

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 1, 2019

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.)

2858 De La Cruz Boulevard

Santa Clara, CA 95050

(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))

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.00015 par value	PDFS	The NASDAQ Stock Market LLC

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 1, 2019, 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, 2019. 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, 2019. Copies of the press release and management report are attached to this report as Exhibits 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.

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Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	<u>Press Release dated August 1, 2019, regarding financial results and certain other information related to the second fiscal quarter ended June 30, 2019.</u>
99.2	<u>Management Report by PDF Solutions, Inc. as of August 1, 2019.</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/ Christine Russell
Christine Russell
EVP, Finance, and Chief Financial Officer
(principal financial and accounting officer)

Dated: August 1, 2019

News Release

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PDF Solutions® Reports Second Fiscal Quarter Results

SANTA CLARA, Calif. — Thursday, August 1, 2019 — PDF Solutions, Inc. (“PDF Solutions” or the “Company”) (NASDAQ: PDFS), a leading provider of differentiated data and analytics solutions to the semiconductor and electronics industries, today announced financial results for its second fiscal quarter ended June 30, 2019.

Second Fiscal Quarter 2019 Financial Results

Total revenues for the second fiscal quarter of 2019 were \$20.6 million, compared to \$20.5 million for the first fiscal quarter of 2019 and \$21.1 million for the second fiscal quarter of 2018. Solutions revenue for the second fiscal quarter of 2019 was \$13.4 million, compared to \$16.7 million for the first fiscal quarter of 2019 and \$15.3 million for the second fiscal quarter of 2018. Deferred revenue for the second fiscal quarter of 2019 includes \$1.0 million associated with one customer in China that is significantly delinquent in payments, which revenue we expect to recognize in the future when such payments are made. Gainshare performance incentives revenue for the second fiscal quarter of 2019 was \$7.1 million, compared to \$3.9 million for the first fiscal quarter of 2019 and \$5.9 million for the second fiscal quarter of 2018.

Second quarter 2019 gross margin of 62% improved from 48% in the second fiscal quarter of 2018, reflecting a lower headcount primarily related to reductions in our yield ramp business as we focus on our software business and an increase in our Gainshare performance incentives.

On a GAAP basis, net loss for the second fiscal quarter of 2019 was \$0.7 million, or (\$0.02) per basic and diluted share, compared to net loss of \$2.7 million, or (\$0.08) per basic and diluted share, for the first fiscal quarter of 2019, and compared to net loss of \$2.1 million, or (\$0.07) per basic and diluted share, for the second fiscal quarter of 2018.

Non-GAAP net income for the second fiscal quarter of 2019 was \$1.0 million, or \$0.03 per diluted share, compared to net income of \$0.8 million, or \$0.03 per diluted share, for the first fiscal quarter of 2019, and compared to net income of \$0.8 million, or \$0.02 per diluted share, for the second fiscal quarter of 2018.

Cash and cash equivalents at June 30, 2019, were \$86.8 million, compared to \$96.1 million at December 31, 2018, a decrease of \$9.3 million. Although operating activities generated \$5.0 million in cash during the six months ended June 30, 2019, \$10.4 million was used during the same period to repurchase 614,000 shares at an average price of \$12.54 per share, for a total of \$7.7 million, and to acquire certain assets from StreamMosaic, Inc., a privately held provider of artificial intelligence and machine learning solutions, for approximately \$2.7 million. Both the repurchase of shares and the acquisition demonstrate continued commitment to the Company’s on-going evolution to be the provider of choice for advanced data analytics for semiconductors and electronics and expectations of future results based on a successful evolution.

Operating Highlights

- Two major Asian pure-play foundries signed contracts to incorporate Exensio[®] – Control into their new fabs, extending our leadership position in FDC at 300mm.
- A leading Asian foundry and a Top-10 semiconductor customer have each renewed and extended contracts for use of our CV[®] infrastructure to support overall fab management strategy and to provide quality and reliability “screens” for their respective semiconductor manufacturing environments.
- Three new fabless semiconductor companies with various offerings in the marketplace have each signed deals to adopt our Exensio[®] Software Platform, validating its scalability from startup fabless to the largest semiconductor companies in the world.
- Various Top 20 semiconductor customers in the United States and Japan have engaged with us for proof-of-concept projects based on our production-proven machine-learning (ML) capabilities to gain insight into their product quality and quickly identify manufacturing issues.
- A Top 10 global electronics company has closed a significant deal for Exensio[®] –Yield™, demonstrating the opportunity for the Exensio[®] Software Platform in this market segment.

Conference Call

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 2019 Financial Commentary Available Online

A Management Report reviewing the Company’s second fiscal year 2019 financial results 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, and restructuring charges), stock-based compensation expense, 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. 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 information 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 differ 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 in this press release and on the planned conference call regarding the Company's future expected business performance and financial results are forward looking and are subject to future events and circumstances. 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 under contracts that provide Gainshare royalties, 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, 2018, 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 (NASDAQ: PDFS) offers an end-to-end analytics platform that empowers engineers and data scientists across the semiconductor ecosystem to rapidly improve the yield, quality, and profitability of their products. By combining industry-leading data analytics and professional services with exclusive, differentiated product data generated during the manufacturing process, PDF Solutions is delivering on the promise of Industry 4.0 today by transforming how the ecosystem collects, analyzes, and shares data. Key Fortune 500 organizations around the world rely on PDF Solutions to remove the data barriers that encumber and constrain new product introductions and to deliver the machine learning insights that drive efficient and profitable high-volume manufacturing.

Headquartered in Santa Clara, California, PDF Solutions also operates worldwide in Canada, China, France, Germany, Italy, Japan, Korea, and Taiwan. 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 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 86,817	\$ 96,089
Accounts receivable, net	52,381	51,570
Prepaid expenses and other current assets	8,843	9,562
Total current assets	148,041	157,221
Property and equipment, net	35,846	35,681
Operating lease right-of-use assets	7,974	—
Goodwill	2,293	1,923
Intangible assets, net	6,855	5,064
Deferred tax assets	21,378	19,044
Other non-current assets	7,284	6,972
Total assets	<u>\$ 229,671</u>	<u>\$ 225,905</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,813	\$ 2,454
Accrued compensation and related benefits	5,158	4,727
Accrued and other current liabilities	2,404	3,235
Operating lease liabilities - current portion	1,875	—
Deferred revenues - current portion	9,026	8,477
Billings in excess of recognized revenues	1,088	635
Total current liabilities	21,364	19,528
Long-term income taxes payable	3,571	3,751
Non-current operating lease liabilities	8,107	—
Other non-current liabilities	1,737	2,831
Total liabilities	<u>34,779</u>	<u>26,110</u>
Stockholders' equity:		
Common stock and additional paid-in-capital	318,361	310,665
Treasury stock at cost	(88,324)	(79,142)
Accumulated deficit	(33,853)	(30,452)
Accumulated other comprehensive loss	(1,292)	(1,276)
Total stockholders' equity	194,892	199,795
Total liabilities and stockholders' equity	<u>\$ 229,671</u>	<u>\$ 225,905</u>

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

	Three months ended			Six months ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenues:					
Solutions revenues	\$ 13,429	\$ 16,661	\$ 15,266	\$ 30,090	\$ 33,456
Gainshare performance incentives	7,139	3,880	5,853	11,019	12,400
Total revenues	<u>20,568</u>	<u>20,541</u>	<u>21,119</u>	<u>41,109</u>	<u>45,856</u>
Cost of solutions:					
Direct costs of solutions	7,689	7,724	10,774	15,413	22,112
Amortization of acquired technology	143	144	143	287	287
Total cost of solutions	<u>7,832</u>	<u>7,868</u>	<u>10,917</u>	<u>15,700</u>	<u>22,399</u>
Gross profit	12,736	12,673	10,202	25,409	23,457
Operating expenses:					
Research and development	7,312	8,246	7,100	15,558	14,345
Selling, general and administrative	6,940	7,010	5,919	13,950	12,294
Amortization of other acquired intangible assets	154	108	108	262	217
Restructuring charges	–	92	–	92	–
Total operating expenses	<u>14,406</u>	<u>15,456</u>	<u>13,127</u>	<u>29,862</u>	<u>26,856</u>
Loss from operations	(1,670)	(2,783)	(2,925)	(4,453)	(3,399)
Interest and other income (expense), net	111	(6)	390	105	59
Loss before income taxes	(1,559)	(2,789)	(2,535)	(4,348)	(3,340)
Income tax benefit	(849)	(98)	(439)	(947)	(820)
Net loss	<u>\$ (710)</u>	<u>\$ (2,691)</u>	<u>\$ (2,096)</u>	<u>\$ (3,401)</u>	<u>\$ (2,520)</u>
Net loss per share:					
Basic	<u>\$ (0.02)</u>	<u>\$ (0.08)</u>	<u>\$ (0.07)</u>	<u>\$ (0.10)</u>	<u>\$ (0.08)</u>
Diluted	<u>\$ (0.02)</u>	<u>\$ (0.08)</u>	<u>\$ (0.07)</u>	<u>\$ (0.10)</u>	<u>\$ (0.08)</u>
Weighted average common shares:					
Basic	32,339	32,485	31,962	32,412	32,065
Diluted	32,339	32,485	31,962	32,412	32,065

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, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
GAAP net loss	\$ (710)	\$ (2,691)	\$ (2,096)	\$ (3,401)	\$ (2,520)
Adjustments to reconcile GAAP net loss to non-GAAP net income:					
Stock-based compensation expense	2,434	3,476	2,701	5,910	5,557
Amortization of acquired technology	143	144	143	287	287
Amortization of other acquired intangible assets	154	108	108	262	217
Restructuring charges and severance payment	—	92	—	92	283
Write-down in value of property and equipment	—	—	—	—	—
Adjustment to contingent consideration related to acquisition	—	—	—	—	—
Tax impact of adjustments	(993)	(287)	(96)	(1,280)	(843)
Non-GAAP net income	<u>\$ 1,028</u>	<u>\$ 842</u>	<u>\$ 760</u>	<u>\$ 1,870</u>	<u>\$ 2,981</u>
GAAP net loss per diluted share	<u>\$ (0.02)</u>	<u>\$ (0.08)</u>	<u>\$ (0.07)</u>	<u>\$ (0.10)</u>	<u>\$ (0.08)</u>
Non-GAAP net income per diluted share	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.02</u>	<u>\$ 0.06</u>	<u>\$ 0.09</u>
Shares used in diluted shares calculation	<u>33,055</u>	<u>33,022</u>	<u>32,304</u>	<u>33,038</u>	<u>32,474</u>



2019 Q2
Management Report

August 1, 2019



■ 2019 Q2 Results

- Overview
- Revenue Detail
- Key Financial & Operating Metrics

■ 2019 Q2 Non-GAAP Results

- Reconciliation of GAAP to Non-GAAP Net Income
- Reconciliation of GAAP to Non-GAAP Spending by Function

■ Related Information

The following commentary is provided by management and should be referenced in conjunction with PDF Solutions' second quarter for fiscal year 2019 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 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.

Q2 2019 Key Metrics

Revenue: \$20.6M

GAAP Gross margin: 62%

Non-GAAP Gross margin: 67%

GAAP EPS: (\$0.02)

Non-GAAP EPS: \$0.03

Operating Cash Flow: \$5.1M

Capital Expenditures: \$1.7M

FINANCIAL RESULTS SUMMARY

- Total revenues for the second fiscal quarter of 2019 were \$20.6 million, up slightly from \$20.5 million for the first fiscal quarter of 2019.
- Solutions revenue for the second fiscal quarter of 2019 was \$13.4 million, down 20% from \$16.7 million for the first fiscal quarter of 2019.
- Gainshare performance incentives revenue for the second fiscal quarter of 2019 was \$7.1 million, up 82% from \$3.9 million for the first fiscal quarter of 2019.



Revenue Detail – Quarterly Q2 2018 Through Q2 2019

Revenue by Type

	<u>Q2'18</u>	<u>Q3'18</u>	<u>Q4'18</u>	<u>Q1'19</u>	<u>Q2'19</u>
Solutions Revenue	\$15,266	\$13,976	\$12,650	\$16,661	\$13,429
% of Total	72%	69%	64%	81%	65%
Gainshare performance	\$5,853	\$6,237	\$7,075	\$3,880	\$7,139
% of Total	28%	31%	36%	19%	35%
Total revenues	\$21,119	\$20,213	\$19,725	\$20,541	\$20,568
GAAP Gross Margin	48%	47%	51%	62%	62%
Non-GAAP Gross Margin	54%	52%	55%	67%	67%

Revenue by Geography

	<u>Q2'18</u>	<u>Q3'18</u>	<u>Q4'18</u>	<u>Q1'19</u>	<u>Q2'19</u>
North America (US/Canada)	\$9.1M	\$8.4M	\$6.8M	\$9.3M	\$8.7M
% of Total	42%	41%	34%	45%	42%
Europe	\$3.4M	\$2.8M	\$3.1M	\$3.6M	\$3.1M
% of Total	16%	14%	16%	18%	15%
APAC	\$8.6M	\$9.0M	\$9.8M	\$7.6M	\$8.8M
% of Total	41%	44%	50%	37%	43%
Total revenues	\$21.1M	\$20.2M	\$19.7M	\$20.5M	\$20.6M

Operating Highlights

- Two major Asian pure-play foundries signed contracts to incorporate Exensio® – Control into their new fabs, extending our leadership position in FDC at 300mm.
- A leading Asian foundry and a Top-10 semiconductor customer have each renewed and extended contracts for use of our CV® infrastructure to support overall fab management strategy and to provide quality and reliability “screens” for their respective semiconductor manufacturing environments.
- Three new fabless semiconductor companies with various offerings in the marketplace have each signed deals to adopt our Exensio® Software Platform, validating its scalability from startup fabless to the largest semiconductor companies in the world.
- Various Top 20 semiconductor customers in the United States and Japan have engaged with us for proof-of-concept projects based on our production-proven machine-learning (ML) capabilities to gain insight into their product quality and quickly identify manufacturing issues.
- A Top 10 global electronics company has closed a significant deal for Exensio® – Yield™, demonstrating the opportunity for the Exensio® Software Platform in this market segment.



Key Financial & Operating Metrics - Quarterly Q2 2018 Through Q2 2019

Key Financial & Operating Metrics

(in thousands, except share data, which is in millions, and percentages)

	<u>Q2'18</u>	<u>Q3'18</u>	<u>Q4'18</u>	<u>Q1'19</u>	<u>Q2'19</u>
Revenue	\$21,119	\$20,213	\$19,725	\$20,541	\$20,568
GAAP Gross Margin	48%	47%	51%	62%	62%
Non-GAAP Gross Margin	54%	52%	55%	67%	67%
Outstanding Debt	\$0	\$0	\$0	\$0	\$0
Operating Cash Flow	\$6,467	(\$676)	\$4,295	(\$151)	\$5,117
Capital Expenditures (CAPEX)	\$2,363	\$3,937	\$4,369	\$2,357	\$1,697
\$ Shares Repurchased	\$1,126	\$0	\$0	\$3,916	\$3,790
Days Sales Outstanding (DSO)	131	135	135	150	172
Weighted Average Common Shares Outstanding	32.0	32.2	32.3	32.5	32.3
Effective Tax Rate	17%	21%	11%	4%	5%



GAAP / 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 gross margin and Non-GAAP net income exclude the effects of non-recurring items (including severance payments and restructuring charges), 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. 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 (Loss)

(in thousands, except for shares and per share amounts)

	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
GAAP net loss	\$ (2,096)	\$ (2,082)	\$ (3,114)	\$ (2,691)	\$ (710)
Adjustments to reconcile GAAP net loss to non-GAAP net income (loss):					
Stock-based compensation expense	2,701	2,268	2,470	3,476	2,434
Amortization of acquired technology	143	144	144	144	143
Amortization of other acquired intangible assets	108	108	109	108	154
Restructuring charges and severance payment	—	48	576	92	—
Write-down in value of property and equipment	—	—	227	—	—
Adjustment to contingent consideration related to acquisition	—	—	90	—	—
Tax impact of adjustments	(96)	(281)	(868)	(287)	(993)
Non-GAAP net income (loss)	\$ 760	\$ 205	\$ (366)	\$ 842	\$ 1,028
GAAP net loss per diluted share	\$ (0.07)	\$ (0.06)	\$ (0.10)	\$ (0.08)	\$ (0.02)
Non-GAAP net income (loss) per diluted share	\$ 0.02	\$ 0.01	\$ (0.01)	\$ 0.03	\$ 0.03
Shares used in diluted shares calculation	32,304	32,385	32,476	33,022	33,055



Reconciliation of GAAP to Non-GAAP Spending by Function

(in thousands)

	<u>Q2'18</u>	<u>Q3'18</u>	<u>Q4'18</u>	<u>Q1'19</u>	<u>Q2'19</u>
Cost of Solutions - GAAP	\$ 10,917	\$ 10,683	\$ 9,721	\$ 7,867	\$ 7,832
Adjustments to reconcile GAAP Cost of Solutions to non-GAAP Cost of Solutions:					
Stock-based compensation expense	968	(787)	(786)	(860)	(799)
Amortization of acquired technology	(144)	(144)	(144)	(144)	(143)
Severance payments	—	(48)	—	—	—
Cost of Solutions - Non-GAAP	\$ 9,805	\$ 9,705	\$ 8,791	\$ 6,863	\$ 6,890
Research & Development - GAAP	\$ 7,100	\$ 6,755	\$ 6,898	\$ 8,246	\$ 7,312
Adjustments to reconcile GAAP R&D to non-GAAP R&D:					
Stock-based compensation expense	(845)	(725)	(811)	(1,718)	(901)
Write-down in value of property and equipment	—	—	(227)	—	—
Adjustment to contingent consideration related to acquisition	—	—	(90)	—	—
Research & Development - Non-GAAP	\$ 6,255	\$ 6,030	\$ 5,770	\$ 6,528	\$ 6,411
Selling, General, & Administrative - GAAP	\$ 5,919	\$ 5,507	\$ 6,133	\$ 7,011	\$ 6,940
Adjustment to reconcile GAAP SG&A to non-GAAP SG&A:					
Stock-based compensation expense	(888)	(756)	(873)	(898)	(734)
Selling, General, & Administrative - Non-GAAP	\$ 5,031	\$ 4,751	\$ 5,260	\$ 6,113	\$ 6,206

