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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): February 13, 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))
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**Item 2.02. Results of Operations and Financial Condition.**

On February 13, 2017 PDF Solutions (the “Company”) issued a press release regarding its financial results and certain other information related to the fourth fiscal quarter and year ended December 31, 2016. The Company also posted on the Investor Relations section of its website ([www.pdf.com](http://www.pdf.com)) a management report with regard to the quarter and fiscal year ended December 31, 2016. 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 February 13, 2017, regarding financial results and certain other information related to the fourth fiscal quarter and year ended December 31, 2016.
99.2	Management Report by PDF Solutions, Inc. as of February 13, 2017

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**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: February 13, 2017

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**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
99.1	Press Release dated February 13, 2017, regarding financial results and certain other information related to the fourth fiscal quarter and year ended December 31, 2016.
99.2	Management Report by PDF Solutions, Inc. as of February 13, 2017

## News Release

### Company Contacts:

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## PDF Solutions® Reports Fourth Fiscal Quarter and Fiscal Year 2016 Results

SAN JOSE, Calif.—February 13, 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 fourth fiscal quarter and fiscal year ended December 31, 2016.

Total revenues for the fourth fiscal quarter of 2016 totaled \$28.4 million, up 4% from \$27.3 million for the third fiscal quarter of 2016 and up 18% when compared to total revenues of \$24.1 million for the fourth fiscal quarter of 2015. Design-to-silicon-yield solutions revenue for the fourth fiscal quarter of 2016 totaled \$19.5 million, up 5% from \$18.6 million for the third fiscal quarter of 2016 and up 36% when compared to Design-to-silicon-yield solutions revenue of \$14.3 million for the fourth fiscal quarter of 2015. Gainshare performance incentives revenue for the fourth fiscal quarter of 2016 totaled \$9.0 million, up 3% from \$8.7 million for the third fiscal quarter of 2016 and down 8% from \$9.8 million for the fourth fiscal quarter of 2015.

Total revenues for the fiscal year ended December 31, 2016, totaled \$107.5 million, up 10% when compared with total revenues of \$98.0 million for the fiscal year ended December 31, 2015. Design-to-silicon-yield solutions revenues for the fiscal year ended December 31, 2016, totaled \$77.2 million, up 21% when compared with Design-to-silicon-yield solutions revenues of \$63.8 million for the fiscal year ended December 31, 2015. Gainshare performance incentives revenues for the fiscal year ended December 31, 2016, totaled \$30.3 million, down 11% when compared with Gainshare performance incentives revenues of \$34.1 million for the fiscal year ended December 31, 2015.

On a GAAP basis, net income for the fourth fiscal quarter of 2016 was \$2.9 million, or \$0.09 per basic and diluted share, compared to \$2.0 million, or \$0.06 per basic and diluted share, for the third fiscal quarter of 2016, and compared to \$2.8 million, or \$0.09 per basic and diluted share, for the fourth fiscal quarter of 2015. Net income for the fiscal year ended December 31, 2016, was \$9.1 million, or \$0.29 per basic and \$0.28 per diluted share, compared to net income of \$12.4 million, or \$0.39 per basic and diluted share, for the fiscal year ended December 31, 2015.

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Cash and cash equivalents were \$116.8 million at December 31, 2016, compared to \$126.2 million at December 31, 2015.

Non-GAAP net income for the fourth fiscal quarter of 2016 was \$5.6 million, or \$0.17 per diluted share, compared to \$5.4 million, or \$0.17 per diluted share, for the third fiscal quarter of 2016, and compared to \$5.7 million, or \$0.18 per diluted share, for the fourth fiscal quarter of 2015. Non-GAAP net income for the fiscal year ended December 31, 2016, was \$21.6 million, or \$0.67 per diluted share, compared to non-GAAP net income of \$25.6 million, or \$0.80 per diluted share, for the fiscal year ended December 31, 2015. EBITDAR for the fourth quarter of 2016 was \$7.4 million, compared to \$7.2 million for the third fiscal quarter of 2016, and compared to \$7.5 million for the fourth fiscal quarter of 2015. EBITDAR for the fiscal year ended December 31, 2016, was \$28.5 million, compared to \$32.5 million for the fiscal year ended December 31, 2015.

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://www.pdf.com/events>. 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.

**Fourth Quarter and Fiscal Year 2016 Financial Commentary Available Online**

A Management Report reviewing the Company's fourth quarter and fiscal year 2016 financial results, as well as providing first quarter 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.

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## **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. For a more detailed reconciliation of the adjustments made to comparable GAAP measures, please refer the "GAAP to Non-GAAP and EBITDAR Reconciliation" provided in the Investor Relations section of our website at <http://ir.pdf.com/sec.cfm>.

## **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, 2015, 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.

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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™ (DFI™) 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>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 116,787	\$ 126,158
Accounts receivable, net	48,157	33,438
Prepaid expenses and other current assets	5,335	3,655
Total current assets	170,279	163,251
Property and equipment, net	19,341	11,325
Deferred tax assets	15,640	10,299
Goodwill	215	215
Intangible assets, net	4,223	5,028
Other non-current assets	12,631	1,651
Total assets	<u>\$ 222,329</u>	<u>\$ 191,769</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,206	\$ 1,293
Accrued compensation and related benefits	5,959	4,812
Accrued and other current liabilities	2,080	2,382
Deferred revenues - current portion	8,189	4,702
Billings in excess of recognized revenue	88	1,267
Total current liabilities	18,522	14,456
Long-term income tax payable	3,354	2,540
Other non-current liabilities	1,650	466
Total liabilities	23,526	17,462
Stockholders' equity:		
Common stock and additional paid-in-capital	281,428	266,013
Treasury stock at cost	(54,882)	(50,383)
Accumulated deficit	(25,752)	(39,780)
Accumulated other comprehensive loss	(1,991)	(1,543)
Total stockholders' equity	198,803	174,307
Total liabilities and stockholders' equity	<u>\$ 222,329</u>	<u>\$ 191,769</u>

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

	Three months ended			Twelve months ended	
	December 31, 2016	September 30, 2016 (1)	December 31, 2015	December 31, 2016	December 31, 2015
<b>Revenues:</b>					
Design-to-silicon-yield solutions	\$ 19,458	18,552	\$ 14,282	\$ 77,162	\$ 63,839
Gainshare performance incentives	8,975	8,707	9,790	30,299	34,138
Total revenues	<u>28,433</u>	<u>27,259</u>	<u>24,072</u>	<u>107,461</u>	<u>97,977</u>
<b>Costs of Design-to-silicon-yield solutions:</b>					
Direct costs of Design-to-silicon-yield solutions	12,040	11,366	9,984	44,074	38,847
Amortization of acquired technology	96	86	96	374	176
Total costs of Design-to-silicon-yield solutions	<u>12,136</u>	<u>11,452</u>	<u>10,080</u>	<u>44,448</u>	<u>39,023</u>
Gross profit	16,297	15,807	13,992	63,013	58,954
<b>Operating expenses:</b>					
Research and development	7,171	7,017	5,398	27,559	19,096
Selling, general and administrative	6,290	5,548	5,085	22,056	20,421
Amortization of other acquired intangible assets	92	106	107	432	196
Total operating expenses	<u>13,553</u>	<u>12,671</u>	<u>10,590</u>	<u>50,047</u>	<u>39,713</u>
Income from operations	2,744	3,136	3,402	12,966	19,241
Interest and other income (expense), net	378	(101)	15	-10	181
Income before income taxes	3,122	3,035	3,417	12,956	19,422
Income tax provision	197	1,051	620	3,853	7,015
Net income	<u>\$ 2,925</u>	<u>1,984</u>	<u>\$ 2,797</u>	<u>\$ 9,103</u>	<u>\$ 12,407</u>
<b>Net income per share:</b>					
Basic	<u>\$ 0.09</u>	<u>0.06</u>	<u>\$ 0.09</u>	<u>\$ 0.29</u>	<u>\$ 0.39</u>
Diluted	<u>\$ 0.09</u>	<u>0.06</u>	<u>\$ 0.09</u>	<u>\$ 0.28</u>	<u>\$ 0.39</u>
<b>Weighted average common shares:</b>					
Basic	31,636	31,413	31,323	31,373	31,424
Diluted	33,293	32,578	31,858	32,431	32,164

(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.

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

	Three months ended			Twelve months ended	
	December 31, 2016	September 30, 2016 (1)	December 31, 2015	December 31, 2016	December 31, 2015
GAAP net income	\$ 2,925	1,984	\$ 2,797	\$ 9,103	\$ 12,407
Adjustments to reconcile GAAP net income to non-GAAP net income:					
Stock-based compensation expense	3,067	2,977	2,639	11,002	9,756
Previously impaired deferred costs (2)	-	-	-	-	(1,892)
Amortization of acquired technology	96	86	96	374	176
Amortization of other acquired intangible assets	92	106	107	432	196
Acquisition costs (3)	-	-	62	-	835
Acquisition related contingent earn-out (3)	-	-	25	-	500
Acquisition related deferred revenue adjustment (3)	1	3	400	169	901
Non-cash portion of income tax expense	(587)	236	(390)	558	2,725
Non-GAAP net income	<u>\$ 5,594</u>	<u>5,392</u>	<u>\$ 5,736</u>	<u>\$ 21,638</u>	<u>\$ 25,604</u>
GAAP net income per diluted share	<u>\$ 0.09</u>	<u>0.06</u>	<u>\$ 0.09</u>	<u>\$ 0.28</u>	<u>\$ 0.39</u>
Non-GAAP net income per diluted share	<u>\$ 0.17</u>	<u>0.17</u>	<u>\$ 0.18</u>	<u>\$ 0.67</u>	<u>\$ 0.80</u>
Shares used in diluted shares calculation	33,293	32,578	31,858	32,431	32,164

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

	Three months ended			Twelve months ended	
	December 31, 2016	September 30, 2016 (1)	December 31, 2015	December 31, 2016	December 31, 2015
GAAP net income	\$ 2,925	1,984	\$ 2,797	\$ 9,103	\$ 12,407
Adjustments to reconcile GAAP net income to EBITDAR:					
Stock-based compensation expense	3,067	2,977	2,639	11,002	9,756
Previously impaired deferred costs (2)	-	-	-	-	(1,892)
Amortization of acquired technology	96	86	96	374	176
Amortization of other acquired intangible assets	92	106	107	432	196
Acquisition costs (3)	-	-	62	-	835
Acquisition related contingent earn-out (3)	-	-	25	-	500
Acquisition related deferred revenue adjustment (3)	1	3	400	169	901
Depreciation expense	1,000	960	727	3,584	2,646
Income tax provision	197	1,051	620	3,853	7,015
EBITDAR	<u>\$ 7,378</u>	<u>7,167</u>	<u>\$ 7,473</u>	<u>\$ 28,517</u>	<u>\$ 32,540</u>

(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) As announced on September 29, 2014, we were unable to close two Design-to-silicon-yield solutions contracts, which restricted our ability to book revenue relating to work on these projects and required us to impair previously deferred costs of \$1.9 million in the three months ended September 30, 2014. As reported on January 7, 2015, in the three months ended March 31, 2015, we executed those two contracts, which increased our Design-to-Silicon-Yield Solutions revenue in the quarter by approximately \$6.0 million. Reinstatement of previously impaired costs is not allowed under US GAAP. Accordingly, in order to match the revenue and the cost associated with these two contracts, management has included these costs in the current period as a non-GAAP reconciling item.

(3) As announced on July 20, 2015, the Company completed the acquisition of Synticity, 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.



## 2016 Fourth Quarter and Full Year Management Report

February 13, 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, 2015, 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

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## ■ 2016 Fourth Quarter and Full Year GAAP Results

- Preliminary Results – Overview
- 2016 Fourth Quarter and Full Year Preliminary Results – Revenue
- 2016 Fourth Quarter and Full Year Preliminary Results – Expenses
- 2016 Fourth Quarter and Full Year Preliminary Results – Balance Sheet

## ■ 2016 Fourth Quarter and Full Year Non-GAAP Results

- Preliminary Results – Overview
- 2016 Fourth Quarter and Full Year Preliminary Results – Revenue
- 2016 Fourth Quarter and Full Year Preliminary Results – Expenses
- 2016 Fourth Quarter and Full Year Preliminary Results – Balance Sheet

## ■ 2017 Outlook

## ■ Related Information

The following commentary is provided by management and should be referenced in conjunction with PDF Solutions' fourth quarter and fiscal year 2016 preliminary 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.



## 2016 – GAAP Income Statement – Quarterly Trend

in thousands, except share amounts

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



## 2016 – GAAP Income Statement – Annual Trend

in thousands, except share amounts

	2013	2014	2015	2016
<b>P&amp;L (GAAP)</b>				
Design to Silicon Yield Solutions	61,710	52,769	63,839	77,162
Gain Share - Performance Incentive	39,743	47,394	34,138	30,299
<b>Total Revenue</b>	<b>101,453</b>	<b>100,163</b>	<b>97,977</b>	<b>107,461</b>
Cost of Sales	39,470	39,714	39,023	44,448
<b>GROSS MARGIN</b>	<b>61,983</b>	<b>60,449</b>	<b>58,954</b>	<b>63,013</b>
<b>Gross Margin %</b>	<b>61%</b>	<b>60%</b>	<b>60%</b>	<b>59%</b>
<b>Solutions Margin %</b>	<b>36%</b>	<b>25%</b>	<b>39%</b>	<b>42%</b>
<b>OPERATING EXPENSES</b>				
Research & Development	13,314	14,064	19,096	27,559
<b>R&amp;D % of Revenue</b>	<b>13%</b>	<b>14%</b>	<b>19%</b>	<b>26%</b>
Selling, General, & Administrative	17,025	18,457	20,421	22,056
<b>SG&amp;A % of Revenue</b>	<b>17%</b>	<b>18%</b>	<b>21%</b>	<b>21%</b>
Amortization of other acquired intangible assets	74	31	196	432
Restructuring charges (credits)	197	57	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>30,610</b>	<b>32,609</b>	<b>39,713</b>	<b>50,047</b>
<b>OPERATING INCOME (LOSS)</b>	<b>31,373</b>	<b>27,840</b>	<b>19,241</b>	<b>12,966</b>
Other (Income) / Expense, Net	64	(119)	(181)	10
<b>PRE-TAX INCOME (LOSS)</b>	<b>31,309</b>	<b>27,959</b>	<b>19,422</b>	<b>12,956</b>
Income Tax Provision	10,380	9,497	7,015	3,853
<b>Net Income</b>	<b>20,929</b>	<b>18,462</b>	<b>12,407</b>	<b>9,103</b>
<b>GAAP EPS</b>	<b>0.67</b>	<b>0.58</b>	<b>0.39</b>	<b>0.28</b>
<b>Diluted Weighted Avg Shares</b> (in millions)	<b>31.4</b>	<b>31.9</b>	<b>32.2</b>	<b>32.4</b>



## 2016 CFO Commentary – GAAP Income Statement

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- Total GAAP revenues for the fourth fiscal quarter of 2016 were \$28.4 million resulting in GAAP net income of \$2.9 million and GAAP EPS of \$0.09 cents per fully diluted share.
- For the full year 2016, total GAAP revenues were \$107.5 million, resulting in GAAP net income of \$9.1 million and GAAP EPS of \$0.28 cents per fully diluted share.
- For the fourth fiscal quarter of 2016 , total GAAP operating income was \$2.7 million, resulting in GAAP operating margin of 10%.
- For the full year 2016, total GAAP operating income was \$13.0 million, resulting in GAAP operating margin of 12%.
- Fully diluted shares outstanding were 33.3 million for the fourth quarter of 2016 and 32.4 million for the full year.

## 2016 CFO Commentary – GAAP & Non-GAAP Tax Provision

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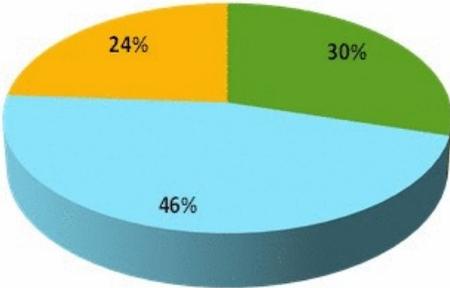
- The GAAP income tax provision for the quarter was \$0.2 million, which reflects an effective tax rate of 6% compared to 35% in the prior quarter.
- This rate decrease is primarily due to the company's early adoption of the new tax accounting rule ASU 2016-09 related stock based compensation charges.
- Cash tax liabilities for Non-GAAP presentation for the quarter were \$0.8 million. This represents an effective cash tax rate for the quarter of 25% of pre-tax GAAP income.
- For the year, the GAAP income tax provision rate was 30% compared to 36% in the prior year.
- The cash tax liabilities for Non-GAAP presentation for the full year were \$3.3 million, and the cash tax rate for the full year was 25% compared to 22% in 2015.



# 2016 – Quarterly GAAP Revenue by Geography

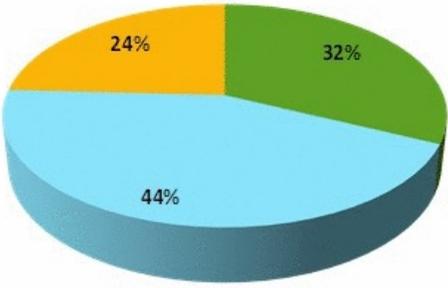
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Q416



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Q316

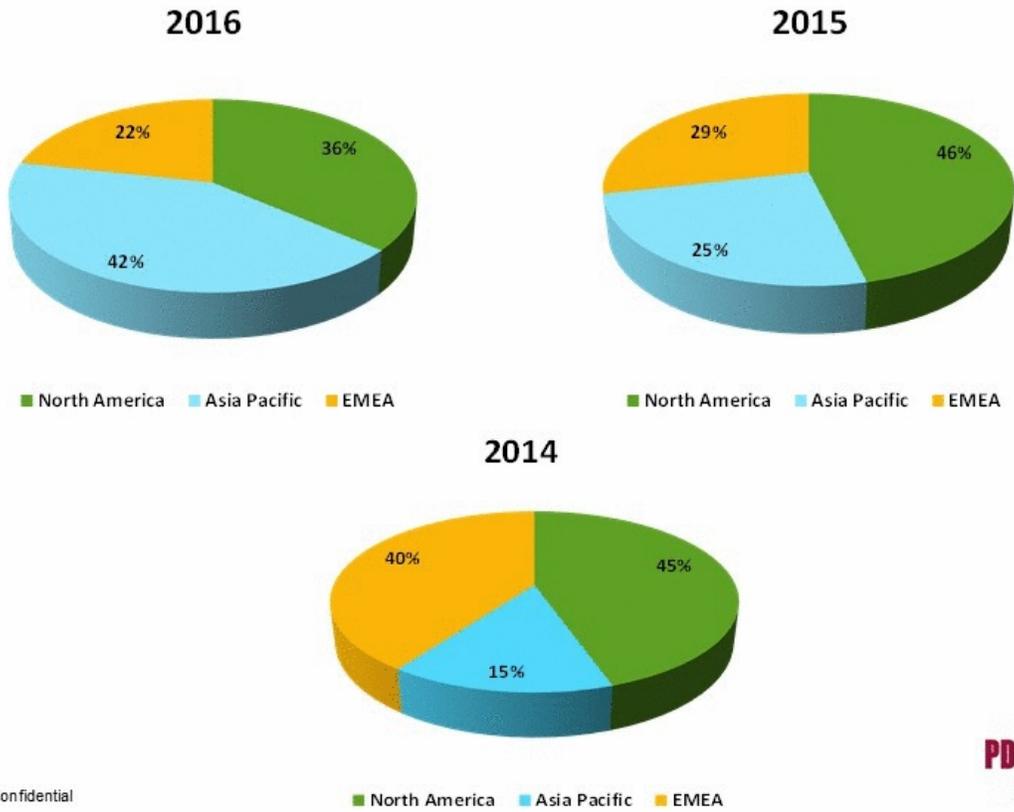


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## 2016 – Annual GAAP Revenue by Geography

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## 2016 CFO Commentary – GAAP Revenue Detail

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- Total GAAP revenues of \$28.4 million for the fourth quarter were approximately \$1.2 million higher than in Q3 2016.
- The top ten customers represented 85% of total revenues in the fourth quarter of 2016. Two of these customers contributed revenues 10% or greater.
- Solutions revenue in the fourth quarter consisted of 15 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 14.
- Total GAAP revenues of \$107.5 million for the year were approximately \$9.5 million higher than in 2015.
- Total annual GAAP revenues were comprised of design to silicon yield solutions or “solutions” revenue of \$77.2 million and gainshare performance incentive or “gainshare” revenues of \$30.3 million.



# 2016 – GAAP Gross Margin & Solutions Margin Percentage

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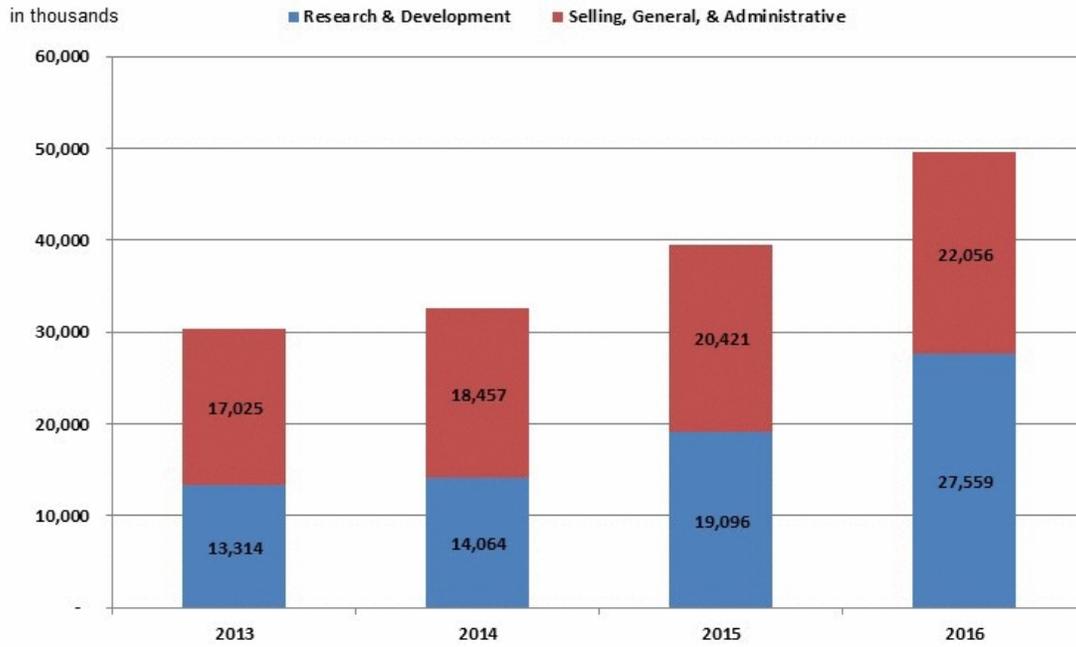
## 2016 CFO Commentary – GAAP Gross Margin

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- On a GAAP basis, Cost of Sales was \$12.1 million for the fourth quarter, which was \$0.7 million higher than the previous quarter.
- GAAP gross margin for the quarter was 57% as compared to 58% in the previous quarter.
- On a GAAP basis, Cost of Sales for the year was \$44.4 million, which was \$5.4 million higher than the previous year.
- GAAP gross margin for the year was 59% as compared to 60% in 2015.

## 2016 – GAAP Operating Expenses

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## 2016 CFO Commentary – GAAP Operating Expenses

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- Total GAAP Operating Expenses for the year, at \$50.0 million, were \$10.3 million higher than last year, and 47% of total revenues, up 6% from last year.
- GAAP R&D expenses for the year totaled \$27.6 million, \$8.5 million higher than the prior year.
- GAAP R&D expenses for the year as a percent of revenue was 26%, which was up 6% from last year.
- GAAP SG&A expenses for the year totaled \$22.1 million, \$1.6 million higher than in the prior year.
- GAAP SG&A expenses for the year as a percent of revenue was 21%, which was the same as the prior year.

## 2016 – GAAP Balance Sheet Trend

<i>ASSETS</i>	31-Dec-13	31-Dec-14	31-Dec-15	31-Dec-16
Cash and cash equivalents	\$ 89,371	\$ 115,464	\$ 126,158	\$ 116,787
Accounts receivable, net of allowance	34,860	37,725	33,438	48,157
Deferred tax assets - current portion	5,920	3,343	-	-
Prepaid expenses and other current assets	3,632	2,888	3,655	5,335
<b>Total current assets</b>	<b>133,783</b>	<b>159,420</b>	<b>163,251</b>	<b>170,279</b>
Property and equipment, net	7,064	8,832	11,325	19,341
Deferred tax assets - long-term portion	8,599	8,025	10,299	15,640
Goodwill	-	-	215	215
Intangible assets, net	31	-	5,028	4,223
Other non-current assets	1,687	1,161	1,651	12,631
<b>Total assets</b>	<b>\$151,164</b>	<b>\$177,438</b>	<b>\$191,769</b>	<b>\$222,329</b>
<i>LIABILITIES</i>				
Accounts payable	\$ 1,129	\$ 803	\$ 1,293	\$ 2,206
Accrued compensation and related benefits	7,707	6,112	4,812	5,959
Accrued and other current liabilities	1,593	1,733	2,382	2,080
Deferred revenues - current portion	2,096	3,740	4,702	8,189
Billings in excess of recognized revenue	343	-	1,267	88
<b>Total current liabilities</b>	<b>12,868</b>	<b>12,388</b>	<b>14,456</b>	<b>18,522</b>
Long-term income taxes payable	2,956	2,600	2,540	3,354
Other non-current liabilities	628	627	466	1,650
<b>Total liabilities</b>	<b>16,452</b>	<b>15,615</b>	<b>17,462</b>	<b>23,526</b>
<i>EQUITY</i>				
Common stock	5	5	5	5
Additional paid-in-capital	233,813	248,734	266,008	281,423
Treasury stock at cost	(28,905)	(34,048)	(50,383)	(54,882)
Accumulated deficit	(70,649)	(52,187)	(39,780)	(25,752)
Accumulated other comprehensive loss	448	(681)	(1,543)	(1,991)
<b>Total equity</b>	<b>134,712</b>	<b>161,823</b>	<b>174,307</b>	<b>198,803</b>
<b>Total liabilities and equity</b>	<b>\$151,164</b>	<b>\$177,438</b>	<b>\$191,769</b>	<b>\$222,329</b>

in thousands

## 2016 – GAAP Balance Sheet – Cash & Accounts Receivables

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- Total cash at the end of the quarter was \$116.8 million, a decrease of \$9.4 million when compared to cash on December 31, 2015.
- During the year the Company purchased approximately \$11.0 million of fixed assets, primarily related to our DFI initiative.
- Cash generated from operations during the year was approximately \$2.0 million.
- For the full year, the Company spent \$2.2 million on repurchasing 149 thousand shares and additionally spent \$2.3 million on 136 thousand shares to cover employee taxes on restricted stock grants released.
- Trade Accounts Receivable balance at the end of the year was \$27.3 million, an increase of approximately \$5.3 million over the previous year. The Unbilled Accounts Receivable balance was \$30.6 million at the end of the year, an increase of approximately \$19.0 million over the prior year.
- Of the \$30.6 million of Unbilled Accounts Receivable at the end of the year, we expect approximately \$21.0 million to be billed during 2017.
- Of the \$57.9 million of total Receivables, \$5.0 million, or 9%, was aged more than 30 days. Since the end of the year, \$5.3 million of Trade Receivables has been collected as of the date of this report.
- The year-over-year increases in Accounts Receivable and DSO is primarily driven by the geographic shift in total revenues to Asia, where extended payments are common due to governmental currency controls and regulations.



## Non-GAAP Presentation

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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, please refer the "GAAP to Non-GAAP and EBITDAR Reconciliation" provided in the Investor Relations section of our website at <http://ir.pdf.com/sec.cfm>.



## 2016 – Non-GAAP Income Statement – Quarterly Trend

in thousands, except share amounts

P&L (Non-GAAP)	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16
Design to Silicon Yield Solutions	18,151	14,159	17,747	14,683	18,693	20,625	18,555	19,459
Gain Share - Performance Incentive	8,665	9,051	6,632	9,790	6,503	6,114	8,707	8,975
<b>Total Revenue</b>	<b>26,817</b>	<b>23,210</b>	<b>24,378</b>	<b>24,473</b>	<b>25,196</b>	<b>26,739</b>	<b>27,262</b>	<b>28,434</b>
Cost of Sales	9,809	8,974	9,132	8,910	9,025	9,603	10,175	10,845
<b>GROSS MARGIN</b>	<b>17,008</b>	<b>14,237</b>	<b>15,246</b>	<b>15,562</b>	<b>16,171</b>	<b>17,136</b>	<b>17,088</b>	<b>17,589</b>
<b>Gross Margin %</b>	<b>63%</b>	<b>61%</b>	<b>63%</b>	<b>64%</b>	<b>64%</b>	<b>64%</b>	<b>63%</b>	<b>62%</b>
<b>OPERATING EXPENSES</b>								
Research & Development	3,597	3,927	4,456	4,736	5,605	6,408	6,123	6,335
R&D % of Revenue	13%	17%	18%	19%	22%	24%	22%	22%
Selling, General, & Administrative	3,634	3,803	4,092	4,095	4,249	4,410	4,656	5,253
SG&A % of Revenue	14%	16%	17%	17%	17%	16%	17%	18%
<b>TOTAL OPERATING EXPENSES</b>	<b>7,232</b>	<b>7,729</b>	<b>8,548</b>	<b>8,831</b>	<b>9,854</b>	<b>10,818</b>	<b>10,779</b>	<b>11,589</b>
<b>OPERATING INCOME (LOSS)</b>	<b>9,776</b>	<b>6,507</b>	<b>6,698</b>	<b>6,732</b>	<b>6,317</b>	<b>6,318</b>	<b>6,308</b>	<b>6,000</b>
Other (Income) / Expense, Net	(51)	(52)	(64)	(15)	237	51	100	(378)
<b>PRE-TAX INCOME (LOSS)</b>	<b>9,827</b>	<b>6,559</b>	<b>6,761</b>	<b>6,746</b>	<b>6,080</b>	<b>6,266</b>	<b>6,208</b>	<b>6,378</b>
Cash Tax Expense	1,590	691	999	1,010	726	970	815	785
<b>Pro Forma Net Income</b>	<b>8,237</b>	<b>5,868</b>	<b>5,762</b>	<b>5,736</b>	<b>5,354</b>	<b>5,296</b>	<b>5,392</b>	<b>5,594</b>
<b>Non-GAAP EPS</b>	<b>0.26</b>	<b>0.18</b>	<b>0.18</b>	<b>0.18</b>	<b>0.17</b>	<b>0.17</b>	<b>0.17</b>	<b>0.17</b>
<b>Diluted Weighted Avg Shares (in millions)</b>	<b>32.3</b>	<b>32.4</b>	<b>32.1</b>	<b>31.9</b>	<b>31.8</b>	<b>32.1</b>	<b>32.6</b>	<b>33.3</b>



## 2016 – Non-GAAP Income Statement – Annual Trend

in thousands, except share amounts

<b>P&amp;L (Non-GAAP)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Design to Silicon Yield Solutions	61,710	52,769	64,741	77,331
Gain Share - Performance Incentive	39,743	47,394	34,138	30,299
<b>Total Revenue</b>	<b>101,453</b>	<b>100,163</b>	<b>98,878</b>	<b>107,630</b>
<b>Cost of Sales</b>	<b>36,735</b>	<b>34,403</b>	<b>36,825</b>	<b>39,647</b>
<b>GROSS MARGIN</b>	<b>64,718</b>	<b>65,760</b>	<b>62,053</b>	<b>67,983</b>
<b>Gross Margin %</b>	<b>64%</b>	<b>66%</b>	<b>63%</b>	<b>63%</b>
<b>Solutions Margin %</b>	<b>40%</b>	<b>35%</b>	<b>43%</b>	<b>49%</b>
<b>OPERATING EXPENSES</b>				
<b>Research &amp; Development</b>	11,730	12,356	16,716	24,472
<b>R&amp;D% of Revenue</b>	12%	12%	17%	23%
<b>Selling, General, &amp; Administrative</b>	14,650	15,037	15,624	18,568
<b>SG&amp;A % of Revenue</b>	14%	15%	16%	17%
<b>TOTAL OPERATING EXPENSES</b>	<b>26,381</b>	<b>27,393</b>	<b>32,340</b>	<b>43,040</b>
<b>OPERATING INCOME (LOSS)</b>	<b>38,337</b>	<b>38,367</b>	<b>29,713</b>	<b>24,943</b>
Other (Income) / Expense, Net	64	(119)	(181)	10
<b>PRE-TAX INCOME (LOSS)</b>	<b>38,273</b>	<b>38,486</b>	<b>29,894</b>	<b>24,932</b>
Cash Tax Expense	4,451	4,661	4,291	3,295
<b>Pro Forma Net Income</b>	<b>33,822</b>	<b>33,824</b>	<b>25,603</b>	<b>21,637</b>
<b>Non-GAAP EPS</b>	<b>1.08</b>	<b>1.06</b>	<b>0.80</b>	<b>0.67</b>
<b>Diluted Weighted Avg Shares (in millions)</b>	<b>31.4</b>	<b>31.9</b>	<b>32.2</b>	<b>32.4</b>

## 2016 CFO Commentary – Non-GAAP Income Statement

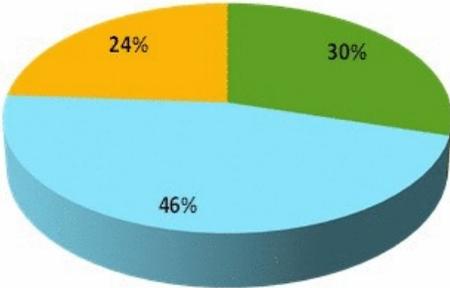
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- Total non-GAAP revenues for the fourth fiscal quarter of 2016 were \$28.4 million resulting in non-GAAP net income of \$5.6 million and non-GAAP EPS of \$0.17 cents per fully diluted share.
- For the full year 2016, total non-GAAP revenues were \$107.6 million, resulting in non-GAAP net income of \$21.6 million and non-GAAP EPS of \$0.67 cents per fully diluted share.
- For the fourth fiscal quarter of 2016 , total non-GAAP operating income was \$6.0 million, resulting in non-GAAP operating margin of 21%.
- For the full year 2016, total non-GAAP operating income was \$24.9 million, resulting in non-GAAP operating margin of 23%.
- Fully diluted shares outstanding were 32.4 million for the full year and 33.3 million for the fourth quarter of 2016.

# 2016 – Quarterly Non-GAAP Revenue by Geography

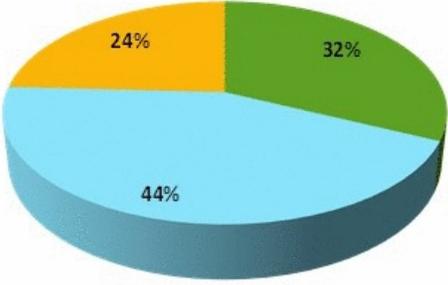
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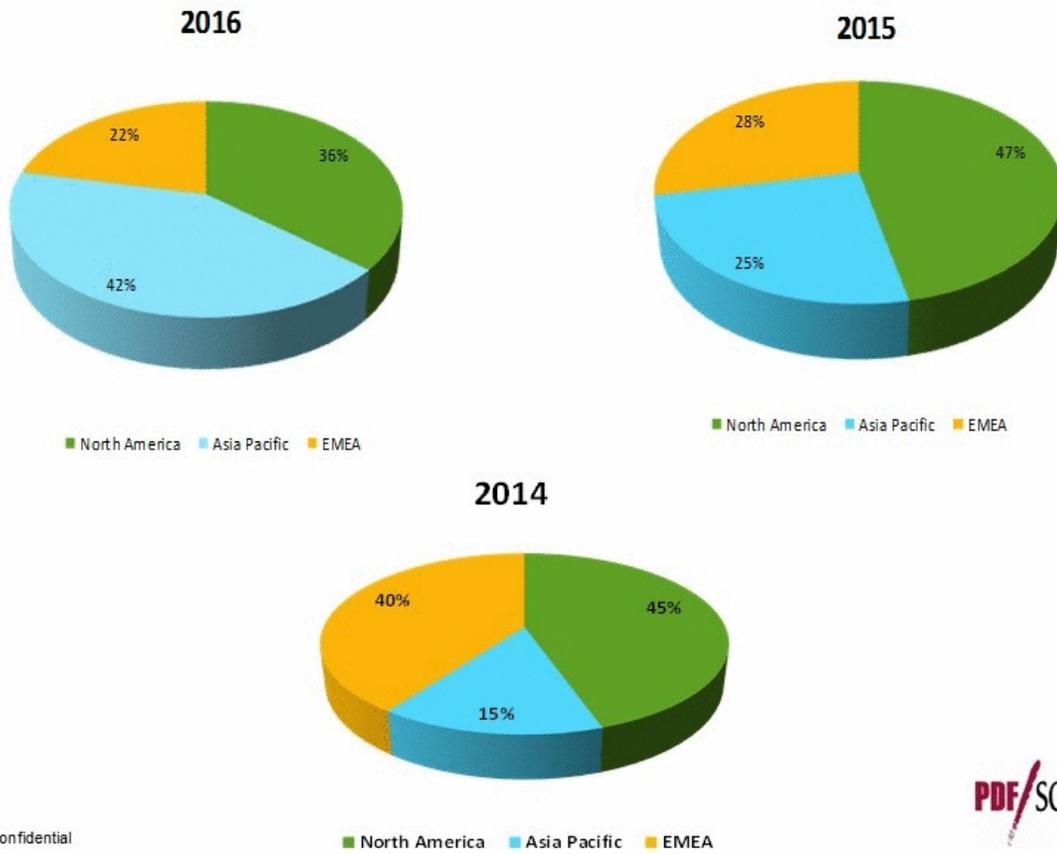


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## 2016 – Annual Non-GAAP Revenue by Geography

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## 2016 CFO Commentary – Non-GAAP Revenue Detail

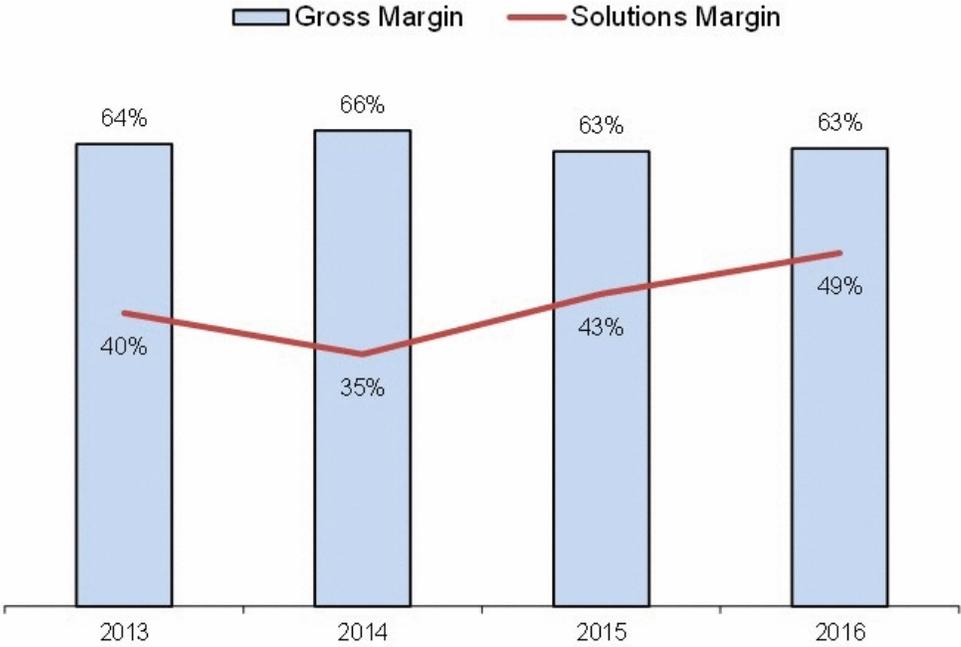
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- Total Non-GAAP revenues of \$28.4 million for the fourth quarter were approximately \$1.2 million higher than in Q3 2016.
- The top ten customers represented 85% of total revenues in the fourth quarter of 2016. Two of these customers contributed revenues 10% or greater.
- Solutions revenue in the fourth quarter consisted of 15 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 14.
- Total Non-GAAP revenues of \$107.6 million for the year were approximately \$8.8 million higher than in 2015.
- Total annual Non-GAAP revenues were comprised of design to silicon yield solutions or “solutions” revenue of \$77.3 million and gainshare performance incentive or “gainshare” revenues of \$30.3 million.



# 2016 – Non-GAAP Gross Margin & Solutions Margin Percentage

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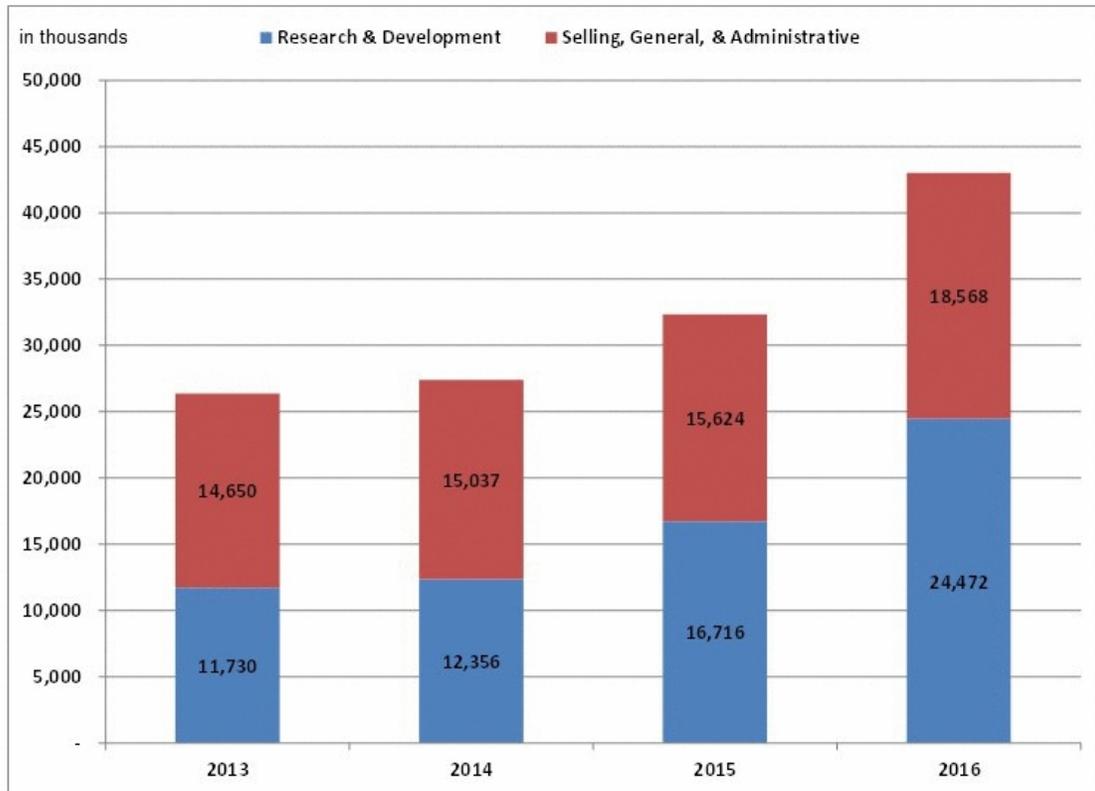
## 2016 CFO Commentary – Non-GAAP Gross Margin

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- On a Non-GAAP basis, Cost of Sales was \$10.8 million for the quarter, which was \$0.7 million higher than the previous quarter.
- Non-GAAP gross margin for the quarter was 62% as compared to 63% in the previous quarter.
- On a Non-GAAP basis, Cost of Sales for the year was \$39.6 million, which was \$2.8 million higher than the previous year.
- Non-GAAP gross margin for the year was 63% which is the same as last year.

## 2016 – Non-GAAP Operating Expenses

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## 2016 CFO Commentary – Non-GAAP Operating Expenses

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- Total Non-GAAP Operating Expenses for the year, at \$43.0 million, were \$10.7 million higher than last year, and 40% of total revenues, up 7% from last year.
- Non-GAAP R&D expenses for the year totaled \$24.5 million, \$7.8 million higher than the prior year.
- Non-GAAP R&D expenses for the year as a percent of revenue was 23% which was up 6% from last year.
- Non-GAAP SG&A expenses for the year totaled \$18.6 million, \$3.0 million higher than in the prior year.
- Non-GAAP SG&A expenses for the year as a percent of revenue was 17% which was up 1% from last year.

## 2017 – GAAP & Non-GAAP Outlook – Revenue

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- Overall, we expect total revenue for the company to grow for the full year at a rate in the low to mid-teens range. However, we also expect Q1 revenue to be below Q4 2016 levels driven by seasonality in both Gainshare revenue and Solutions revenue.
- 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 increase by greater than 10% in 2017, driven by the continued ramp of 14nm volumes.
- At the 28nm node, we anticipate volumes with new customers, particularly in Asia, to begin to materially contribute to Gainshare revenue in the second half of 2017. During the first half of 2017 some existing contracts with older customers will finish their Gainshare period for 28nm or some older customers will transition production to newer nodes.
- Over all, however, our expectation is for continued recovery in the 28nm node. We do not expect a full recovery in 28nm volumes until 2018.



## 2017 – GAAP & Non-GAAP Outlook – Spending & Tax

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- Overall, we expect total spending for the Company to grow throughout 2017 driven by continued investment in our DFI initiative, expansion of our Exensio software business, and accelerating growth in China.
- With the exception of our continuing investment in DFI, spending growth elsewhere in the Company will be commensurate with revenue growth.
- Investment levels in R&D for DFI solution will continue to increase throughout 2017 but at a moderating rate, as we continue development of the 250 series eProbe™ system.
- We expect our full year GAAP tax provision rate to be between 37% and 39%.
- Cash taxes for non-GAAP presentation for the year should be in the range of 27% to 29%.