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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): November 10, 2022

PDF SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

000-31311

(Commission File Number)

Delaware

(State or Other Jurisdiction of Incorporation)

25-1701361

(I.R.S. Employer Identification No.)

2858 De La Cruz Boulevard

Santa Clara, CA 95050

(Address of principal executive offices, with zip code)

(408) 280-7900

(Registrant's telephone number, including area code)

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

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

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

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

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

Emerging growth company

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

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**Item 2.02. Results of Operations and Financial Condition.**

On November 10, 2022, PDF Solutions (the “Company”) issued a press release regarding its financial results and certain other information related to the third quarter ended September 30, 2022. The Company also posted on the Investors section of its website ([www.pdf.com](http://www.pdf.com)) a management report with regard to the third quarter ended September 30, 2022. Copies of the press release and management report are attached to this report as Exhibits 99.1 and 99.2, respectively. Information on the website is not, and will not be deemed, a part of this report or incorporated into any other filings the Company makes with the Securities and Exchange Commission.

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

**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.**

On November 10, 2022, Prof. Marco Iansiti notified the Board of Directors of the Company of his decision to resign, effective December 31, 2022, as a member of the board of directors of the Company. Mr. Iansiti’s resignation was not the result of any disagreement with the Company on any matter relating to the Company’s operations, policies, or practices.

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**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
99.1	<a href="#">Press Release dated November 10, 2022, regarding financial results and certain other information related to the third quarter ended September 30, 2022.</a>
99.2	<a href="#">Management Report by PDF Solutions, Inc. as of November 10, 2022.</a>
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

**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/ Adnan Raza

*Adnan Raza*

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

Dated: November 10, 2022

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## News Release

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### PDF Solutions® Reports Third Quarter 2022 Results

Santa Clara, CA, November 10, 2022, – PDF Solutions, Inc. (Nasdaq: PDFS), a leading provider of unified data and cloud analytics for the semiconductor ecosystem, today announced financial results for its third quarter ended September 30, 2022.

#### Highlights of Third Quarter 2022 Financial Results

- **Record total revenues of \$39.9 million, up 35% over last year's comparable quarter**
- **GAAP gross margin of 69% and Non-GAAP gross margin of 72%**
- **GAAP diluted earnings per share (EPS) of \$0.04 and non-GAAP diluted EPS of \$0.20**

Total revenues for the third quarter of 2022 were \$39.9 million, compared to \$34.7 million for the second quarter of 2022 and \$29.6 million for the third quarter of 2021. Analytics revenue for the third quarter of 2022 was \$32.9 million, compared to \$31.1 million for the second quarter of 2022 and \$27.2 million for the third quarter of 2021. Integrated Yield Ramp revenue for the third quarter of 2022 was \$7.0 million, compared to \$3.6 million for the second quarter of 2022 and \$2.4 million for the third quarter of 2021.

GAAP gross margin for the third quarter of 2022 was 69%, compared to 65% for the second quarter of 2022 and 63% for the third quarter of 2021.

Non-GAAP gross margin for the third quarter of 2022 was 72%, compared to 69% for the second quarter of 2022 and 66% for the third quarter of 2021.

On a GAAP basis, net income for the third quarter of 2022 was \$1.4 million, or \$0.04 per basic and diluted share, compared to a net loss of \$1.1 million, or (\$0.03) per basic and diluted share, for the second quarter of 2022, and net loss of \$2.4 million, or (\$0.06) per basic and diluted share, for the third quarter of 2021.

Non-GAAP net income for the third quarter of 2022 was \$7.6 million, or \$0.20 per diluted share, compared to a non-GAAP net income of \$4.3 million, or \$0.11 per diluted share, for the second quarter of 2022, and non-GAAP net income of \$2.4 million, or \$0.06 per diluted share, for the third quarter of 2021.

Cash, cash equivalents and short-term investments at September 30, 2022, were \$116.1 million, compared to \$140.2 million at December 31, 2021, a decrease of \$24.1 million, primarily due to the \$22.5 million of share repurchases during the nine months ended September 30, 2022. Cash provided by operating activities was \$1.4 million for the third quarter of 2022.

#### Financial Outlook and Recent Accomplishments

There are challenges in the semiconductor environment, in part due to geopolitical factors, and no business is immune to macro and regulatory headwinds. Despite these challenges, the Company expects full year 2022 total revenue growth to approach 30% on a year over year basis. Backlog at the end of the year is expected to be strong, in part due to strong bookings in the fourth quarter that have already exceeded \$100.0 million, which will be recognized as revenue over multiple years.

"We are proud of our performance in 2022 to date and believe we are positioned well to deliver long-term value to our stockholders. We are continuing to evaluate our 2023 targets and will provide an update at the beginning of next year, consistent with past practice," said John Kibarian, CEO and President.

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**Conference Call**

As previously announced, PDF Solutions will discuss these results on a live conference call beginning at 2:00 p.m. Pacific Time / 5:00 p.m. Eastern Time today. To participate on the call, please dial (866) 580-3963 within the United States and Canada, or +1 (786) 697-3501 outside of the United States and Canada. The participant passcode for the call is 9972043. The teleconference will also be webcast simultaneously on the company's website at <http://ir.pdf.com/webcasts>. A replay of the webcast will be available at the same website address beginning approximately two hours after completion of the live call. A copy of this press release, including the disclosure and reconciliation of certain non-GAAP financial measures to the comparable GAAP measures, which non-GAAP measures may be used periodically by PDF Solutions' management when discussing financial results with investors and analysts, will also be available on PDF Solutions' website at <http://www.pdf.com/press-releases> following the date of this release.

**Third Quarter 2022 Financial Commentary Available Online**

A Management Report reviewing the Company's third quarter 2022 financial results will be furnished to the Securities and Exchange Commission 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.

### 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 gross profit excludes stock-based compensation expense and the amortization of acquired technology. Non-GAAP net income excludes the effects of certain non-recurring items, including expenses related to an arbitration proceeding for a disputed contract with a customer, stock-based compensation expense, amortization of acquired technology and other acquired intangible assets, and their related income tax effects, as applicable, as well as adjustments for the valuation allowance for deferred tax assets. 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 expenses related to an arbitration proceeding for a disputed contract with a customer) 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 press release and the planned conference call include forward-looking statements regarding the Company's future expected business performance and financial results, including expectations about total revenue growth for full year 2022 and expected revenue from new bookings, that are subject to future events and circumstances. Actual results could differ materially from those expressed in these forward-looking statements. Risks and uncertainties that could cause results to differ materially include risks associated with: continued adoption of the Company's solutions by new and existing customers; project milestones or delays and performance criteria achieved; cost and schedule of new product development; the impact of rising inflation; the provision of technology and services prior to the execution of a final contract; the continuing impact of the coronavirus (COVID-19) on the semiconductor industry and on the Company's operations or supply and demand for the Company's products; the time required of the Company's executive management for, and the expenses related to, as well as the success of the Company's strategic growth opportunities and partnerships, including its partnership with Advantest Corporation; our ability to successfully integrate the acquired businesses and technologies; whether we can successfully convert our backlog into revenue; customers' production volumes under contracts that provide Gainshare royalties; the potential for export controls that could impact our sales in China; 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, 2021, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K and amendments to such reports. The forward-looking statements made in the conference call are made as of the date hereof, and PDF Solutions does not assume any obligation to update such statements nor the reasons why actual results could differ materially from those projected in such statements.

### About PDF Solutions

PDF Solutions (NASDAQ: PDFS) provides comprehensive data solutions designed to empower organizations across the semiconductor ecosystem to improve the yield and quality of their products and operational efficiency for increased profitability. The Company's products and services are used by Fortune 500 companies across the semiconductor ecosystem to achieve smart manufacturing goals by connecting and controlling equipment, collecting data generated during manufacturing and test operations, and performing advanced analytics and machine learning to enable profitable, high-volume manufacturing.

Founded in 1991, PDF Solutions is headquartered in Santa Clara, California, with operations across North America, Europe, and Asia. The Company (directly or through one or more subsidiaries) is an active member of SEMI, INEMI, TPCA, IPC, the OPC Foundation, and DMDII. For the latest news and information about PDF Solutions or to find office locations, visit <https://www.pdf.com>.

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

	<u>September 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 93,728	\$ 27,684
Short-term investments	22,357	112,542
Accounts receivable, net	54,981	40,087
Prepaid expenses and other current assets	9,463	8,194
Total current assets	<u>180,529</u>	<u>188,507</u>
Property and equipment, net	38,740	35,295
Operating lease right-of-use assets, net	6,022	5,408
Goodwill	14,123	14,123
Intangible assets, net	18,934	21,239
Deferred tax assets, net	16	75
Other non-current assets	7,611	9,121
Total assets	<u>\$ 265,975</u>	<u>\$ 273,768</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,186	\$ 5,554
Accrued compensation and related benefits	12,652	9,495
Accrued and other current liabilities	6,472	3,328
Operating lease liabilities – current portion	1,448	1,758
Deferred revenues – current portion	26,461	23,691
Billings in excess of recognized revenues	183	—
Total current liabilities	<u>52,402</u>	<u>43,826</u>
Long-term income taxes payable	2,348	2,656
Non-current operating lease liabilities	6,074	5,258
Non-current portion of deferred revenues	1,948	2,443
Total liabilities	<u>62,772</u>	<u>54,183</u>
Stockholders' equity:		
Common stock and additional paid-in-capital	441,711	423,075
Treasury stock at cost	(132,966)	(104,705)
Accumulated deficit	(101,633)	(97,721)
Accumulated other comprehensive loss	(3,909)	(1,064)
Total stockholders' equity	<u>203,203</u>	<u>219,585</u>
Total liabilities and stockholders' equity	<u>\$ 265,975</u>	<u>\$ 273,768</u>



PDF SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)

	Three months ended			Nine months ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
<b>Revenues:</b>					
Analytics	\$ 32,879	\$ 31,117	\$ 27,194	\$ 94,422	\$ 66,165
Integrated yield ramp	6,981	3,551	2,361	13,604	15,009
Total revenues	<u>39,860</u>	<u>34,668</u>	<u>29,555</u>	<u>108,026</u>	<u>81,174</u>
<b>Costs and Expenses:</b>					
Costs of revenues	12,545	12,042	11,070	36,116	32,518
Research and development	14,303	13,374	10,657	41,766	32,562
Selling, general and administrative	12,005	9,770	9,609	32,614	28,482
Amortization of acquired intangible assets	318	314	314	946	942
Interest and other expense (income), net	(1,511)	(991)	(194)	(2,812)	(391)
Income (loss) before income taxes	2,200	159	(1,901)	(604)	(12,939)
Income tax expense	815	1,306	506	3,308	1,549
Net income (loss)	<u>\$ 1,385</u>	<u>\$ (1,147)</u>	<u>\$ (2,407)</u>	<u>\$ (3,912)</u>	<u>\$ (14,488)</u>
<b>Net income (loss) per share:</b>					
Basic	<u>\$ 0.04</u>	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ (0.10)</u>	<u>\$ (0.39)</u>
Diluted	<u>\$ 0.04</u>	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ (0.10)</u>	<u>\$ (0.39)</u>
<b>Weighted average common shares used to calculate net income (loss) per share:</b>					
Basic	<u>37,226</u>	<u>37,028</u>	<u>37,221</u>	<u>37,285</u>	<u>37,067</u>
Diluted	<u>38,054</u>	<u>37,028</u>	<u>37,221</u>	<u>37,285</u>	<u>37,067</u>

PDF SOLUTIONS, INC.

RECONCILIATION OF GAAP GROSS MARGIN TO NON-GAAP GROSS MARGIN (UNAUDITED)

(In thousands)

	Three months ended			Nine months ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
<b>GAAP</b>					
Total revenues	\$ 39,860	\$ 34,668	\$ 29,555	\$ 108,026	\$ 81,174
Costs of revenues	12,545	12,042	11,070	36,116	32,518
GAAP gross profit	\$ 27,315	\$ 22,626	\$ 18,485	\$ 71,910	\$ 48,656
GAAP gross margin	69 %	65 %	63 %	67 %	60 %
<b>Non-GAAP</b>					
GAAP gross profit	\$ 27,315	\$ 22,626	\$ 18,485	\$ 71,910	\$ 48,656
Adjustments to reconcile GAAP to non-GAAP gross margin:					
Stock-based compensation expense	854	655	670	2,237	1,860
Amortization of acquired technology	553	553	454	1,660	1,525
Non-GAAP gross profit	\$ 28,722	\$ 23,834	\$ 19,609	\$ 75,807	\$ 52,041
Non-GAAP gross margin	72 %	69 %	66 %	70 %	64 %

## PDF SOLUTIONS, INC.

## RECONCILIATION OF GAAP NET INCOME (LOSS) TO NON-GAAP NET INCOME (UNAUDITED)

(In thousands, except per share amounts)

	Three months ended			Nine months ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
GAAP net income (loss)	\$ 1,385	\$ (1,147)	\$ (2,407)	\$ (3,912)	\$ (14,488)
Adjustments to reconcile GAAP net income (loss) to non-GAAP net income:					
Stock-based compensation expense	5,136	3,872	3,363	14,561	9,474
Amortization of acquired technology	553	553	454	1,660	1,525
Amortization of other acquired intangible assets	318	314	314	945	942
Expenses of arbitration (1)	556	36	341	1,043	1,194
Tax impact of valuation allowance for deferred tax assets and reconciling items (2)	(373)	664	334	1,228	1,552
Non-GAAP net income	\$ 7,575	\$ 4,292	\$ 2,399	\$ 15,525	\$ 199
GAAP net income (loss) per diluted share	\$ 0.04	\$ (0.03)	\$ (0.06)	\$ (0.10)	\$ (0.39)
Non-GAAP net income per diluted share	\$ 0.20	\$ 0.11	\$ 0.06	\$ 0.41	\$ 0.01
Weighted average common shares used in GAAP net income (loss) per diluted share calculation	38,054	37,028	37,221	37,285	37,067
Weighted average common shares used in Non-GAAP net income per diluted share calculation	38,054	37,615	37,916	38,082	37,723

(1) Represents expenses related to an arbitration proceeding over a disputed customer contract, which expenses are expected to continue until the arbitration is resolved.

(2) The difference between the GAAP and non-GAAP income tax provisions is primarily due to the valuation allowance on a GAAP basis and non-GAAP adjustments. For example, on a GAAP basis, the Company does not receive a deferred tax benefit for foreign tax credits or R&D credits after valuation allowance. The Company's non-GAAP tax rate and resulting non-GAAP tax expense is not calculated with a full U.S. federal or state valuation allowance due to the Company's cumulative Non-GAAP income and management's conclusion that it is more likely than not to utilize its net deferred tax assets (DTAs). Each reporting period, management evaluates the need for a valuation allowance and may place a valuation allowance against its U.S. net DTA on a non-GAAP basis if it concludes it is more likely than not that it will not be able to utilize some or all of its US DTAs on a non-GAAP basis.



**Q3 2022**  
**Management Report**  
**November 10, 2022**

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### ■ Q3 2022 Non-GAAP Results

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- Reconciliation of GAAP to Non-GAAP Spending by Function

### ■ Related Information

The following commentary is provided by management and should be referenced in conjunction with PDF Solutions' third quarter of 2022 financial results press release available on its Investor Relations website at <http://www.pdf.com/financial-news>. These remarks represent management's current views of the Company's financial and operational performance and are provided to give investors and analysts further insight into its performance in advance of the earnings call webcast. The Company disclaims any duty to update this information for future events.

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# PDF Solutions Reports Third Quarter 2022 Results

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## Q3 2022 Key Metrics

Revenue: \$39.9M

GAAP Gross Margin: 69%

Non-GAAP Gross Margin: 72%

GAAP Diluted EPS: \$0.04

Non-GAAP Diluted EPS: \$0.20

Operating Cash Flow: \$1.4M

Cash Used for Capital Expenditures:  
\$2.3M

## FINANCIAL RESULTS SUMMARY

- Q3 2022 Total revenues of \$39.9M, up 15% over Q2 2022, and up 35% over Q3 2021.
- Q3 2022 Analytics revenue of \$32.9M, up 6% over Q2 2022, and up 21% over Q3 2021.
- Q3 2022 Integrated yield ramp revenue of \$7.0M, up 97% over Q2 2022 and up 196% over Q3 2021.

## Key Financial & Operating Metrics – Quarterly

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

	Q3'22	Q2'22	Q1'22	Q4'21	Q3'21
Revenues	\$ 39,860	\$ 34,668	\$ 33,498	\$ 29,886	\$ 29,555
GAAP Gross Margin	69%	65%	66%	61%	63%
Non-GAAP Gross Margin	72%	69%	69%	65%	66%
Outstanding Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Cash Flow	\$ 1,403	\$ 3,624	\$ 2,996	\$ 416	\$ 4,022
Cash Used for Capital Expenditures (CAPEX)	\$ 2,118	\$ 2,822	\$ 1,765	\$ 1,340	\$ 1,592
\$ Shares Repurchased	\$ -	\$ 16,693	\$ 5,778	\$ -	\$ -
Weighted Average Common Shares Outstanding	37.2	37.0	37.6	37.3	37.2
Effective Tax Rate Benefit (Expense)	(37)%	(821)%	(40)%	(30)%	(27)%

## Key Financial & Operating Metrics – Year to Date

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

	Nine Months Ended September 30,		
	2022	2021	2020
Revenues	\$ 108,026	\$ 81,174	\$ 65,679
GAAP Gross Margin	67%	60%	59%
Non-GAAP Gross Margin	70%	64%	64%
Outstanding Debt	\$ -	\$ -	\$ -
Operating Cash Flow	\$ 8,023	\$ 3,827	\$ 10,875
Cash Used for CAPEX	\$ 6,705	\$ 2,713	\$ 5,365
\$ Shares Repurchased	\$ 22,471	\$ 4,523	\$ -
Weighted Average Common Shares Outstanding	37.3	37.1	33.7
Effective Tax Rate Benefit (Expense)	(548)%	(12)%	37%



## Revenue by Geographic Area – Quarterly

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*(Dollars in thousands)*

	Q3'22	Q2'22	Q1'22	Q4'21	Q3'21
<b>United States</b>	\$ 18,292	\$ 17,086	\$ 17,491	\$ 15,739	\$ 13,983
% of Total	46%	49%	52%	53%	47%
<b>China</b>	\$ 9,555	\$ 4,539	\$ 4,120	\$ 4,202	\$ 4,038
% of Total	24%	13%	12%	14%	14%
<b>Japan</b>	\$ 2,818	\$ 2,794	\$ 2,607	\$ 2,554	\$ 2,515
% of Total	7%	8%	8%	8%	9%
<b>Rest of the world</b>	\$ 9,195	\$ 10,249	\$ 9,280	\$ 7,391	\$ 9,019
% of Total	23%	30%	28%	25%	30%
<b>Total revenues</b>	<b>\$ 39,860</b>	<b>\$ 34,668</b>	<b>\$ 33,498</b>	<b>\$ 29,886</b>	<b>\$ 29,555</b>

## Revenue by Geographic Area – Year to Date

(Dollars in thousands)

	Nine Months Ended September 30,		
	2022	2021	2020
<b>United States</b>	\$ 52,869	\$ 34,634	\$ 26,242
% of Total	49%	43%	40%
<b>China</b>	\$ 18,214	\$ 10,065	\$ 10,200
% of Total	17%	12%	16%
<b>Japan</b>	\$ 8,219	\$ 8,543	\$ 3,414
% of Total	8%	10%	5%
<b>Rest of the world</b>	\$ 28,724	\$ 27,932	\$ 25,822
% of Total	27%	35%	39%
<b>Total revenues</b>	<b>\$ 108,026</b>	<b>\$ 81,174</b>	<b>\$ 65,678</b>

## GAAP / 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 gross profit excludes stock-based compensation expense and the amortization of acquired technology. Non-GAAP net income excludes the effects of certain non-recurring items, including expenses related to an arbitration proceeding for a disputed customer contract, write-down in value of property and equipment, stock-based compensation expenses, amortization of acquired technology and other acquired intangible assets, and their related income tax effects, as applicable, tax impact of the CARES Act, as well as adjustments for the valuation allowance for deferred tax assets. 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 expenses related to an arbitration proceeding for a disputed customer contract) 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 Net Income (Loss) to Non-GAAP Net Income

Quarterly	<i>(in thousands, except for shares and per share amounts)</i>				
	Q3'22	Q2'22	Q1'22	Q4'21	Q3'21
GAAP net income (loss)	\$ 1,385	(\$ 1,147)	(\$ 4,150)	(\$ 7,000)	(\$ 2,407)
Adjustments to reconcile GAAP net income (loss) to non-GAAP net income:					
Stock-based compensation expense	5,136	3,872	5,553	3,457	3,363
Amortization of acquired technology	553	553	553	554	454
Amortization of other acquired intangible assets	318	314	314	313	314
Expenses of arbitration (1)	556	36	451	757	341
Write-down in value of property and equipment (2)	—	—	—	3,183	—
Tax impact of valuation allowance for deferred tax assets and reconciling items (3)	(373)	664	937	1,539	334
Non-GAAP net income	\$ 7,575	\$ 4,292	\$ 3,658	\$ 2,803	\$ 2,399
GAAP net income (loss) per diluted share	\$ 0.04	(\$ 0.03)	(\$ 0.11)	(\$ 0.19)	(\$ 0.06)
Non-GAAP net income per diluted share	\$ 0.20	\$ 0.11	\$ 0.09	\$ 0.07	\$ 0.06
Weighted average common shares used in GAAP net income (loss) per diluted share calculation	38,054	37,028	37,606	37,348	37,221
Weighted average common shares used in Non-GAAP net income per diluted share calculation	38,054	37,615	38,580	38,430	37,916

- (1) Represents expenses related to an arbitration proceeding over a disputed customer contract, which expenses are expected to continue until the arbitration is resolved.
- (2) Pertains to write-down in value of our first-generation of e-beam tools for Design-for-Inspection systems wherein carrying values may not be fully recoverable due to lack of market demand and future needs of our customers for these tools.
- (3) The difference between the GAAP and non-GAAP income tax provisions is primarily due to the valuation allowance on a GAAP basis and non-GAAP adjustments. For example, on a GAAP basis, the Company does not receive a deferred tax benefit for foreign tax credits or R&D credits after valuation allowance. The Company's non-GAAP tax rate and resulting non-GAAP tax expense is not calculated with a full U.S. federal or state valuation allowance due to the Company's cumulative Non-GAAP income and management's conclusion that it is more likely than not to utilize its net deferred tax assets (DTAs). Each reporting period, management evaluates the need for a valuation allowance and may place a valuation allowance against its U.S. net DTA on a non-GAAP basis if it concludes it is more likely than not that it will not be able to utilize some or all of its US DTAs on a non-GAAP basis.

# Reconciliation of GAAP Net Loss to Non-GAAP Net Income

## Year to Date

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

	Nine Months Ended September 30,		
	2022	2021	2020
GAAP net loss	(\$ 3,912)	(\$ 14,488)	(\$ 6,914)
Adjustments to reconcile GAAP net loss to non-GAAP net income:			
Stock-based compensation expense	14,561	9,474	9,476
Amortization of acquired technology	1,660	1,525	431
Amortization of other acquired intangible assets	945	942	521
Expenses of arbitration (1)	1,043	1,194	830
Write-down in value of property and equipment	—	—	311
Tax impact of reconciling items	—	—	(1,931)
Tax impact of the CARES Act (2)	—	—	(2,261)
Tax impact of valuation allowance for deferred tax assets and reconciling items (3)	1,228	1,552	—
Non-GAAP net income	\$ 15,525	\$ 199	\$ 463
GAAP net loss per diluted share	(\$ 0.10)	(\$ 0.39)	(\$ 0.21)
Non-GAAP net income per diluted share	\$ 0.41	\$ 0.01	\$ 0.01
Weighted average common shares used in GAAP net income (loss) per diluted share calculation	37,285	37,067	33,696
Weighted average common shares used in Non-GAAP net income per diluted share calculation	38,082	37,723	34,705

- (1) Represents expenses related to an arbitration proceeding over a disputed customer contract, which expenses are expected to continue until the arbitration is resolved.
- (2) The Company recognized a discrete tax benefit recognized from the carryback of net operating losses (NOLs) under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") enacted in March 2020. Due to the full valuation allowance against U.S. DTA recognized in the fourth quarter of 2020, there is no tax benefit from the released tax attributes. The Company does not have any NOLs on a non-GAAP basis and, therefore, it did not recognize this discrete tax benefit in calculating its non-GAAP tax expense and net income (loss).
- (3) The difference between the GAAP and non-GAAP income tax provisions is primarily due to the valuation allowance on a GAAP basis and non-GAAP adjustments. For example, on a GAAP basis, the Company does not receive a deferred tax benefit for foreign tax credits or R&D credits after valuation allowance. The Company's non-GAAP tax rate and resulting non-GAAP tax expense is not calculated with a full U.S. federal or state valuation allowance due to the Company's cumulative Non-GAAP income and management's conclusion that it is more likely than not to utilize its net deferred tax assets (DTAs). Each reporting period, management evaluates the need for a valuation allowance and may place a valuation allowance against its U.S. net DTA on a non-GAAP basis if it concludes it is more likely than not that it will not be able to utilize some or all of its US DTAs on a non-GAAP basis.

# Reconciliation of GAAP to Non-GAAP Spending by Function

## Quarterly

(in thousands)

	Q3'22	Q2'22	Q1'22	Q4'21	Q3'21
<b>Cost of Revenue - GAAP</b>	<b>\$ 12,545</b>	<b>\$ 12,042</b>	<b>\$ 11,529</b>	<b>\$ 11,675</b>	<b>\$ 11,070</b>
Adjustments to reconcile GAAP Cost of Revenue to Non-GAAP Cost of Revenue:					
Stock-based compensation expense	(854)	(655)	(728)	(703)	(670)
Amortization of acquired technology	(553)	(553)	(553)	(554)	(454)
<b>Cost of Revenue - Non-GAAP</b>	<b>\$ 11,138</b>	<b>\$ 10,834</b>	<b>\$ 10,248</b>	<b>\$ 10,418</b>	<b>\$ 9,946</b>
<b>Research &amp; Development - GAAP</b>	<b>\$ 14,303</b>	<b>\$ 13,374</b>	<b>\$ 14,089</b>	<b>\$ 11,218</b>	<b>\$ 10,657</b>
Adjustments to reconcile GAAP R&D to Non-GAAP R&D:					
Stock-based compensation expense	(2,180)	(1,810)	(3,168)	(1,502)	(1,299)
<b>Research &amp; Development - Non-GAAP</b>	<b>\$ 12,123</b>	<b>\$ 11,564</b>	<b>\$ 10,921</b>	<b>\$ 9,716</b>	<b>\$ 9,358</b>
<b>Selling, General, &amp; Administrative - GAAP</b>	<b>\$ 12,005</b>	<b>\$ 9,770</b>	<b>\$ 10,839</b>	<b>\$ 9,167</b>	<b>\$ 9,609</b>
Adjustment to reconcile GAAP SG&A to Non-GAAP SG&A:					
Stock-based compensation expense	(2,102)	(1,407)	(1,657)	(1,252)	(1,394)
Expenses of arbitration (1)	(556)	(36)	(451)	(757)	(341)
<b>Selling, General, &amp; Administrative - Non-GAAP</b>	<b>\$ 9,347</b>	<b>\$ 8,327</b>	<b>\$ 8,731</b>	<b>\$ 7,158</b>	<b>\$ 7,874</b>

(1) Represents expenses related to an arbitration proceeding over a disputed contract with a customer, which expenses are expected to continue until the arbitration is resolved.

# Reconciliation of GAAP to Non-GAAP Spending by Function

## Year to Date

*(in thousands)*

	<b>Nine Months Ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Cost of Revenue - GAAP</b>	<b>\$ 36,116</b>	<b>\$ 32,518</b>	<b>\$ 26,926</b>
Adjustments to reconcile GAAP Cost of Revenue to Non-GAAP Cost of Revenue:			
Stock-based compensation expense	(2,237)	(1,860)	(2,582)
Amortization of acquired technology	(1,660)	(1,525)	(431)
<b>Cost of Revenue - Non-GAAP</b>	<b>\$ 32,219</b>	<b>\$ 29,133</b>	<b>\$ 23,913</b>
<b>Research &amp; Development - GAAP</b>	<b>\$ 41,766</b>	<b>\$ 32,562</b>	<b>\$ 24,672</b>
Adjustments to reconcile GAAP R&D to Non-GAAP R&D:			
Stock-based compensation expense	(7,158)	(4,013)	(3,613)
Write-down in value of property and equipment	—	—	(149)
<b>Research &amp; Development - Non-GAAP</b>	<b>\$ 34,608</b>	<b>\$ 28,549</b>	<b>\$ 20,910</b>
<b>Selling, General, &amp; Administrative - GAAP</b>	<b>\$ 32,614</b>	<b>\$ 28,482</b>	<b>\$ 24,052</b>
Adjustment to reconcile GAAP SG&A to Non-GAAP SG&A:			
Stock-based compensation expense	(5,166)	(3,601)	(3,281)
Expenses of arbitration (1)	(1,043)	(1,194)	(830)
Write-down in value of property and equipment	—	—	(162)
<b>Selling, General, &amp; Administrative - Non-GAAP</b>	<b>\$ 26,405</b>	<b>\$ 23,687</b>	<b>\$ 19,779</b>

(1) Represents expenses related to an arbitration proceeding over a disputed contract with a customer, which expenses are expected to continue until the arbitration is resolved.