
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): April 27, 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.

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Item 2.02. Results of Operations and Financial Condition.

On April 27, 2017 PDF Solutions (the “Company”) issued a press release regarding its financial results and certain other information related to the first fiscal quarter ended March 31, 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 March 31, 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 April 27, 2017, regarding financial results and certain other information related to the first fiscal quarter ended March 31, 2017.
99.2	Management Report by PDF Solutions, Inc. as of April 27, 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: April 27, 2017

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release dated April 27, 2017, regarding financial results and certain other information related to the first fiscal quarter ended March 31, 2017.
99.2	Management Report by PDF Solutions, Inc. as of April 27, 2017

News Release

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PDF Solutions[®] Reports First Fiscal Quarter Results

SAN JOSE, Calif.— April 27, 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 first fiscal quarter ended March 31, 2017.

Total revenues for the first fiscal quarter of 2017 totaled \$24.3 million, down 15% from \$28.4 million for the fourth fiscal quarter of 2016 and down 3% from \$25.1 million for the first fiscal quarter of 2016. Design-to-silicon-yield solutions revenue for the first fiscal quarter of 2017 totaled \$19.7 million, up 1% from \$19.5 million for the fourth fiscal quarter of 2016 and up 6% from \$18.6 million for the first fiscal quarter of 2016. Gainshare performance incentives revenue for the first fiscal quarter of 2017 totaled \$4.6 million, down 49% from \$9.0 million for the fourth fiscal quarter of 2016 and down 29% from \$6.5 million for the first fiscal quarter of 2016.

On a GAAP basis, net income for the first fiscal quarter of 2017 was \$0.5 million, or \$0.02 per basic and diluted share, compared to net income of \$2.9 million, or \$0.09 per basic and diluted share, for the fourth fiscal quarter of 2016, and compared to net income of \$2.1 million, or \$0.07 per basic and diluted share, for the first fiscal quarter of 2016.

Cash and cash equivalents were \$114.9 million at March 31, 2017, compared to \$116.8 million at December 31, 2016.

Non-GAAP net income for the first fiscal quarter of 2017 was \$2.6 million, or \$0.08 per diluted share, compared to \$5.6 million, or \$0.17 per diluted share, for the fourth fiscal quarter of 2016, and compared to \$5.4 million, or \$0.17 per diluted share, for the first fiscal quarter of 2016. EBITDAR for the first quarter of 2017 was \$3.5 million, compared to \$7.4 million for the fourth fiscal quarter of 2016 and compared to \$6.8 million for the first 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/events.cfm>. 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.

First Quarter 2017 Financial Commentary Available Online

A Management Report reviewing the Company's first 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/sec.cfm>. 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, 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 profitability. The Company has developed proprietary products and provides services that target the entire Process Life Cycle, which is a term used to mean the time from technology development and the design of an IC to volume manufacturing of that IC to product 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 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 four, key components: Exensio[®] -Yield, Exensio[®] -Control, Exensio[®] -Test, 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)

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 114,926	\$ 116,787
Accounts receivable, net	50,088	48,157
Prepaid expenses and other current assets	6,741	5,335
Total current assets	171,755	170,279
Property and equipment, net	20,798	19,341
Goodwill	215	215
Intangible assets, net	4,035	4,223
Deferred tax assets	16,201	15,640
Other non-current assets	14,615	12,631
Total assets	<u>\$ 227,619</u>	<u>\$ 222,329</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,436	\$ 2,206
Accrued compensation and related benefits	4,988	5,959
Accrued and other current liabilities	1,913	2,080
Deferred revenues - current portion	9,777	8,189
Billings in excess of recognized revenue	200	88
Total current liabilities	19,314	18,522
Long-term income taxes payable	3,247	3,354
Other non-current liabilities	1,802	1,650
Total liabilities	24,363	23,526
Stockholders' equity:		
Common stock and additional paid-in-capital	285,935	281,428
Treasury stock at cost	(55,726)	(54,882)
Accumulated deficit	(25,235)	(25,752)
Accumulated other comprehensive loss	(1,718)	(1,991)
Total stockholders' equity	203,256	198,803
Total liabilities and stockholders' equity	<u>\$ 227,619</u>	<u>\$ 222,329</u>

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

	Three months ended		
	March 31, 2017	December 31, 2016	March 31, 2016
Revenues:			
Design-to-silicon-yield solutions	\$ 19,698	\$ 19,458	\$ 18,578
Gainshare performance incentives	4,591	8,975	6,503
Total revenues	<u>24,289</u>	<u>28,433</u>	<u>25,081</u>
Costs of Design-to-silicon-yield solutions:			
Direct costs of Design-to-silicon-yield solutions	11,335	12,040	10,110
Amortization of acquired technology	96	96	96
Total costs of Design-to-silicon-yield solutions	<u>11,431</u>	<u>12,136</u>	<u>10,206</u>
Gross profit	12,858	16,297	14,875
Operating expenses:			
Research and development	7,282	7,171	6,311
Selling, general and administrative	5,899	6,290	5,124
Amortization of other acquired intangible assets	92	92	117
Total operating expenses	<u>13,273</u>	<u>13,553</u>	<u>11,552</u>
Income (loss) from operations	(415)	2,744	3,323
Interest and other income (expense), net	(230)	378	(236)
Income (loss) before income taxes	(645)	3,122	3,087
Income tax provision (benefit)	(1,162)	197	1,026
Net income	<u>\$ 517</u>	<u>\$ 2,925</u>	<u>\$ 2,061</u>
Net income per share:			
Basic	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ 0.07</u>
Diluted	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ 0.07</u>
Weighted average common shares:			
Basic	31,991	31,636	31,168
Diluted	33,594	33,293	31,754

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

	Three months ended		
	March 31, 2017	December 31, 2016	March 31, 2016 (2)
GAAP net income	\$ 517	\$ 2,925	\$ 2,061
Adjustments to reconcile GAAP net income to non-GAAP net income:			
Stock-based compensation expense	2,884	3,067	2,666
Amortization of acquired technology	96	96	96
Amortization of other acquired intangible assets	92	92	117
Acquisition related deferred revenue adjustment (1)	-	1	115
Non-cash portion of income tax expense	(995)	(587)	299
Non-GAAP net income	<u>\$ 2,594</u>	<u>\$ 5,594</u>	<u>\$ 5,354</u>
GAAP net income per diluted share	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ 0.07</u>
Non-GAAP net income per diluted share	<u>\$ 0.08</u>	<u>\$ 0.17</u>	<u>\$ 0.17</u>
Shares used in diluted shares calculation	33,594	33,293	31,754

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

	Three months ended		
	March 31, 2017	December 31, 2016	March 31, 2016 (2)
GAAP net income	\$ 517	\$ 2,925	\$ 2,061
Adjustments to reconcile GAAP net income to EBITDAR:			
Stock-based compensation expense	2,884	3,067	2,666
Amortization of acquired technology	96	96	96
Amortization of other acquired intangible assets	92	92	117
Acquisition related deferred revenue adjustment (1)	-	1	115
Depreciation expense	1,091	1,000	765
Income tax provision (benefit)	(1,162)	197	1,026
EBITDAR	<u>\$ 3,518</u>	<u>\$ 7,378</u>	<u>\$ 6,846</u>

(1) As announced on July 20, 2015, the Company completed the acquisition of Syntricity, Inc., the industry leading hosted solution for characterization and yield management. In relation to this acquisition, the Company incurred direct acquisition costs, acquisition related contingent earn-out and recorded an adjustment to reduce revenue recognized from deferred revenue arising from the acquisition. Accordingly, for non-GAAP purposes, the Company is excluding these expenses and the reduction to revenue in order to provide better comparability between periods.

(2) The results for the period ended March 31, 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.



2017 First Quarter Management Report

April 27, 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.



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- Balance Sheet & Commentary

■ 2017 First Quarter Non-GAAP Results

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

■ 2017 Outlook

■ Related Information

The following commentary is provided by management and should be referenced in conjunction with PDF Solutions' first 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 Q1 2017

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

P&L (GAAP)	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17
Design to Silicon Yield Solutions	18,152	14,159	17,246	14,282	18,578	20,574	18,552	19,458	19,698
Gain Share - Performance Incentive	8,665	9,051	6,632	9,790	6,503	6,114	8,707	8,975	4,591
Total Revenue	26,817	23,210	23,878	24,072	25,081	26,688	27,259	28,433	24,289
Cost of Sales	8,804	9,888	10,252	10,080	10,206	10,654	11,452	12,136	11,431
GROSS MARGIN	18,013	13,322	13,626	13,992	14,875	16,034	15,807	16,297	12,858
Gross Margin %	67%	57%	57%	58%	59%	60%	58%	57%	53%
Solutions Margin %	51%	30%	41%	29%	45%	48%	38%	38%	42%
OPERATING EXPENSES									
Research & Development	4,088	4,437	5,173	5,398	6,311	7,060	7,017	7,171	7,282
R&D % of Revenue	15%	19%	22%	22%	25%	26%	26%	25%	30%
Selling, General, & Administrative	4,456	5,216	5,665	5,085	5,124	5,094	5,548	6,290	5,899
SG&A % of Revenue	17%	22%	24%	21%	20%	19%	20%	22%	24%
Amortization of other acquired intangible assets	-	-	89	107	117	117	106	92	92
TOTAL OPERATING EXPENSES	8,544	9,653	10,927	10,590	11,552	12,271	12,671	13,553	13,273
OPERATING INCOME (LOSS)	9,469	3,669	2,699	3,402	3,323	3,763	3,136	2,744	(415)
Other (Income) / Expense, Net	(51)	(52)	(64)	(15)	236	51	101	(378)	230
PRE-TAX INCOME (LOSS)	9,520	3,721	2,763	3,417	3,087	3,712	3,035	3,122	(645)
Income Tax Provision (Benefit)	3,553	1,572	1,269	620	1,026	1,579	1,051	197	(1,162)
Net Income	5,967	2,149	1,494	2,797	2,061	2,133	1,984	2,925	517
GAAP EPS	0.18	0.07	0.05	0.09	0.07	0.07	0.06	0.09	0.02
Diluted Weighted Avg Shares (M)	32.3	32.4	32.1	31.9	31.8	32.1	32.6	33.3	33.6

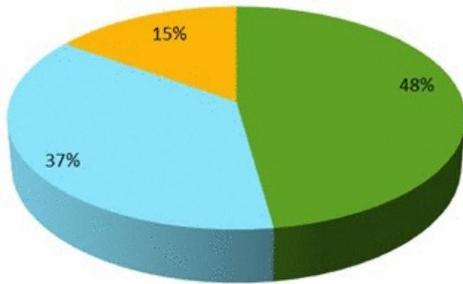


Q1 2017 CFO Commentary – GAAP Income Statement

- Total GAAP revenues were \$24.3 million, resulting in GAAP net income of \$0.5 million and GAAP EPS of \$0.02 cents per fully diluted share.
- Total GAAP operating loss was \$0.4 million, resulting in a GAAP operating margin of negative 2%.
- Average fully diluted shares outstanding for the quarter were 33.6 million.
- The GAAP income tax benefit was \$1.2 million, which reflects an effective tax rate benefit of 180% compared to a 6% effective tax rate provision in the prior quarter.

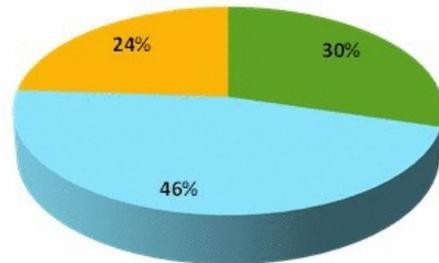
GAAP Revenue by Geography Q1 2017 & Comparable Qs

Q117



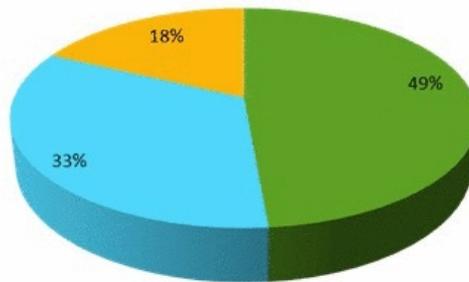
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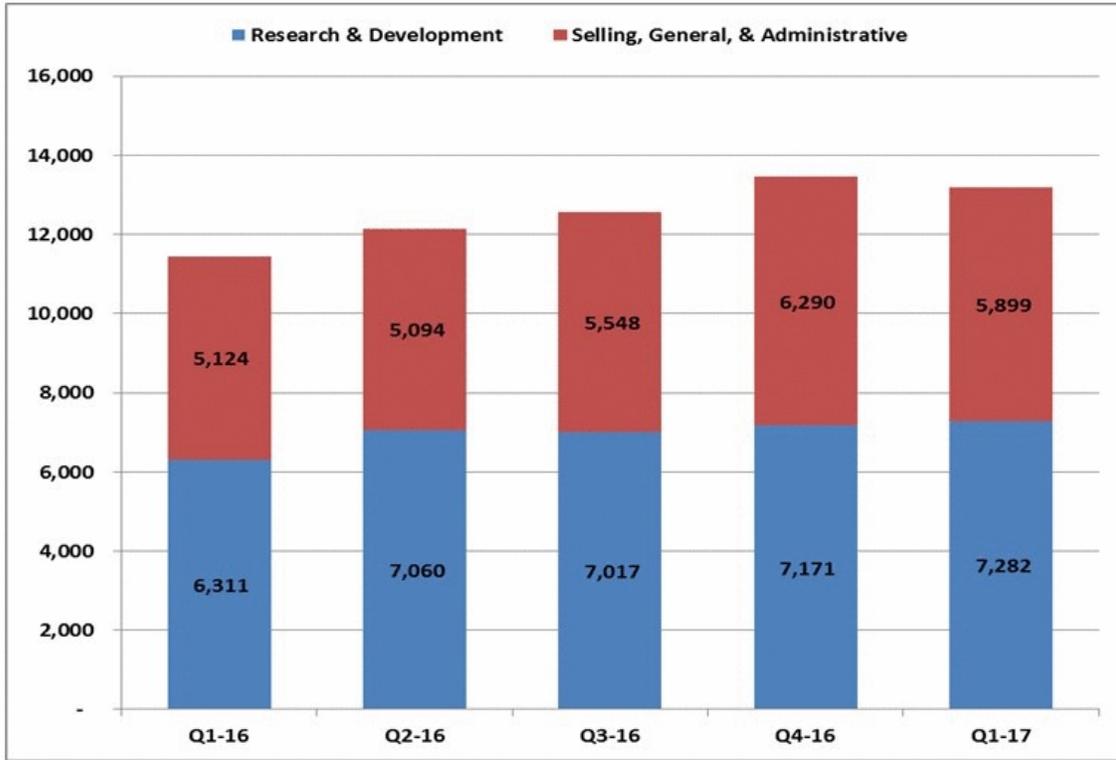


Q1 2017 CFO Commentary – GAAP Revenue & GM Detail

- Total GAAP revenues of \$24.3 million were approximately \$4.1 million lower than the prior quarter.
- The top ten customers represented 84% of total revenues. One of these customers contributed revenues of 10% or greater, pursuant to 2 or more separate, independent contracts.
- Solutions revenue consisted of 14 project-based engagements that contributed at least \$100,000 of Solutions revenue.
- The total number of node-sites, defined as an individual fab and process node combination, contributing to Gainshare revenue, was 14.
- On a GAAP basis, Cost of Sales was \$11.4 million, which was \$0.7 million lower than the prior quarter.
- GAAP gross margin was 53% as compared to 57% in the prior quarter.

GAAP Operating Expenses – Quarterly Through Q1 2017

in thousands



Q1 2017 CFO Commentary – GAAP Operating Expenses

- Total GAAP Operating Expenses, at \$13.3 million, were \$0.3 million lower than the prior quarter, and 55% of total revenues, up 7% from the prior quarter.
- GAAP R&D expenses totaled \$7.3 million, \$0.1 million higher than the prior quarter.
- GAAP R&D expenses as a percent of revenue was 30%, which was up 5% from the prior quarter.
- GAAP SG&A expenses totaled \$5.9 million, \$0.4 million lower than the prior quarter.
- GAAP SG&A expenses as a percent of revenue was 24%, which was up 2% from the prior quarter.

GAAP Balance Sheet Trend – Quarterly Through Q1 2017

in thousands	<i>ASSETS</i>	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	31-Mar-17
	Cash and cash equivalents	\$ 129,398	\$ 122,222	\$ 118,534	\$ 116,787	\$ 114,926
	Accounts receivable, net of allowance	29,323	34,786	44,023	48,157	50,088
	Prepaid expenses and other current assets	3,479	4,728	5,163	5,335	6,741
	Total current assets	162,200	161,736	167,720	170,279	171,755
	Property and equipment, net	13,236	16,076	18,192	19,341	20,798
	Deferred tax assets	14,761	14,201	14,135	15,640	16,201
	Goodwill	215	215	215	215	215
	Intangible assets, net	4,815	4,603	4,411	4,223	4,035
	Other non-current assets	7,564	9,497	9,413	12,631	14,615
	Total assets	\$ 202,792	\$ 206,328	\$ 214,086	\$ 222,329	\$ 227,619
	<i>LIABILITIES</i>					
	Accounts payable	\$ 2,016	\$ 2,469	\$ 947	\$ 2,206	\$ 2,436
	Accrued compensation and related benefits	4,289	5,150	5,190	5,959	4,988
	Accrued and other current liabilities	1,853	2,924	3,077	2,080	1,913
	Deferred revenues - current portion	6,358	5,740	8,399	8,189	9,777
	Billings in excess of recognized revenue	114	312	73	88	200
	Total current liabilities	14,630	16,595	17,686	18,522	19,314
	Long-term income taxes payable	2,468	2,594	2,859	3,354	3,247
	Other non-current liabilities	464	328	657	1,650	1,802
	Total liabilities	17,562	19,517	21,202	23,526	24,363
	<i>EQUITY</i>					
	Common stock	5	5	5	5	5
	Additional paid-in-capital	269,595	272,138	276,495	281,423	285,930
	Treasury stock at cost	(50,392)	(53,301)	(53,726)	(54,882)	(55,726)
	Accumulated deficit	(32,794)	(30,661)	(28,677)	(25,752)	(25,235)
	Accumulated other comprehensive loss	(1,184)	(1,370)	(1,213)	(1,991)	(1,718)
	Total equity	185,230	186,811	192,884	198,803	203,256
	Total liabilities and equity	\$ 202,792	\$ 206,328	\$ 214,086	\$ 222,329	\$ 227,619



Q1 2017 – GAAP Balance Sheet – Cash & Accounts Receivables

- Total cash at the end of the quarter was \$114.9 million, a decrease of \$1.9 million when compared to cash on December 31, 2016.
- During the quarter the Company purchased approximately \$2.3 million of fixed assets, primarily related to development of our DFI solution.
- Cash used in operations during the quarter was approximately \$0.4 million.
- For the quarter, the Company used \$0.8 million for cash payments for taxes related to 37 thousand shares to cover employee taxes on net share settlements of restricted stock grants released.
- Trade Accounts Receivable balance at the end of the quarter was \$27.4 million, relatively flat over the previous quarter. The Unbilled Accounts Receivable balance was \$34.6 million at the end of the quarter, an increase of approximately \$4.0 million over the prior quarter.
- Of the \$34.6 million of Unbilled Accounts Receivable at the end of the quarter, we expect approximately \$22.7 million to be billed in the next twelve months.
- Of the \$61.9 million of total Receivables, \$6.0 million, or 10%, was aged more than 30 days. Since the end of the quarter, \$2.5 million of Trade Receivables has been collected as of the date of this report.
- The quarter-over-quarter increase in Accounts Receivable and DSO is primarily driven by a \$4.0 million increase in Unbilled Accounts Receivable. This is related to fixed fee Solutions revenue recognized during the quarter on a major customer contract for which billings will take place on a quarterly basis going forward.



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, 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.



Q1 2017 – Reconciliation of GAAP to Non-GAAP Net Income

in thousands (except for shares and per share amounts)

	<u>Q1-17</u>
GAAP net income	\$ 517
Adjustments to reconcile GAAP net income to non-GAAP net income:	
Stock-based compensation expense	2,884
Amortization of acquired technology	96
Amortization of other acquired intangible assets	92
Non-cash portion of income tax expense	(995)
Non-GAAP net income	<u>\$ 2,594</u>
GAAP net income per diluted share	<u>\$ 0.02</u>
Non-GAAP net income per diluted share	<u>\$ 0.08</u>
Shares used in diluted shares calculation (M)	33.6

Reconciliation of GAAP to Non-GAAP for Prior Quarters

in thousands (except for shares and per share amounts)

	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17
GAAP net income	\$ 5,967	\$ 2,149	\$ 1,494	\$ 2,797	\$ 2,061	\$ 2,133	\$ 1,984	\$ 2,925	\$ 517
Adjustments to reconcile GAAP net income to non-GAAP net income:									
Stock-based compensation expense	2,199	2,355	2,564	2,639	2,666	2,291	2,977	3,067	2,884
Previously impaired deferred costs	(1,892)	-	-	-	-	-	-	-	-
Amortization of acquired technology	-	-	80	96	96	96	86	96	96
Amortization of other acquired intangible assets	-	-	89	107	117	117	106	92	92
Acquisition costs	-	482	290	62	-	-	-	-	-
Acquisition related contingent earn-out	-	-	475	25	-	-	-	-	-
Acquisition related deferred revenue adjustment	-	-	501	400	115	50	3	1	-
Non-cash portion of income tax expense	1,963	882	270	(390)	299	609	236	(587)	(995)
Non-GAAP net income	<u>\$ 8,237</u>	<u>\$ 5,868</u>	<u>\$ 5,763</u>	<u>\$ 5,736</u>	<u>\$ 5,354</u>	<u>\$ 5,296</u>	<u>\$ 5,392</u>	<u>\$ 5,594</u>	<u>\$ 2,594</u>
GAAP net income per diluted share	<u>\$ 0.18</u>	<u>\$ 0.07</u>	<u>\$ 0.05</u>	<u>\$ 0.09</u>	<u>\$ 0.07</u>	<u>\$ 0.07</u>	<u>\$ 0.06</u>	<u>\$ 0.09</u>	<u>\$ 0.02</u>
Non-GAAP net income per diluted share	<u>\$ 0.26</u>	<u>\$ 0.18</u>	<u>\$ 0.18</u>	<u>\$ 0.18</u>	<u>\$ 0.17</u>	<u>\$ 0.17</u>	<u>\$ 0.17</u>	<u>\$ 0.17</u>	<u>\$ 0.08</u>
Shares used in diluted shares calculation (M)	32.3	32.4	32.1	31.9	31.8	32.1	32.6	33.3	33.6

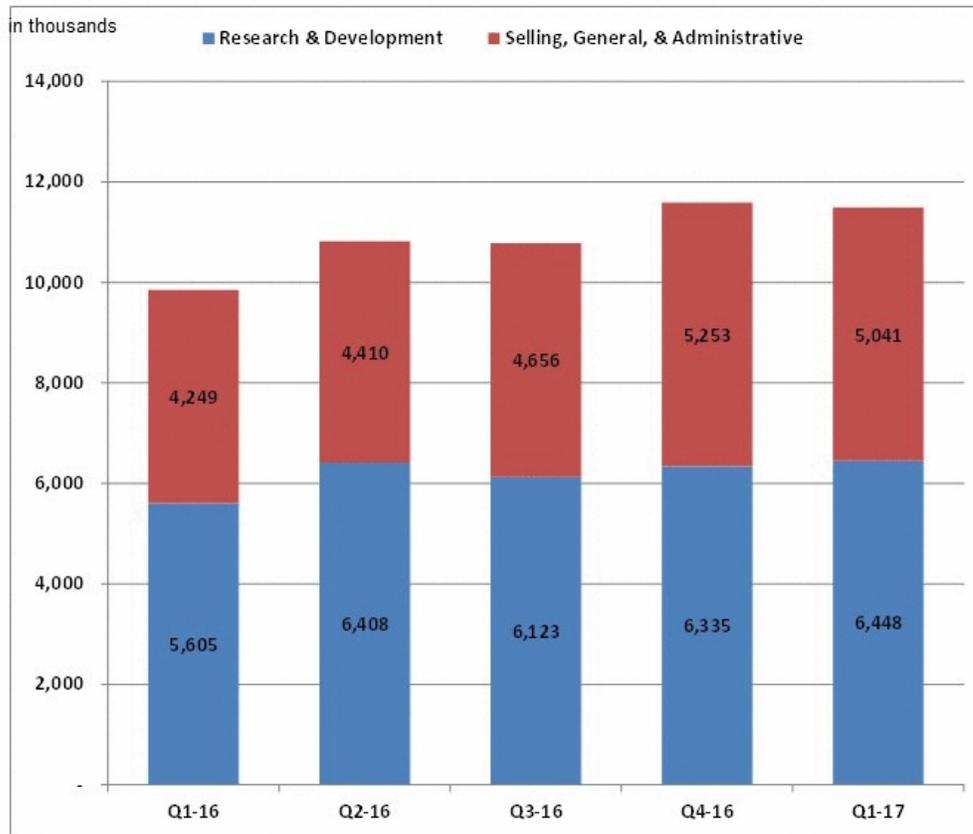


Non-GAAP Expenses – Quarterly Trend Through Q1 2017

in thousands

NON-GAAP EXPENSES:	<u>Q1-15</u>	<u>Q2-15</u>	<u>Q3-15</u>	<u>Q4-15</u>	<u>Q1-16</u>	<u>Q2-16</u>	<u>Q3-16</u>	<u>Q4-16</u>	<u>Q1-17</u>
COST OF SALES	9,809	8,974	9,132	8,910	9,025	9,603	10,175	10,845	10,143
OPERATING EXPENSES									
Research & Development	3,597	3,927	4,456	4,736	5,605	6,408	6,123	6,335	6,448
Selling, General, & Administrative	3,634	3,803	4,092	4,095	4,249	4,410	4,656	5,253	5,041
TOTAL OPERATING EXPENSES	<u>7,232</u>	<u>7,729</u>	<u>8,548</u>	<u>8,831</u>	<u>9,854</u>	<u>10,818</u>	<u>10,779</u>	<u>11,589</u>	<u>11,489</u>
Cash Tax Expense / (Benefit)	1,590	691	999	1,010	726	970	815	785	(167)

Non-GAAP Operating Expenses – Quarterly Trend Through Q1 2017



Q1 2017 CFO Commentary – Non-GAAP Expenses

- On a Non-GAAP basis, Cost of Sales was \$10.1 million, which was \$0.7 million lower than the prior quarter.
- Total Non-GAAP Operating Expenses, at \$11.5 million, were \$0.1 million lower than the prior quarter and 47% of total revenues, up 6% from the prior quarter.
- Non-GAAP R&D expenses totaled \$6.4 million, \$0.1 million higher than the prior quarter.
- Non-GAAP R&D expenses as a percent of revenue were 27%, which was up 4% from the prior quarter.
- Non-GAAP SG&A expenses totaled \$5.0 million, \$0.2 million lower than the prior quarter.
- Non-GAAP SG&A expenses as a percent of revenue were 21%, which was up 2% from the prior quarter.
- Cash tax liabilities for Non-GAAP presentation were negative \$0.2 million. This represents an effective cash tax rate provision of 26% of pre-tax GAAP income.



Non-GAAP Performance Measures – Quarterly Through Q1 2017

in thousands (except for shares, percent of revenue, and EPS)

	<u>Q1-15</u>	<u>Q2-15</u>	<u>Q3-15</u>	<u>Q4-15</u>	<u>Q1-16</u>	<u>Q2-16</u>	<u>Q3-16</u>	<u>Q4-16</u>	<u>Q1-17</u>
GROSS MARGIN	17,008	14,237	15,246	15,562	16,171	17,136	17,088	17,589	14,146
Gross Margin %	63%	61%	63%	64%	64%	64%	63%	62%	58%
Pro Forma Net Income	8,237	5,868	5,762	5,736	5,354	5,296	5,392	5,594	2,594
Non-GAAP EPS	0.26	0.18	0.18	0.18	0.17	0.17	0.17	0.17	0.08
Diluted Weighted Avg Shares (M)	32.3	32.4	32.1	31.9	31.8	32.1	32.6	33.3	33.6
EBITDAR	10,432	7,192	7,443	7,473	6,845	7,125	7,168	7,378	3,518

Q1 2017 CFO Commentary – Non-GAAP Performance Measures

- Non-GAAP gross margin was 58%, compared to 62% in the prior quarter.
- Total non-GAAP net income was \$2.6 million, \$3.0 million lower than the prior quarter.
- Non-GAAP EPS was \$0.08 cents per fully diluted share, compared to \$0.17 cents in the prior quarter.
- Average fully diluted shares outstanding for the quarter were 33.6 million.
- EBITDAR was \$3.5 million, compared to \$7.4 million in the prior quarter.

2017 – GAAP & Non-GAAP Outlook – Revenue

- Overall, we still expect total revenue to grow year-over-year, however, we now expect that to be at a rate in the low- to mid- single digit range.
- We expect Solutions revenue to grow at a high single digit rate for the year, driven by increasing demand for our Exensio software solutions, DFI revenue growth, as well as our continued expansion of the Asia semiconductor market, in particular the China market.
- We expect Gainshare revenue to be flat to slightly down as compared to 2016, driven by low 28nm volumes during the first half of 2017, partially offset by the continued ramp of 14nm volumes and early 28nm ramps of newer customers through the year. As stated in February in connection with the release of our 2016 results, several older customers' 28nm nodes are ramping down during the year from a Gainshare perspective. Timing of these customer transitions creates uncertainties in our full year outlook. We do not expect a full recovery in 28nm volumes until 2018.