

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): November 8, 2018

PDF SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

000-31311

(Commission File Number)

Delaware
(State or Other Jurisdiction of Incorporation)

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

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

(Address of principal executive offices, with zip code)

(408) 280-7900

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Emerging growth company

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

TABLE OF CONTENTS

[Item 2.02. Results of Operations and Financial Condition](#)

[Item 9.01. Financial Statements and Exhibits](#)

[SIGNATURES](#)

Item 2.02. Results of Operations and Financial Condition.

On November 8, 2018 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, 2018. The Company also posted on the Investor Relations section of its website (www.pdf.com) a management report with regard to the quarter ended September 30, 2018. Copies of the press release and management report are attached to this report as Exhibit 99.1 and 99.2, respectively. Information on the website is not, and will not be deemed, a part of this report or incorporated into any other filings the Company makes with the Securities and Exchange Commission.

The information in this Item 2.02, including Exhibits 99.1 and 99.2, is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that Section, and shall not be deemed incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Press Release dated November 8, 2018, regarding financial results and certain other information related to the first fiscal quarter ended September 30, 2018.
99.2	Management Report by PDF Solutions, Inc. as of November 8, 2018.

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
VP, Finance, and Chief Financial Officer
(principal financial and accounting officer)

Dated: November 8, 2018

News Release

Company Contacts:

Christine Russell,
Chief Financial Officer
Tel: (408) 938-6466
Email: christine.russell@pdf.com

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

PDF Solutions® Reports Third Fiscal Quarter Results

SANTA CLARA, Calif.- November 8, 2018-PDF Solutions, Inc. (“PDF Solutions” or the “Company”) (NASDAQ: PDFS), the leading provider of process-design integration technologies to enhance integrated circuit (IC) manufacturability, today announced financial results for its third fiscal quarter ended September 30, 2018.

Third Fiscal Quarter 2018 Results

Total revenues for the third fiscal quarter of 2018 were \$20.2 million, down 4% from \$21.1 million for the second fiscal quarter of 2018 and down 24% from \$26.5 million for the third fiscal quarter of 2017. Design-to-silicon-yield solutions revenue for the third fiscal quarter of 2018 was \$14.0 million, down 8% from \$15.3 million for the second fiscal quarter of 2018 and down 27% from \$19.2 million for the third fiscal quarter of 2017. Gainshare performance incentives revenue for the third fiscal quarter of 2018 was \$6.2 million, up 5% from \$5.9 million for the second fiscal quarter of 2018 and down 15% from \$7.3 million for the third fiscal quarter of 2017.

On a GAAP basis, net loss for the third fiscal quarter of 2018 was \$2.1 million, or \$(0.06) per basic and diluted share, compared to net loss of \$2.1 million, or \$(0.07) per basic and diluted share, for the second fiscal quarter of 2018, and compared to net income of \$0.6 million, or \$0.02 per basic and diluted share, for the third fiscal quarter of 2017.

Cash and cash equivalents at September 30, 2018, were \$96.8 million, compared to \$101.3 million at December 31, 2017.

Non-GAAP net income for the third fiscal quarter of 2018 was \$0.2 million, or \$0.01 per diluted share, compared to \$0.8 million, or \$0.02 per diluted share, for the second fiscal quarter of 2018, and compared to \$3.6 million, or \$0.11 per diluted share, for the third fiscal quarter of 2017.

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

Recent Accomplishments

- Commenced time-based-license usage for largest China-based deployment of Exensio® platform at a major IDM
- Deployed the Exensio platform at seven additional OSATs, with more than 900 testers, designed to give global fabless customers real-time access to their test and assembly data
- Moved headquarters to Santa Clara, CA, for a significantly lower annual rent
- Added Gerald Yin, Chairman and CEO of AMEC, a global micro-fabrication equipment company serving customers in the semiconductor industry, and Mike Gustafson, Executive Chairman of Druva, a company that provides data management-as-a-service, to the Board of Directors

Third Fiscal Quarter 2018 Financial Commentary Available Online

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

Information Regarding Use of Non-GAAP Financial Measures

In addition to providing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), PDF Solutions also provides certain non-GAAP financial measures. Non-GAAP net income excludes the effects of non-recurring items (including severance payments), stock-based compensation 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 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 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, 2017, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K and amendments to such reports. The forward-looking statements made in the conference call are made as of the date hereof, and PDF Solutions does not assume any obligation to update such statements nor the reasons why actual results could differ materially from those projected in such statements.

About PDF Solutions

PDF Solutions enables customers to reduce the time to market of integrated circuits ("ICs"), lower the cost of IC design and manufacturing and improve both quality and profitability. The Company has developed proprietary hardware and software and provides services that target the entire systems value chain, including 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 Santa Clara, California, 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)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 96,788	\$ 101,267
Accounts receivable, net	52,744	57,564
Prepaid expenses and other current assets	10,890	5,069
Total current assets	160,422	163,900
Property and equipment, net	34,120	25,386
Goodwill	1,923	1,923
Intangible assets, net	5,317	6,074
Deferred tax assets	17,714	16,348
Other non-current assets	8,163	10,545
Total assets	<u>\$ 227,659</u>	<u>\$ 224,176</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,286	\$ 2,536
Accrued compensation and related benefits	4,969	6,493
Accrued and other current liabilities	4,386	2,627
Deferred revenues - current portion	7,360	7,981
Billings in excess of recognized revenues	669	-
Total current liabilities	20,670	19,637
Long-term income taxes payable	4,140	3,902
Other non-current liabilities	1,954	2,269
Total liabilities	26,764	25,808
Stockholders' equity:		
Common stock and additional paid-in-capital	308,103	297,955
Treasury stock at cost	(78,752)	(71,793)
Accumulated deficit	(27,337)	(27,089)
Accumulated other comprehensive loss	(1,119)	(705)
Total stockholders' equity	200,895	198,368
Total liabilities and stockholders' equity	<u>\$ 227,659</u>	<u>\$ 224,176</u>

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

	Three months ended			Nine months ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenues:					
Design-to-silicon-yield solutions	\$ 13,976	\$ 15,266	\$ 19,229	\$ 47,431	\$ 55,426
Gainshare performance incentives	6,237	5,853	7,288	18,638	19,668
Total revenues	<u>20,213</u>	<u>21,119</u>	<u>26,517</u>	<u>66,069</u>	<u>75,094</u>
Costs of Design-to-silicon-yield solutions:					
Direct costs of Design-to-silicon-yield solutions	10,539	10,774	12,295	32,651	34,913
Amortization of acquired technology	144	143	136	431	327
Total costs of Design-to-silicon-yield solutions	<u>10,683</u>	<u>10,917</u>	<u>12,431</u>	<u>33,082</u>	<u>35,240</u>
Gross profit	9,530	10,202	14,086	32,987	39,854
Operating expenses:					
Research and development	6,755	7,100	7,875	21,100	22,432
Selling, general and administrative	5,507	5,919	5,680	17,801	17,775
Amortization of other acquired intangible assets	108	108	107	326	291
Total operating expenses	<u>12,370</u>	<u>13,127</u>	<u>13,662</u>	<u>39,227</u>	<u>40,498</u>
Income (loss) from operations	(2,840)	(2,925)	424	(6,240)	(644)
Interest and other income (expense), net	223	390	(104)	283	(305)
Income (loss) before income taxes	(2,617)	(2,535)	320	(5,957)	(949)
Income tax benefit	(535)	(439)	(270)	(1,355)	(2,246)
Net income (loss)	<u>\$ (2,082)</u>	<u>\$ (2,096)</u>	<u>\$ 590</u>	<u>\$ (4,602)</u>	<u>\$ 1,297</u>
Net income (loss) per share:					
Basic	<u>\$ (0.06)</u>	<u>\$ (0.07)</u>	<u>\$ 0.02</u>	<u>\$ (0.14)</u>	<u>\$ 0.04</u>
Diluted	<u>\$ (0.06)</u>	<u>\$ (0.07)</u>	<u>\$ 0.02</u>	<u>\$ (0.14)</u>	<u>\$ 0.04</u>
Weighted average common shares:					
Basic	32,184	31,962	32,078	32,105	32,060
Diluted	32,184	31,962	32,969	32,105	33,317

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, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
GAAP net income (loss)	\$ (2,082)	\$ (2,096)	\$ 590	\$ (4,602)	\$ 1,297
Adjustments to reconcile GAAP net income to non-GAAP net income:					
Stock-based compensation expense	2,268	2,701	2,949	7,825	8,737
Amortization of acquired technology	144	143	136	431	327
Amortization of other acquired intangible assets	108	108	107	326	291
Severance payment	48	-	370	331	370
Tax impact of adjustments	(281)	(96)	(590)	(1,124)	(2,214)
Non-GAAP net income	<u>\$ 205</u>	<u>\$ 760</u>	<u>\$ 3,562</u>	<u>\$ 3,187</u>	<u>\$ 8,808</u>
GAAP net income (loss) per diluted share	<u>\$ (0.06)</u>	<u>\$ (0.07)</u>	<u>\$ 0.02</u>	<u>\$ (0.14)</u>	<u>\$ 0.04</u>
Non-GAAP net income per diluted share	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.11</u>	<u>\$ 0.10</u>	<u>\$ 0.26</u>
Shares used in diluted shares calculation	<u>32,385</u>	<u>32,304</u>	<u>32,969</u>	<u>32,444</u>	<u>33,317</u>



2018 Third Quarter Management Report

November 8, 2018

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



Contents

■ 2018 Third Quarter GAAP Results

- Income Statement: Quarterly Trends
- Revenue Commentary
- Balance Sheet & Commentary
- Cash Flow & Commentary

■ 2018 Third Quarter Non-GAAP Results

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

■ 2018 Outlook

■ Related Information

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

GAAP Income Statement – Quarterly Trend Through Q3 2018

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

PDF Solutions, Inc.

P&L (GAAP)	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18
Design to Silicon Yield Solutions	19,698	16,500	19,229	19,010	18,190	15,266	13,976
Gain Share - Performance Incentive	4,591	7,789	7,288	7,766	6,547	5,853	6,237
Total Revenue	24,289	24,289	26,517	26,776	24,737	21,119	20,213
Cost of Sales	11,431	11,379	12,431	12,281	11,482	10,917	10,683
GROSS MARGIN	12,858	12,910	14,086	14,495	13,255	10,202	9,530
Gross Margin %	53%	53%	53%	54%	54%	48%	47%
OPERATING EXPENSES							
Research & Development	7,282	7,276	7,875	7,646	7,245	7,100	6,755
R&D % of Revenue	30%	30%	30%	29%	29%	34%	33%
Selling, General, & Administrative	5,899	6,195	5,680	5,909	6,375	5,919	5,507
SG&A % of Revenue	24%	26%	21%	22%	26%	28%	27%
Amortization of other acquired intangible assets	92	92	107	107	109	108	108
TOTAL OPERATING EXPENSES	13,273	13,563	13,662	13,662	13,729	13,127	12,370
OPERATING INCOME (LOSS)	(415)	(653)	424	833	(474)	(2,925)	(2,840)
Other (Income) / Expense, Net	230	(27)	104	(42)	331	(390)	(223)
PRE-TAX INCOME (LOSS)	(645)	(626)	320	875	(805)	(2,535)	(2,617)
Income Tax Provision (Benefit)	(1,162)	(815)	(270)	3,508	(381)	(439)	(535)
Net Income (Loss)	517	189	590	(2,634)	(424)	(2,096)	(2,082)
GAAP EPS	0.02	0.01	0.02	(0.08)	(0.01)	(0.07)	(0.06)
Diluted Weighted Avg Shares (in millions)	33.6	33.4	33.0	32.9	32.2	32.0	32.2



Q3 2018 – Revenue Commentary

- We commenced time-based-license usage for largest China-based deployment of Exensio® platform at a major IDM in Q3.
- The top ten customers represented 76% of total revenues in both the third and second quarters of 2018. One of these customers contributed revenues 10% or greater.
- ASC 606 impact to Q3 revenue was favorable by \$0.5 million. The new revenue recognition rule requires us to identify the performance obligations and allocate the purchase price to those obligations.

GAAP Balance Sheet Trend – Quarterly Through Q3 2018

in thousands

	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17	31-Mar-18	30-Jun-18	30-Sep-18
ASSETS							
Cash and cash equivalents	\$ 114,926	\$ 109,007	\$ 100,750	\$ 101,267	\$ 98,522	\$ 100,916	\$ 96,788
Accounts receivable -trade	27,366	33,005	32,226	35,355	35,366	30,690	30,064
Unbilled accounts receivable	22,722	21,024	20,728	22,209	23,070	23,229	22,680
Other current assets	6,741	8,813	6,579	5,069	9,654	8,660	10,890
Total current assets	171,755	171,849	160,284	163,900	166,612	163,495	160,422
Goodwill and intangibles	4,250	4,062	8,248	7,997	7,744	7,492	7,240
Deferred tax assets	16,201	15,815	18,522	16,348	15,896	17,747	17,714
Other non-current assets	14,615	12,262	11,312	10,544	9,752	8,943	8,163
Property plant and equipment	20,798	23,068	23,604	25,386	26,536	28,095	34,120
Total assets	\$ 227,619	\$ 227,057	\$ 221,970	\$ 224,176	\$ 226,540	\$ 225,772	\$ 227,659
LIABILITIES							
Accounts payable	\$ 2,436	\$ 2,270	\$ 2,608	\$ 2,536	\$ 2,588	\$ 2,495	\$ 3,286
Accrued Liabilities	6,902	7,938	7,886	9,120	7,473	7,938	9,355
Deferred revenues and other	9,977	9,322	7,912	7,981	8,474	9,369	8,029
Total current liabilities	19,314	19,530	18,407	19,637	18,535	19,802	20,670
Deferred taxes and other	5,049	5,427	5,266	6,171	5,946	5,646	6,094
Total liabilities	24,363	24,957	23,673	25,808	24,481	25,448	26,765
EQUITY							
Common stock and additional paid-in-capital	285,935	289,961	294,364	297,955	301,872	304,953	308,103
Treasury stock	(55,726)	(61,532)	(70,739)	(71,793)	(76,473)	(78,422)	(78,752)
Accumulated other comprehensive loss	(1,718)	(1,283)	(873)	(705)	(180)	(25,256)	(1,119)
Accumulated deficit	(25,235)	(25,046)	(24,455)	(27,089)	(23,160)	(951)	(27,337)
Total stockholders' equity	203,257	202,100	198,296	198,368	202,059	200,324	200,895
Total liabilities and stockholders' equity	\$ 227,619	\$ 227,057	\$ 221,970	\$ 224,176	\$ 226,540	\$ 225,772	\$ 227,659



Q3 2018 – GAAP Balance Sheet Commentary

- Cash at the end of the quarter was \$97 million, a use of \$4.1 million from the prior quarter. Leasehold improvements at the new HQ facility and the new eProbe 250 build comprised the main use of cash.
- Trade Accounts Receivable balance at the end of the quarter was down approximately \$0.6 million and Unbilled Accounts Receivable balance (current & long-term) decreased approximately \$1.5 million, in each case compared to the previous quarter. Additionally, under ASC 606, \$3.1 million was reclassified from Unbilled AR to Contract Assets and recorded as Other Current Assets.
- Q3 DSO of 135 days vs prior quarter of 132 days calculated on net trade AR. Collections after the end of quarter reduced the Q3 DSO by ten additional days to 125 days.
- Of the \$29.1 million of Unbilled Accounts Receivable at the end of the quarter, we expect approximately \$23.1 million to be billed in the next twelve months, of which more than 47% will be billed during Q4 2018.

GAAP Cash Flow – Quarterly Trend Through Q3 2018

in thousands	03/31/17	06/30/17	09/30/17	12/31/17	03/31/18	06/30/18	09/30/18
Operating activities:							
Net income (loss)	517	189	591	(2,634)	(424)	(2,096)	(2,082)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:							
Depreciation and amortization	1,091	1,195	1,263	1,240	1,261	1,270	1,158
Stock-based compensation	2,882	2,906	2,948	3,074	2,856	2,701	2,268
Accrued Earnout	0	0	0	0	0	0	0
Amortization of acquired intangible assets	188	188	242	251	253	252	252
Losses (Gains) on disposal of assets	0	5	0	1	3	0	1
Deferred taxes	(580)	387	(3,321)	3,010	117	(1,818)	(597)
Provisions (reversal) on losses on accounts receivable	0	124	0	50	0	(42)	0
Unrealized loss (gain) on foreign currency forward contract	92	(59)	(39)	(21)	58	(11)	12
Changes in operating assets and liabilities:							
Accounts receivable	(1,931)	(4,065)	1,075	(4,660)	(80)	4,559	1,175
Prepaid expenses and other assets	(3,372)	314	3,247	2,288	(1,385)	1,778	(1,470)
Accounts payable	476	375	760	352	497	(1,489)	394
Accrued compensation and related benefits	(1,040)	817	(498)	970	(1,278)	460	(559)
Accrued and other liabilities	(587)	(158)	521	296	(532)	57	223
Deferred revenue	1,734	(1,008)	(1,408)	356	1,906	839	(2,113)
Billings in excess of recognized revenue	112	189	(101)	(288)	0	7	662
Net cash provided by (used in) operating activities	(418)	1,399	5,280	4,285	3,252	6,467	(676)
Investing activities:							
Proceeds from the sales of property and equipment	0	0	0	0	2	0	3
Purchases of property and equipment	(2,313)	(2,651)	(1,978)	(3,313)	(2,449)	(2,363)	(3,940)
Acquisition of business, net of cash acquired	0	0	(3,841)	0	0	0	0
Net cash provided by (used in) investing activities	(2,313)	(2,651)	(5,819)	(3,313)	(2,447)	(2,363)	(3,937)
Financing activities:							
Proceeds from exercise of stock options	717	1,091	496	518	39	377	53
Proceeds from employee stock purchase plan	909	0	956	0	1,007	0	824
Stock repurchases	0	(4,770)	(8,648)	0	(4,123)	(1,125)	0
Purchase of company stock for employee tax settlement	(844)	(1,035)	(560)	(1,055)	(556)	(820)	(334)
Net cash provided by (used in) financing activities	782	(4,714)	(7,756)	(537)	(3,633)	(1,568)	843
Effect of exchange rate changes on cash and cash equivalents	88	46	39	82	83	(142)	(58)
Net increase (decrease) in cash and cash equivalents	(1,861)	(5,920)	(8,256)	517	(2,745)	2,394	(4,128)
Cash and cash equivalents, beginning of period	116,787	114,926	109,006	100,750	101,267	98,522	100,916
Cash and cash equivalents, end of period	114,926	109,006	100,750	101,267	98,522	100,916	96,788

Q3 2018 – GAAP Cash Flow Commentary

- During the quarter, the Company purchased approximately \$3.9 million of fixed assets, primarily related to our DFI solution and leasehold improvements and set-up related to the new headquarters in Santa Clara, CA.
- Cash used by operations during the quarter was approximately \$0.7 million.

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. These non-GAAP financial measures are used by management internally to measure the Company's profitability and performance. PDF Solutions' management believes that these non-GAAP measures provide useful supplemental measures to investors regarding the Company's ongoing operations in light of the fact that none of these categories of expense has a current effect on the future uses of cash (with the exception of certain non-recurring items) nor do they impact the generation of current or future revenues. These non-GAAP results should not be considered an alternative to, or a substitute for, GAAP financial information, and may be different from similarly titled non-GAAP measures used by other companies. In particular, these non-GAAP financial measures are not a substitute for GAAP measures of income or loss as a measure of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity. Management uses these non-GAAP financial measures internally to measure profitability and performance; these non-GAAP measures are presented here to give investors an opportunity to see the Company's financial results as viewed by management. A detailed reconciliation of the adjustments made to comparable GAAP measures is included herein.

Reconciliation of GAAP to Non-GAAP Net Income

in thousands (except for shares and per share amounts)

	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18
GAAP net income	\$ 517	\$ 189	\$ 590	\$ (2,634)	\$ (424)	\$ (2,096)	\$ (2,082)
Adjustments to reconcile GAAP net income to non-GAAP net income:							
Stock-based compensation expense	2,884	2,904	2,949	3,073	2,856	2,701	2,268
Amortization of acquired technology	96	96	136	144	144	143	144
Amortization of other acquired intangible assets	92	92	107	107	109	108	108
Severance payments	-	-	370	30	283	-	48
Tax Impact of Adjustments	(995)	(629)	(590)	3,444	(747)	(96)	(281)
Non-GAAP net income	<u>\$ 2,594</u>	<u>\$ 2,652</u>	<u>\$ 3,562</u>	<u>\$ 4,164</u>	<u>\$ 2,220</u>	<u>\$ 760</u>	<u>\$ 205</u>
GAAP net income per diluted share	\$ 0.02	\$ 0.01	\$ 0.02	\$ (0.08)	\$ (0.01)	\$ (0.07)	\$ (0.06)
Non-GAAP net income per diluted share	\$ 0.08	\$ 0.08	\$ 0.11	\$ 0.13	\$ 0.07	\$ 0.02	\$ 0.01
Shares used in diluted shares calculation (in millions)	33.6	33.4	33.0	32.9	32.6	32.3	32.4

Reconciliation of GAAP to Non-GAAP Spending by Function

in thousands

PDF Solutions, Inc.

	<u>Q1-17</u>	<u>Q2-17</u>	<u>Q3-17</u>	<u>Q4-17</u>	<u>Q1-18</u>	<u>Q2-18</u>	<u>Q3-18</u>
Cost of Sales - GAAP	11,431	11,379	12,431	12,281	11,482	10,917	10,683
Adjustments to reconcile GAAP Cost of Sales to non-GAAP							
Cost of Sales:							
Stock-based compensation expense	(1,191)	(1,070)	(1,184)	(1,162)	(1,013)	(968)	(787)
Amortization of acquired technology	(96)	(96)	(136)	(144)	(144)	(144)	(144)
Severance payments	-	-	(151)	-	(209)	-	(48)
Cost of Sales - Non-GAAP	10,144	10,214	10,961	10,976	10,116	9,805	9,705
Research & Development - GAAP	7,282	7,276	7,875	7,646	7,245	7,100	6,755
Adjustments to reconcile GAAP R&D to non-GAAP R&D:							
Stock-based compensation expense	(834)	(848)	(877)	(959)	(879)	(845)	(725)
Severance payments	-	-	(150)	(17)	(74)	-	-
Research & Development - Non-GAAP	6,448	6,428	6,848	6,670	6,292	6,255	6,030
Selling, General, & Administrative - GAAP	5,899	6,195	5,680	5,909	6,375	5,919	5,507
Adjustments to reconcile GAAP SG&A to non-GAAP SG&A:							
Stock-based compensation expense	(858)	(987)	(888)	(952)	(963)	(888)	(756)
Severance payments	-	-	(70)	(13)	-	-	-
Selling, General, & Administrative - Non-GAAP	5,041	5,208	4,722	4,944	5,412	5,031	4,751



2018 – Outlook

- Looking ahead to the fourth quarter, we expect the fourth quarter solutions revenues to be down quarter over quarter by around \$2.0 million primarily as a result of stopping work on a 7nm project and the loss of the associated percentage-of-completion revenues. However, we are in discussions with the customer and if we reach an agreement the fourth quarter revenue may be materially different.
- Overall, we expect total spending on a non-GAAP basis to be flat as compared to Q3 as the reduction-in-force savings will not be realized until the beginning of 2019.