ 2,016	\$ 2,469	\$ 947	\$ 2,206	\$ 2,436	\$ 2,270	\$ 2,608	\$ 2,536	\$ 2,588	\$ 2,495
Accrued Liabilities	6,141	8,074	8,268	8,039	6,902	7,938	7,886	9,120	7,473	7,938
Deferred revenues - current portion	6,471	6,052	8,472	8,277	9,977	9,322	7,912	7,981	8,474	9,369
Total current liabilities	14,629	16,595	17,687	18,523	19,314	19,530	18,407	19,637	18,535	19,802
Deferred taxes and other	2,932	2,922	3,515	5,003	5,049	5,427	5,266	6,171	5,946	5,646
Total liabilities	17,561	19,517	21,202	23,526	24,363	24,957	23,673	25,808	24,481	25,448
EQUITY										
Common stock and additional paid-in capital	269,605	272,148	276,504	281,428	285,935	289,961	294,364	297,955	301,872	304,953
Treasury stock	(50,396)	(53,306)	(53,731)	(54,882)	(55,726)	(61,532)	(70,739)	(72,793)	(76,473)	(78,422)
Accumulated other comprehensive loss	(1,184)	(1,370)	(1,213)	(1,991)	(1,718)	(1,283)	(873)	(705)	(180)	(25,256)
Accumulated deficit	(32,794)	(30,661)	(28,676)	(25,752)	(25,235)	(25,046)	(24,455)	(27,089)	(23,160)	(951)
Total stockholders' equity	185,231	186,811	192,884	198,803	203,257	202,100	198,296	197,368	202,059	200,324
Total liabilities and stockholders' equity	\$ 202,791	\$ 206,328	\$ 214,087	\$ 222,329	\$ 227,619	\$ 227,057	\$ 221,970	\$ 224,176	\$ 226,540	\$ 225,772



Q2 2018 – GAAP Balance Sheet Commentary

- Trade Accounts Receivable balance at the end of the quarter was \$30.7 million, a decrease of approximately \$4.7 million when compared to the previous quarter. The Unbilled Accounts Receivable balance (current & long-term) was \$30.5 million at the end of the quarter, a decrease of approximately \$0.3 million when compared to the previous quarter. Additionally, under ASC 606, \$3.2 million has been reclassified from Unbilled AR to Contract Assets and recorded as Other Current Assets.
- Of the \$30.5 million of Unbilled Accounts Receivable at the end of the quarter, we expect approximately \$23.2 million to be billed in the next twelve months of which more than 43% will be billed during Q3 2018. Included in the \$30.5 million of Unbilled AR is approximately \$1.5 million of receivables related to the adoption of ASC 606 methodology for Gainshare revenue recognition.
- Of the \$30.7 million of Trade Receivables, \$9.4 million, or 30%, was aged more than 30 days. Since the end of the quarter through August 1, 2018, \$5.9 million of Trade Receivables has been collected.

GAAP Cash Flow – Quarterly Trend Through Q2 2018

in thousands	03/31/16	06/30/16	09/30/16	12/31/16	03/31/17	06/30/17	09/30/17	12/31/17	03/31/18	06/30/18
Operating activities:										
Net income (loss)	2,061	2,133	1,984	2,925	517	189	391	(2,634)	(424)	(2,096)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:										
Depreciation and amortization	765	859	960	1,000	1,091	1,195	1,263	1,240	1,261	1,270
Stock-based compensation	2,666	2,291	2,978	3,067	2,882	2,906	2,948	3,074	2,856	2,701
Amortization of acquired intangible assets	213	212	192	189	188	188	242	251	253	252
Losses on disposal of assets	107	-	-	-	-	5	-	1	3	-
Deferred taxes	459	564	60	(867)	(580)	387	(3,321)	3,010	117	(1,818)
Provisions (reversal) on losses on accounts receivable	53	(152)	-	-	-	124	-	50	-	(42)
Unrealized loss (gain) on foreign currency forward contract	(23)	(11)	(20)	6	92	(59)	(39)	(21)	58	(11)
Changes in operating assets and liabilities:										
Accounts receivable	4,062	(5,311)	(9,237)	(4,134)	(1,931)	(4,065)	1,075	(4,660)	639	4,559
Prepaid expenses and other assets	(5,739)	(3,169)	(342)	(3,428)	(3,372)	314	3,247	2,288	(3,836)	1,778
Accounts payable	230	360	(577)	52	476	375	760	352	1,097	(1,489)
Accrued compensation and related benefits	(564)	910	(69)	901	(1,040)	817	(498)	970	(1,278)	460
Accrued and other liabilities	(833)	610	362	(370)	(587)	(158)	521	296	(532)	57
Deferred revenue	1,674	(727)	3,012	813	1,734	(1,008)	(1,408)	356	3,038	839
Billings in excess of recognized revenue	(1,153)	198	(239)	15	112	189	(101)	(288)	-	7
Net cash provided by (used in) operating activities	3,998	(1,233)	(936)	169	(418)	1,399	5,280	4,285	3,252	6,467
Investing activities:										
Proceeds from the sales of property and equipment	-	-	-	-	-	-	-	-	2	-
Purchases of property and equipment	(1,780)	(3,271)	(3,809)	(2,422)	(2,313)	(2,651)	(1,978)	(3,313)	(2,449)	(2,363)
Acquisition of business, net of cash acquired	-	-	-	-	-	-	(3,841)	-	-	-
Net cash provided by (used in) investing activities	(1,780)	(3,271)	(3,809)	(2,422)	(2,313)	(2,651)	(5,819)	(3,313)	(2,447)	(2,363)
Financing activities:										
Proceeds from exercise of stock options	182	270	680	1,840	717	1,091	496	518	39	377
Proceeds from employee stock purchase plan	777	1	780	-	909	-	956	-	1,007	-
Stock repurchases	-	(1,843)	(339)	-	-	(4,770)	(8,648)	-	(4,123)	(1,125)
Purchase of company stock for employee tax settlement	(9)	(1,066)	(86)	(1,156)	(844)	(1,035)	(560)	(1,055)	(556)	(820)
Net cash provided by (used in) financing activities	950	(2,638)	1,035	684	782	(4,714)	(7,756)	(537)	(3,633)	(1,568)
Effect of exchange rate changes on cash and cash equivalents	72	(34)	21	(178)	88	46	39	82	83	(142)
Net increase (decrease) in cash and cash equivalents	3,240	(7,176)	(3,689)	(1,747)	(1,861)	(5,920)	(8,256)	517	(2,745)	2,394
Cash and cash equivalents, beginning of period	126,158	129,398	122,222	118,533	116,786	114,925	109,005	100,749	101,266	98,521
Cash and cash equivalents, end of period	129,398	122,222	118,533	116,786	114,925	109,005	100,749	101,266	98,521	100,915

Q2 2018 – GAAP Cash Flow Commentary

- During the quarter the Company purchased approximately \$2.4 million of fixed assets, primarily related to our DFI solution.
- Cash provided by operations during the quarter was approximately \$6.5 million.
- During the quarter, the Company spent \$1.1 million on repurchasing 99 thousand shares of common stock on the open market as part of our Stock Repurchase Program. The Company also spent \$0.8 million to purchase 63 thousand shares to cover employee taxes on restricted stock grants released.

Non-GAAP Presentation

In addition to providing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), the Company also provides certain non-GAAP financial measures. Non-GAAP net income excludes the effects of non-recurring items (including severance payments), stock-based compensation expenses, amortization of acquired technology and other acquired intangible assets, and their related income tax effects, as applicable, as well as adjusts for the non-cash portion of income taxes. EBITDAR is calculated by taking GAAP net income, adding back the effects of non-recurring items, stock-based compensation expenses, amortization of acquired technology and other acquired intangibles, depreciation expense and income tax provision (benefit). These non-GAAP financial measures are used by management internally to measure the Company's profitability and performance. PDF Solutions' management believes that these non-GAAP measures provide useful supplemental measures to investors regarding the Company's ongoing operations in light of the fact that none of these categories of expense has a current effect on the future uses of cash (with the exception of certain non-recurring items) nor do they impact the generation of current or future revenues. These non-GAAP results should not be considered an alternative to, or a substitute for, GAAP financial information, and may be different from similarly titled non-GAAP measures used by other companies. In particular, these non-GAAP financial measures are not a substitute for GAAP measures of income or loss as a measure of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity. Management uses these non-GAAP financial measures internally to measure profitability and performance; these non-GAAP measures are presented here to give investors an opportunity to see the Company's financial results as viewed by management. A detailed reconciliation of the adjustments made to comparable GAAP measures is included herein.

Reconciliation of GAAP to Non-GAAP Net Income

in thousands (except for shares and per share amounts)

	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18
GAAP net income	\$ 2,061	\$ 2,133	\$ 1,984	\$ 2,925	\$ 517	\$ 189	\$ 590	\$ (2,634)	\$ (424)	\$ (2,096)
Adjustments to reconcile GAAP net income to non-GAAP net income:										
Stock-based compensation expense	2,666	2,292	2,977	3,067	2,884	2,904	2,949	3,073	2,856	2,701
Amortization of acquired technology	96	96	86	96	96	96	136	144	144	143
Amortization of other acquired intangible assets	117	117	106	92	92	92	107	107	109	108
Non-recurring severance payments	-	-	-	-	-	-	370	30	283	-
Tax Impact of Adjustments	299	610	236	(587)	(995)	(629)	(590)	3,444	(747)	(96)
Non-GAAP net income	\$ 5,239	\$ 5,248	\$ 5,389	\$ 5,593	\$ 2,594	\$ 2,652	\$ 3,562	\$ 4,164	\$ 2,220	\$ 760
GAAP net income per diluted share	\$ 0.07	\$ 0.07	\$ 0.06	\$ 0.09	\$ 0.02	\$ 0.01	\$ 0.02	\$ (0.08)	\$ (0.01)	\$ (0.07)
Non-GAAP net income per diluted share	\$ 0.16	\$ 0.16	\$ 0.17	\$ 0.17	\$ 0.08	\$ 0.08	\$ 0.11	\$ 0.13	\$ 0.07	\$ 0.02
Shares used in diluted shares calculation (in millions)	31.8	32.1	32.6	33.3	33.6	33.4	33.0	32.9	32.6	32.4



Reconciliation of GAAP to Non-GAAP Spending by Function

in thousands

	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18
Cost of Sales - GAAP	10,206	10,654	11,452	12,136	11,431	11,379	12,431	12,281	11,482	10,917
Adjustments to reconcile GAAP Cost of Sales to non-GAAP										
Cost of Sales:										
Stock-based compensation expense	(1,085)	(956)	(1,191)	(1,195)	(1,191)	(1,070)	(1,184)	(1,162)	(1,013)	(968)
Amortization of acquired technology	(96)	(96)	(86)	(96)	(96)	(96)	(136)	(144)	(144)	(144)
Non-recurring severance payments	-	-	-	-	-	-	(151)	-	(209)	-
Cost of Sales - Non-GAAP	9,026	9,602	10,174	10,845	10,144	10,214	10,961	10,976	10,116	9,805
Research & Development - GAAP	6,311	7,060	7,017	7,171	7,282	7,276	7,875	7,646	7,245	7,100
Adjustments to reconcile GAAP R&D to non-GAAP R&D:										
Stock-based compensation expense	(706)	(651)	(894)	(836)	(834)	(848)	(877)	(959)	(879)	(845)
Non-recurring severance payments	-	-	-	-	-	-	(150)	(17)	(74)	-
Research & Development - Non-GAAP	5,605	6,409	6,123	6,335	6,448	6,428	6,848	6,670	6,292	6,255
Selling, General, & Administrative - GAAP	5,124	5,094	5,548	6,290	5,899	6,195	5,680	5,909	6,375	5,919
Adjustments to reconcile GAAP SG&A to non-GAAP SG&A:										
Stock-based compensation expense	(876)	(684)	(892)	(1,036)	(858)	(987)	(888)	(952)	(963)	(888)
Non-recurring severance payments	-	-	-	-	-	-	(70)	(13)	-	-
Selling, General, & Administrative - Non-GAAP	4,248	4,410	4,656	5,254	5,041	5,208	4,722	4,944	5,412	5,031



2018 – Outlook

- We expect total Q3 revenues to be approximately the same level as Q2.
- On a full year basis, we expect total 2018 revenues to decrease by 5% to 10% as compared to 2017.
- Overall, as a result of our cost reduction initiatives, we expect total spending on a non-GAAP basis to be down by 5% or more (after increasing some strategic investments) as compared to 2017.
- We expect our GAAP and non-GAAP tax provision rate (after discrete items) to be at 25% for the year.