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

FORM 8-K

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

Date of Report (Date of Earliest Event Reported): October 26, 2017

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.

TABLE OF CONTENTS

Item 2.02. Results of Operations and Financial Condition
Item 9.01. Financial Statements and Exhibits
SIGNATURES
EXHIBIT INDEX

Item 2.02. Results of Operations and Financial Condition.

On October 26, 2017 PDF Solutions (the “Company”) issued a press release regarding its financial results and certain other information related to the third fiscal quarter ended September 30, 2017. The Company also posted on the Investor Relations section of its website (www.pdf.com) a management report with regard to the quarter ended September 30, 2017. 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

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated October 26, 2017, regarding financial results and certain other information related to the third fiscal quarter ended September 30, 2017.
99.2	Management Report by PDF Solutions, Inc. as of October 26, 2017

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: October 26, 2017

EXHIBIT INDEX

Exhibit No.

Description

99.1 [Press Release dated October 26, 2017, regarding financial results and certain other information related to the third fiscal quarter ended September 30, 2017.](#)

99.2 [Management Report by PDF Solutions, Inc. as of October 26, 2017.](#)

News Release

Company Contacts:

Gregory Walker,
VP, Finance and CFO
Tel: (408) 938-6457
Email:gregory.walker@pdf.com

Sonia Segovia,
IR Coordinator
Tel: (408) 938-6491
Email: sonia.segovia@pdf.com

PDF Solutions[®] Reports Third Fiscal Quarter Results

SAN JOSE, Calif.— October 26, 2017—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 third fiscal quarter ended September 30, 2017.

Total revenues for the third fiscal quarter of 2017 totaled \$26.5 million, up 9% from \$24.3 million for the second fiscal quarter of 2017 and down 3% from \$27.3 million for the third fiscal quarter of 2016. Design-to-silicon-yield solutions revenue for the third fiscal quarter of 2017 totaled \$19.2 million, up 17% from \$16.5 million for the second fiscal quarter of 2017 and up 4% from \$18.6 million for the third fiscal quarter of 2016. Gainshare performance incentives revenue for the third fiscal quarter of 2017 totaled \$7.3 million, down 6% from \$7.8 million for the second fiscal quarter of 2017 and down 16% from \$8.7 million for the third quarter of 2016.

On a GAAP basis, net income for the third fiscal quarter of 2017 was \$0.6 million, or \$0.02 per basic and diluted share, compared to net income of \$0.2 million, or \$0.01 per basic and diluted share, for the second fiscal quarter of 2017, and compared to net income of \$2.0 million, or \$0.06 per basic and diluted share, for the third fiscal quarter of 2016.

Cash and cash equivalents were \$100.8 million at September 30, 2017, compared to \$116.8 million at December 31, 2016.

Non-GAAP net income for the third fiscal quarter of 2017 was \$3.6 million, or \$0.11 per diluted share, compared to \$2.7 million, or \$0.08 per diluted share, for the second fiscal quarter of 2017, and compared to \$5.4 million, or \$0.17 per diluted share, for the third fiscal quarter of 2016. EBITDAR for the third quarter of 2017 was \$5.1 million, compared to \$3.7 million for the second fiscal quarter of 2017 and compared to \$7.2 million for the third fiscal quarter of 2016.

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.

Third Quarter 2017 Financial Commentary Available Online

A Management Report reviewing the Company's third quarter 2017 financial results, as well as providing updated 2017 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; 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, 2016, 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/>.

Characterization Vehicle, CV, Exensio, eProbe, PDF Solutions, and the PDF Solutions logo are registered trademarks of PDF Solutions, Inc. or its subsidiaries. ALPS, Design-for-Inspection, DFI, and Template are trademarks of PDF Solutions, Inc. or its subsidiaries.

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

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 100,750	\$ 116,787
Accounts receivable, net	52,954	48,157
Prepaid expenses and other current assets	6,580	5,335
Total current assets	<u>160,284</u>	<u>170,279</u>
Property and equipment, net	23,604	19,341
Goodwill	1,873	215
Intangible assets, net	6,375	4,223
Deferred tax assets	18,522	15,640
Other non-current assets	11,312	12,631
Total assets	<u>\$ 221,970</u>	<u>\$ 222,329</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,608	\$ 2,206
Accrued compensation and related benefits	5,450	5,959
Accrued and other current liabilities	2,642	2,080
Deferred revenues - current portion	7,624	8,189
Billings in excess of recognized revenue	289	88
Total current liabilities	<u>18,613</u>	<u>18,522</u>
Long-term income taxes payable	2,914	3,354
Other non-current liabilities	2,146	1,650
Total liabilities	<u>23,673</u>	<u>23,526</u>
Stockholders' equity:		
Common stock and additional paid-in-capital	294,364	281,428
Treasury stock at cost	(70,739)	(54,882)
Accumulated deficit	(24,455)	(25,752)
Accumulated other comprehensive loss	(873)	(1,991)
Total stockholders' equity	<u>198,297</u>	<u>198,803</u>
Total liabilities and stockholders' equity	<u>\$ 221,970</u>	<u>\$ 222,329</u>

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

	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016 (1)	September 30, 2017	September 30, 2016 (1)
Revenues:					
Design-to-silicon-yield solutions	\$ 19,229	\$ 16,500	\$ 18,552	\$ 55,426	\$ 57,704
Gainshare performance incentives	7,288	7,789	8,707	19,668	21,324
Total revenues	<u>26,517</u>	<u>24,289</u>	<u>27,259</u>	<u>75,094</u>	<u>79,028</u>
Costs of Design-to-silicon-yield solutions:					
Direct costs of Design-to-silicon-yield solutions	12,295	11,283	11,366	34,913	32,034
Amortization of acquired technology	136	96	86	327	278
Total costs of Design-to-silicon-yield solutions	<u>12,431</u>	<u>11,379</u>	<u>11,452</u>	<u>35,240</u>	<u>32,312</u>
Gross profit	14,086	12,910	15,807	39,854	46,716
Operating expenses:					
Research and development	7,875	7,276	7,017	22,432	20,388
Selling, general and administrative	5,680	6,195	5,548	17,775	15,766
Amortization of other acquired intangible assets	107	92	106	291	340
Total operating expenses	<u>13,662</u>	<u>13,563</u>	<u>12,671</u>	<u>40,498</u>	<u>36,494</u>
Income (loss) from operations	424	(653)	3,136	(644)	10,222
Interest and other income (expense), net	(104)	27	(101)	(305)	(389)
Income (loss) before income taxes	320	(626)	3,035	(949)	9,833
Income tax provision (benefit)	(270)	(815)	1,051	(2,246)	3,655
Net income	<u>\$ 590</u>	<u>\$ 189</u>	<u>\$ 1,984</u>	<u>\$ 1,297</u>	<u>\$ 6,178</u>
Net income per share:					
Basic	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.20</u>
Diluted	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.19</u>
Weighted average common shares:					
Basic	32,078	32,111	31,413	32,060	31,286
Diluted	32,969	33,388	32,578	33,317	32,144

(1) The results for the three and nine months ended September 30, 2016 have been updated to reflect the Company's adoption of the Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The Company elected to early adopt this new standard in the fourth quarter of 2016, which required that any adjustments be reflected as of January 1, 2016, the beginning of the fiscal year that includes the interim period of adoption.

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

	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016 (1)(3)	September 30, 2017	September 30, 2016 (1)(3)
GAAP net income	\$ 590	\$ 189	\$ 1,984	\$ 1,297	\$ 6,178
Adjustments to reconcile GAAP net income to non-GAAP net income:					
Stock-based compensation expense	2,949	2,904	2,977	8,737	7,935
Amortization of acquired technology	136	96	86	327	278
Amortization of other acquired intangible assets	107	92	106	291	340
Non-recurring severance payment (2)	370	-	-	370	-
Adjustment for Non-Cash items in Income Tax Expense	817	998	1,382	2,650	3,908
Tax Adjustment for Non-GAAP items	(1,407)	(1,627)	(1,146)	(4,864)	(2,763)
Non-GAAP net income	\$ 3,562	\$ 2,652	\$ 5,389	\$ 8,808	\$ 15,876
GAAP net income per diluted share	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.04	\$ 0.19
Non-GAAP net income per diluted share	\$ 0.11	\$ 0.08	\$ 0.17	\$ 0.26	\$ 0.49
Shares used in diluted shares calculation	32,969	33,388	32,578	33,317	32,144

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

	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016 (1)(3)	September 30, 2017	September 30, 2016 (1)(3)
GAAP net income	\$ 590	\$ 189	\$ 1,984	\$ 1,297	\$ 6,178
Adjustments to reconcile GAAP net income to EBITDAR:					
Stock-based compensation expense	2,949	2,904	2,977	8,737	7,935
Amortization of acquired technology	136	96	86	327	278
Amortization of other acquired intangible assets	107	92	106	291	340
Non-recurring severance payment (2)	370	-	-	370	-
Depreciation expense	1,262	1,196	960	3,549	2,584
Income tax provision (benefit)	(270)	(815)	1,051	(2,246)	3,655
EBITDAR	\$ 5,144	\$ 3,662	\$ 7,164	\$ 12,325	\$ 20,970

(1) The results for the period ended September 30, 2016 have been updated to reflect the Company's adoption of the Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The Company elected to early adopt this new standard in the fourth quarter of 2016, which required that any adjustments be reflected as of January 1, 2016, the beginning of the fiscal year that includes the interim period of adoption.

(2) 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.

(3) The results for the period ended September 30, 2016 have been updated to exclude deferred revenue adjustments from Syntricity acquisition that were previously presented in the prior periods. As a result of this exclusion, non-GAAP net income per diluted share for the nine months ended September 30, 2016 was changed from \$0.50 per share to \$0.49 per share. There was no change in the non-GAAP net income per diluted share for the three months ended September 30, 2016.



2017 Third Quarter Management Report

October 26, 2017

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; 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, 2016, 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.



Contents

■ 2017 Third Quarter GAAP Results

- Overview
- Revenue Details & Commentary
- Expense Details & Commentary
- Balance Sheet & Commentary

■ 2017 Third Quarter Non-GAAP Results

- Reconciliation of GAAP to Non-GAAP Net Income
- Expense Details & Commentary
- Performance Measures & Commentary

■ Q4 2017 Outlook

■ Related Information

The following commentary is provided by management and should be referenced in conjunction with PDF Solutions' third quarter for fiscal year 2017 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.

GAAP Income Statement – Quarterly Trend Through Q3 2017

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

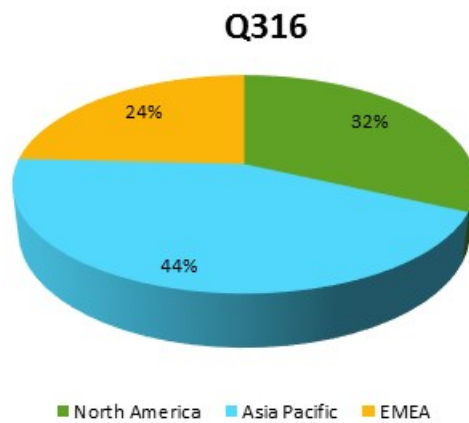
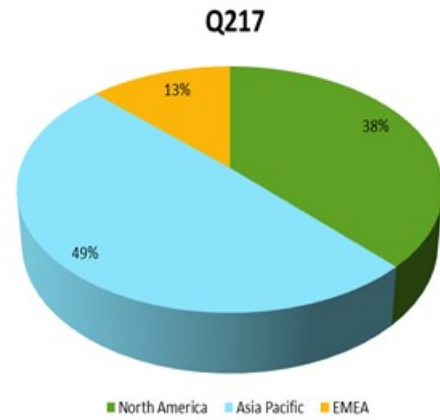
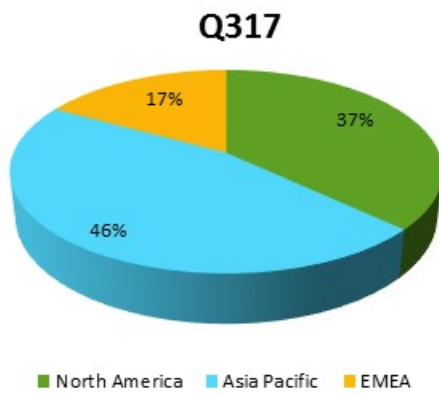
PDF Solutions, Inc. P&L (GAAP)	Actuals						
	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17
Design to Silicon Yield Solutions	18,578	20,574	18,552	19,458	19,698	16,500	19,229
Gain Share - Performance Incentive	6,503	6,114	8,707	8,975	4,591	7,789	7,288
Total Revenue	25,081	26,688	27,259	28,433	24,289	24,289	26,517
Cost of Sales	10,206	10,654	11,452	12,136	11,431	11,379	12,431
GROSS MARGIN	14,875	16,034	15,807	16,297	12,858	12,910	14,086
Gross Margin %	59%	60%	58%	57%	53%	53%	53%
OPERATING EXPENSES							
Research & Development	6,311	7,060	7,017	7,171	7,282	7,276	7,875
R&D % of Revenue	25%	26%	26%	25%	30%	30%	30%
Selling, General, & Administrative	5,124	5,094	5,548	6,290	5,899	6,195	5,680
SG&A % of Revenue	20%	19%	20%	22%	24%	26%	21%
Amortization of other acquired intangible assets	117	117	106	92	92	92	107
TOTAL OPERATING EXPENSES	11,552	12,271	12,671	13,553	13,273	13,563	13,662
OPERATING INCOME (LOSS)	3,323	3,763	3,136	2,744	(415)	(653)	424
Other (Income) / Expense, Net	236	51	101	(378)	230	(27)	104
PRE-TAX INCOME (LOSS)	3,087	3,712	3,035	3,122	(645)	(626)	320
Income Tax Provision (Benefit)	1,026	1,579	1,051	197	(1,162)	(815)	(270)
Net Income	2,061	2,133	1,984	2,925	517	189	590
GAAP EPS	0.07	0.07	0.06	0.09	0.02	0.01	0.02
Diluted Weighted Avg Shares (in millions)	31.8	32.1	32.6	33.3	33.6	33.4	33.0



Q3 2017 CFO Commentary – GAAP Income Statement

- Total GAAP revenues were \$26.5 million resulting in GAAP net income of \$0.6 million and GAAP EPS of \$0.02 cents per fully diluted share.
- Total GAAP operating income was \$0.4 million, resulting in GAAP operating margin of 1.6%.
- Fully diluted shares outstanding were 33.0 million for the quarter.
- The GAAP income tax benefit was \$0.3 million.

GAAP Revenue by Geography Q3 2017 & Comparable Quarters

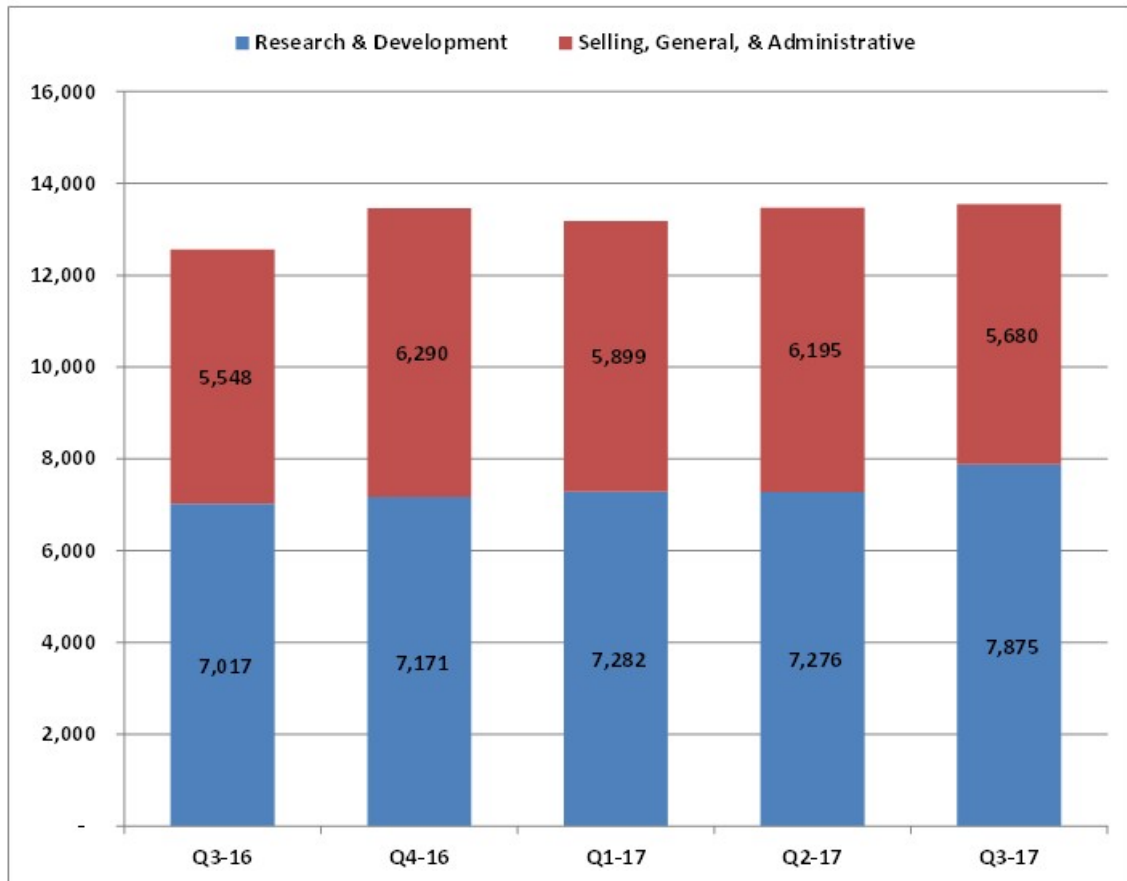


Q3 2017 CFO Commentary – GAAP Revenue & GM Detail

- Total GAAP revenues of \$26.5 million were \$2.2 million higher when compared to the prior quarter.
- The top ten customers represented 80% of total revenues. One of these customers contributed revenues 10% or greater.
- Solutions revenue consisted of 12 project-based engagements that contributed at least \$100,000 of solutions revenue each in the quarter.
- The total number of node-sites, defined as an individual fab and process node combination, contributing to Gainshare revenue, was 15.
- On a GAAP basis, Cost of Sales was \$12.4 million, which was approximately \$1 million higher compared to the prior quarter.
- GAAP gross margin was 53%, which was the same as the prior quarter.

GAAP Operating Expenses – Quarterly Through Q3 2017

in thousands



Q3 2017 CFO Commentary – GAAP Operating Expenses

- Total GAAP Operating Expenses, at \$13.7 million, were \$0.1 million higher than the prior quarter, and 52% of total revenues, down 4% from the prior quarter.
- GAAP R&D expenses totaled \$7.9 million, \$0.6 million higher than the prior quarter.
- GAAP R&D expenses as a percent of revenue was 30%, which was the same compared to the prior quarter.
- GAAP SG&A expenses totaled \$5.7 million, \$0.5 million lower than the prior quarter.
- GAAP SG&A expenses as a percent of revenue was 21%, which was down 4% from the prior quarter.

GAAP Balance Sheet Trend – Quarterly Through Q3 2017

in thousands

	30-Sep-16	31-Dec-16	31-Mar-17	30-Jun-17	30-Sep-17
ASSETS					
Cash and cash equivalents	\$ 118,534	\$ 116,787	\$ 114,926	\$ 109,007	\$ 100,750
Accounts receivable, net of allowance	44,023	48,157	50,088	54,029	52,954
Prepaid expenses and other current assets	5,163	5,335	6,741	8,813	6,580
Total current assets	167,720	170,279	171,755	171,849	160,284
Property and equipment, net	18,192	19,341	20,798	23,068	23,604
Deferred tax assets	14,135	15,640	16,201	15,815	18,522
Goodwill	215	215	215	215	1,873
Intangible assets, net	4,411	4,223	4,035	3,847	6,375
Other non-current assets	9,413	12,631	14,615	12,263	11,312
Total assets	\$ 214,086	\$ 222,329	\$ 227,619	\$ 227,057	\$ 221,970
LIABILITIES					
Accounts payable	\$ 947	\$ 2,206	\$ 2,436	\$ 2,270	\$ 2,608
Accrued compensation and related benefits	5,190	5,959	4,988	5,863	5,450
Accrued and other current liabilities	3,077	2,080	1,913	2,075	2,642
Deferred revenues - current portion	8,399	8,189	9,777	8,933	7,624
Billings in excess of recognized revenue	73	88	200	389	289
Total current liabilities	17,686	18,522	19,314	19,530	18,613
Long-term income taxes payable	2,859	3,354	3,247	3,174	2,914
Other non-current liabilities	657	1,650	1,802	2,253	2,146
Total liabilities	21,202	23,526	24,363	24,957	23,673
EQUITY					
Common stock	5	5	5	5	5
Additional paid-in-capital	276,495	281,423	285,930	289,956	294,359
Treasury stock at cost	(53,726)	(54,882)	(55,726)	(61,532)	(70,739)
Accumulated deficit	(28,677)	(25,752)	(25,235)	(25,046)	(24,455)
Accumulated other comprehensive loss	(1,213)	(1,991)	(1,718)	(1,283)	(873)
Total equity	192,884	198,803	203,256	202,100	198,297
Total liabilities and equity	\$ 214,086	\$ 222,329	\$ 227,619	\$ 227,057	\$ 221,970



Q3 2017 – GAAP Balance Sheet – Cash & Accounts Receivables

- Total cash at the end of the quarter was \$100.8 million, a decrease of \$8.3 million when compared to cash on June 30, 2017.
- During the quarter the Company purchased approximately \$2.0 million of fixed assets, primarily related to our DFI solution.
- Cash provided by operations during the quarter was approximately \$5.3 million.
- For the quarter, the Company spent \$8.6 million on 566 thousand shares to repurchase common stock on the open market as part of our Stock Repurchase Program. Additionally, the Company spent \$0.6 million to purchase 34 thousand shares to cover employee taxes on restricted stock grants released.
- Trade Accounts Receivable balance at the end of the quarter was \$32.2 million, a decrease of \$0.8 million when compared to the previous quarter. The Unbilled Accounts Receivable balance (current & long-term) was \$29.8 million at the end of the quarter, a decrease of approximately \$0.9 million from the prior quarter.
- Of the \$29.8 million of Unbilled Accounts Receivable at the end of the quarter, we expect approximately \$20.7 million to be billed in the next twelve months of which more than 36% will be billed during Q4.
- Of the \$62.0 million of total Receivables, \$7.9 million, or 13%, was aged more than 30 days. Since the end of the quarter, \$2.8 million of Trade Receivables has been collected as of the date of this report.
- The quarter-over-quarter decrease in Accounts Receivable and DSO is primarily driven by improved collections, particularly on business in China.

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.



Q3 2017 – Reconciliation of GAAP to Non-GAAP Net Income

in thousands (except for shares and per share amounts)

	<u>Q3-17</u>
GAAP net income	\$ 590
Adjustments to reconcile GAAP net income to non-GAAP net income:	
Stock-based compensation expense	2,949
Amortization of acquired technology	136
Amortization of other acquired intangible assets	107
Non-recurring severance payments	370
Adjustment for Non-Cash items in Income Tax Expense	817
Tax Adjustment for Non-GAAP items	<u>(1,407)</u>
Non-GAAP net income	<u>\$ 3,562</u>
GAAP net income per diluted share	\$ 0.02
Non-GAAP net income per diluted share	\$ 0.11
Shares used in diluted shares calculation (in millions)	33.0

Reconciliation of GAAP to Non-GAAP for Prior Quarters

in thousands (except for shares and per share amounts)

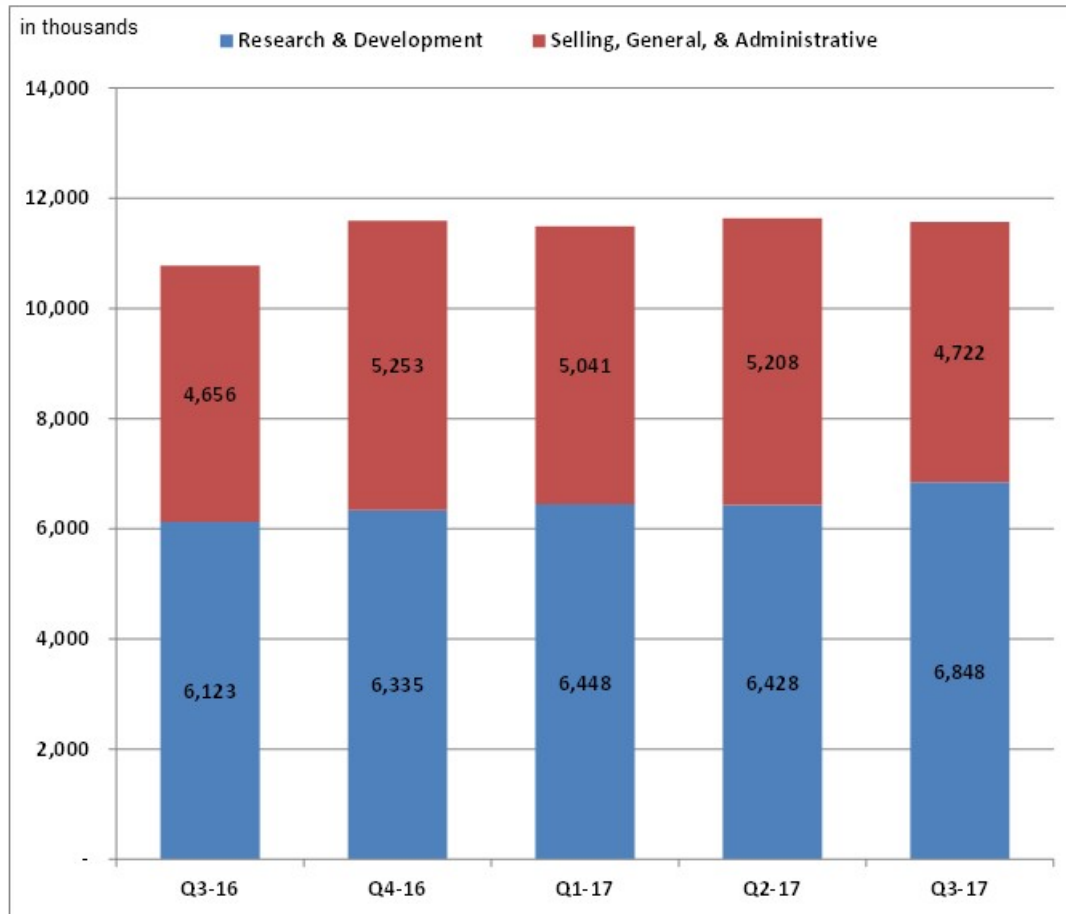
	9-Month Period			9-Month Period		
	Q1-16	Q2-16	Q3-16	Q1-17	Q2-17	Q3-17
GAAP net income	\$ 2,061	\$ 2,133	\$ 1,984	\$ 517	\$ 189	\$ 590
Adjustments to reconcile GAAP net income to non-GAAP net income:						
Stock-based compensation expense	2,666	2,292	2,977	2,884	2,904	2,949
Amortization of acquired technology	96	96	86	96	96	136
Amortization of other acquired intangible assets	117	117	106	92	92	107
Non-recurring severance payments	-	-	-	-	-	370
Adjustment for Non-Cash items in Income Tax Expense	1,265	1,261	1,382	835	998	817
Tax Adjustment for Non-GAAP items	(966)	(651)	(1,146)	(1,830)	(1,627)	(1,407)
Non-GAAP net income	<u>\$ 5,239</u>	<u>\$ 5,248</u>	<u>\$ 5,389</u>	<u>\$ 2,594</u>	<u>\$ 2,652</u>	<u>\$ 3,562</u>
GAAP net income per diluted share	\$ 0.07	\$ 0.07	\$ 0.06	\$ 0.02	\$ 0.01	\$ 0.02
Non-GAAP net income per diluted share	\$ 0.16	\$ 0.16	\$ 0.17	\$ 0.08	\$ 0.08	\$ 0.11
Shares used in diluted shares calculation (in millions)	31.8	32.1	32.6	33.6	33.4	33.0

Non-GAAP Expenses – Quarterly Trend Through Q3 2017

in thousands

NON-GAAP EXPENSES:	<u>Q1-16</u>	<u>Q2-16</u>	<u>Q3-16</u>	<u>Q4-16</u>	<u>Q1-17</u>	<u>Q2-17</u>	<u>Q3-17</u>
COST OF SALES	9,025	9,603	10,175	10,845	10,143	10,213	10,961
OPERATING EXPENSES							
Research & Development	5,605	6,408	6,123	6,335	6,448	6,428	6,848
Selling, General, & Administrative	4,249	4,410	4,656	5,253	5,041	5,208	4,722
TOTAL OPERATING EXPENSES	9,854	10,818	10,779	11,589	11,489	11,636	11,570

Non-GAAP Operating Expenses – Quarterly Trend Through Q3 2017



Q3 2017 CFO Commentary – Non-GAAP Expenses

- On a Non-GAAP basis, Cost of Sales was \$11 million, which was approximately \$0.7 million higher than the prior quarter.
- Total Non-GAAP Operating Expenses, at \$11.6 million, were approximately the same as the prior quarter, and 44% of total revenues, down 4% from the prior quarter.
- Non-GAAP R&D expenses totaled \$6.8 million, \$0.4 million higher than the prior quarter.
- Non-GAAP R&D expenses as a percent of revenue were 26%, approximately flat compared to the prior quarter.
- Non-GAAP SG&A expenses totaled \$4.7 million, \$0.5 million lower than the prior quarter.
- Non-GAAP SG&A expenses as a percent of revenue were 18%, down 3% from the prior quarter.
- Cash tax liabilities for Non-GAAP presentation were \$0.3 million. This represents an effective cash tax rate of 100% of pre-tax GAAP income.

Q3 2017 CFO Commentary – Non-GAAP Performance Measures

- Non-GAAP gross margin was 59%, up 1% over the prior quarter.
- Total non-GAAP net income was \$3.6 million, approximately \$0.9 million higher compared to the prior quarter.
- Non-GAAP EPS was \$0.11 cents per fully diluted share as compared to \$0.08 cents in the prior quarter.
- Fully diluted shares outstanding were 33.0 million for the quarter.
- EBITDAR was \$5.1 million compared to \$3.7 million in the prior quarter.

Q4 2017 – Outlook

- We expect total Q4 revenues to be approximately in-line with Q3.
- We expect Q4 Gainshare revenues to be approximately flat quarter to quarter.
- Continued growth in our Exensio solution should offset the non-recurrence of previously deferred project revenues recognized in Q3.
- Total spending should also be approximately in-line with Q3.