
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 9, 2021

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 Dated: November 9, 2021 PDF Solutions (the “Company”) issued a press release regarding its financial results and certain other information related to the third quarter ended September 30, 2021. The Company also posted on the Investors section of its website (www.pdf.com) a management report with regard to the third quarter ended September 30, 2021. 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 9, 2021, regarding financial results and certain other information related to the third quarter ended September 30, 2021.
99.2	Management Report by PDF Solutions, Inc. as of November 9, 2021.
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 9, 2021

PDF/SOLUTIONS™

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News Release

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PDF Solutions® Reports Third Quarter 2021 Results

Business Highlights

- Total revenues of \$29.6 million for the third quarter of 2021, up 28% over the third quarter of 2020
- Analytics revenue of \$27.2 million for the third quarter, up 90% over the third quarter of 2020
- Bookings for the year 2021 through Q3 are now ahead of full year 2020 bookings
- Backlog ending Q3 2021 up 60% to \$180.9 million compared to backlog as of September 30, 2020
- GAAP Gross Margin of 63% for the third quarter of 2021
- Non-GAAP Gross Margin of 66% for the third quarter of 2021
- Operating activities provided \$4.0 million in cash during the third quarter of 2021
- Ended the quarter with cash, cash equivalents, and short-term investments of \$141.2 million
- Expect full year 2021 total revenues to grow, on a year over year basis, near the top end of previously communicated 20-25% range
- Expect full year 2021 Analytics revenue to grow, on a year over year basis, more than 50%

SANTA CLARA, Calif. — Tuesday, November 9, 2021 — PDF Solutions, Inc. (Nasdaq: PDFS), a leading provider of comprehensive data solutions for the semiconductor ecosystem, today announced financial results for its third quarter ended September 30, 2021.

Highlights of Third Quarter 2021 Financial Results

Total revenues for the third quarter of 2021 were \$29.6 million, compared to \$27.4 million for the second quarter of 2021 and \$23.1 million for the third quarter of 2020. Analytics revenue for the third quarter of 2021 was \$27.2 million, compared to \$19.6 million for the second quarter of 2021 and \$14.3 million for the third quarter of 2020. Integrated Yield Ramp revenue for the third quarter of 2021 was \$2.4 million, compared to \$7.8 million for second quarter of 2021 and \$8.8 million for the third quarter of 2020.

GAAP gross margin for the third quarter of 2021 was 63%, compared to 61% for the second quarter of 2021 and 59% for the third quarter of 2020.

Non-GAAP gross margin for the third quarter of 2021 was 66%, compared to 65% for the second quarter of 2021 and 63% for the third quarter of 2020.

PDF Solutions® Reports Third Quarter 2021 Results

On a GAAP basis, net loss for the third quarter of 2021 was \$2.4 million, or (\$0.06) per basic and diluted share, compared to a net loss of \$4.5 million, or (\$0.12) per basic and diluted share, for the second quarter of 2021, and net loss of \$2.7 million, or (\$0.08) per basic and diluted share, for the third quarter of 2020.

Non-GAAP net income for the third quarter of 2021 was \$2.4 million, or \$0.06 per diluted share, compared to a net loss of \$0.3 million, or (\$0.01) per diluted share, for the second quarter of 2021, and net income of \$0.1 million, or \$0.00 per diluted share, for the third quarter of 2020.

Cash, cash equivalents and short-term investments at September 30, 2021 were \$141.2 million, compared to \$145.3 million at December 31, 2020, a decrease of \$4.1 million. Cash provided by operating activities was \$4.0 million during the three months ended September 30, 2021.

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. The call will be simultaneously webcast on PDF Solutions' 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 2021 Financial Commentary Available Online

A Management Report reviewing the Company's third quarter 2021 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 margin excludes stock-based compensation expense and the amortization of acquired technology. Non-GAAP net income (loss) excludes the effects of non-recurring items (including expenses related to an arbitration proceeding for a disputed contract with a customer), write-down in value of property and equipment, 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 non-cash portion of income taxes, tax impact of the CARES Act and 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 certain non-recurring items and acquisition-related costs) 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 for analytics and total revenues, 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 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 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; 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, 2020, 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 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 <http://www.pdf.com/>.

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

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 71,238	\$ 30,315
Short-term investments	69,992	114,981
Accounts receivable, net	33,681	34,140
Prepaid expenses and other current assets	10,298	13,944
Total current assets	<u>185,209</u>	<u>193,380</u>
Property and equipment, net	37,821	39,242
Operating lease right-of-use assets, net	5,614	6,672
Goodwill	15,305	15,774
Intangible assets, net	22,106	24,573
Deferred tax assets, net	174	249
Other non-current assets	8,995	7,690
Total assets	<u>\$ 275,224</u>	<u>\$ 287,580</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,210	\$ 4,399
Accrued compensation and related benefits	8,125	8,339
Accrued and other current liabilities	5,854	6,309
Operating lease liabilities – current portion	1,740	1,926
Deferred revenues – current portion	22,207	19,895
Billings in excess of recognized revenues	3	1,337
Total current liabilities	<u>41,139</u>	<u>42,205</u>
Long-term income taxes payable	2,508	2,956
Non-current operating lease liabilities	5,501	6,516
Other non-current liabilities	2,621	1,397
Total liabilities	<u>51,769</u>	<u>53,074</u>
Stockholders' equity:		
Common stock and additional paid-in-capital	418,939	407,179
Treasury stock at cost	(103,995)	(96,215)
Accumulated deficit	(90,721)	(76,233)
Accumulated other comprehensive loss	(768)	(225)
Total stockholders' equity	<u>223,455</u>	<u>234,506</u>
Total liabilities and stockholders' equity	<u>\$ 275,224</u>	<u>\$ 287,580</u>

PDF SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)

	Three months ended			Nine months ended	
	September 30, 2021 (1)	June 30, 2021 (1)	September 30, 2020	September 30, 2021 (1)	September 30, 2020
Revenues:					
Analytics (1)	\$ 27,194	\$ 19,578	\$ 14,346	\$ 66,165	\$ 42,766
Integrated yield ramp	2,361	7,841	8,766	15,009	22,912
Total revenues	29,555	27,419	23,112	81,174	65,678
Costs and Expenses:					
Costs of revenues	11,070	10,785	9,493	32,518	26,926
Research and development	10,657	11,064	8,328	32,562	24,672
Selling, general and administrative	9,609	9,410	8,420	28,482	24,052
Amortization of other acquired intangible assets	314	313	174	942	521
Interest and other expense (income), net	(194)	243	361	(391)	530
Loss before income taxes	(1,901)	(4,396)	(3,664)	(12,939)	(11,023)
Income tax expense (benefit)	506	88	(930)	1,549	(4,109)
Net loss	\$ (2,407)	\$ (4,484)	\$ (2,734)	\$ (14,488)	\$ (6,914)
Net loss per share, basic and diluted	\$ (0.06)	\$ (0.12)	\$ (0.08)	\$ (0.39)	\$ (0.21)
Weighted average common shares used to calculate net loss per share, basic and diluted	37,221	37,004	35,479	37,067	33,696

(1) Analytics revenue includes revenue from Cimetrix Incorporated, a wholly owned subsidiary acquired by the Company in December 2020.

PDF SOLUTIONS, INC.

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

(In thousands)

	Three months ended			Nine months ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
GAAP					
Total revenues	\$ 29,555	\$ 27,419	\$ 23,112	\$ 81,174	\$ 65,678
Costs of revenues	11,070	10,785	9,493	32,518	26,926
GAAP gross profit	\$ 18,485	\$ 16,634	\$ 13,619	\$ 48,656	\$ 38,752
GAAP gross margin	63 %	61 %	59 %	60 %	59 %
Non-GAAP					
GAAP gross profit	\$ 18,485	\$ 16,634	\$ 13,619	\$ 48,656	\$ 38,752
Adjustments to reconcile GAAP to non-GAAP gross margin:					
Stock-based compensation expense	670	538	790	1,860	2,582
Amortization of acquired technology	454	536	144	1,525	431
Non-GAAP gross profit	\$ 19,609	\$ 17,708	\$ 14,553	\$ 52,041	\$ 41,765
Non-GAAP gross margin	66 %	65 %	63 %	64 %	64 %

PDF SOLUTIONS, INC.

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

(In thousands, except per share amounts)

	Three months ended			Nine months ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
GAAP net loss	\$ (2,407)	\$ (4,484)	\$ (2,734)	\$ (14,488)	\$ (6,914)
Adjustments to reconcile GAAP net loss to non-GAAP net income (loss):					
Stock-based compensation expense	3,363	2,742	3,130	9,474	9,476
Amortization of acquired technology	454	536	144	1,525	431
Amortization of other acquired intangible assets	314	314	174	942	521
Expenses of arbitration (1)	341	558	366	1,194	830
Write-down in value of property and equipment	—	—	—	—	311
Tax impact of reconciling items	—	—	(955)	—	(1,931)
Tax impact of the CARES Act (2)	—	—	—	—	(2,261)
Tax impact of valuation allowance for deferred tax assets (3)	334	52	—	1,552	—
Non-GAAP net income (loss)	<u>\$ 2,399</u>	<u>\$ (282)</u>	<u>\$ 125</u>	<u>\$ 199</u>	<u>\$ 463</u>
GAAP net loss per diluted share	<u>\$ (0.06)</u>	<u>\$ (0.12)</u>	<u>\$ (0.08)</u>	<u>\$ (0.39)</u>	<u>\$ (0.21)</u>
Non-GAAP net income (loss) per diluted share	<u>\$ 0.06</u>	<u>\$ (0.01)</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Shares used in net income (loss) per diluted share calculation	<u>37,916</u>	<u>37,004</u>	<u>36,661</u>	<u>37,723</u>	<u>34,705</u>

- (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. 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 Company's GAAP tax expense is higher year-to-date compared to the non-GAAP tax expense, primarily due to the GAAP full U.S. federal and state valuation allowances. 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 forecasted Non-GAAP income and management's conclusion that it will be able to more likely than not to utilize its net DTAs. Each reporting period, management evaluates the need for a valuation allowance and may place a valuation allowance against its U.S. net deferred tax assets (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 2021
Management Report
November 9, 2021

Contents

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■ Q3 2021 Non-GAAP Results

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■ Related Information

The following commentary is provided by management and should be referenced in conjunction with PDF Solutions' third quarter of 2021 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.

PDF Solutions Reports Third Quarter 2021 Results

Q3 2021 Key Metrics

Revenue: \$29.6M

GAAP Gross Margin: 63%

Non-GAAP Gross Margin: 66%

GAAP EPS: (\$0.06)

Non-GAAP EPS: \$0.06

Operating Cash Flow: \$4.0M

Capital Expenditures: \$1.6M

FINANCIAL RESULTS SUMMARY

- Q3 2021 Total revenues of \$29.6M, up 8% over Q2 2021, and up 28% over Q3 2020.
- Q3 2021 Analytics revenue of \$27.2M, up 39% over Q2 2021, and up 90% over Q3 2020.
- Q3 2021 Integrated yield ramp revenue of \$2.4M, down 70% over Q2 2021 and down 73% over Q3 2020.

Key Financial & Operating Metrics – Quarterly

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

	<u>Q3'21</u>	<u>Q2'21</u>	<u>Q1'21</u>	<u>Q4'20</u>	<u>Q3'20</u>
Revenues	\$ 29,555	\$ 27,419	\$ 24,200	\$ 22,367	\$ 23,112
GAAP Gross Margin	63%	61%	56%	56%	59%
Non-GAAP Gross Margin	66%	65%	61%	61%	63%
Outstanding Debt	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Operating Cash Flow	\$ 4,022	\$ 8,130	(\$ 8,325)	\$ 10,908	\$ 245
Capital Expenditures (CAPEX)	\$ 1,592	\$ 535	\$ 586	\$ 1,603	\$ 1,425
\$ Shares Repurchased	\$ 0	\$ 0	\$ 4,523	\$ 0	\$ 0
Weighted Average Common Shares Outstanding	37.2	37.0	37.0	36.7	35.5
Effective Tax Rate Benefit (Expense)	(27)%	(2)%	(14)%	(375)%	25%

Key Financial & Operating Metrics – Year to Date

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

	Nine Months Ended September 30,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues	\$ 81,174	\$ 65,679	\$ 63,023
GAAP Gross Margin	60%	59%	61%
Non-GAAP Gross Margin	64%	64%	66%
Outstanding Debt	\$ 0	\$ 0	\$ 0
Operating Cash Flow	\$ 3,827	\$ 10,875	\$ 23,011
Capital Expenditures (CAPEX)	\$ 2,713	\$ 5,365	\$ 6,891
\$ Shares Repurchased	\$ 4,523	\$ 0	\$ 9,638
Weighted Average Common Shares Outstanding	37.1	33.7	32.4
Effective Tax Rate Benefit (Expense)	(12)%	37%	26%

Revenue by Geographic Area – Quarterly

(Dollars in thousands)

	<u>Q3'21</u>	<u>Q2'21</u>	<u>Q1'21</u>	<u>Q4'20</u>	<u>Q3'20</u>
North America	\$ 14,037	\$ 12,211	\$ 8,608	\$ 10,525	\$ 7,754
% of Total	47%	45%	35%	47%	34%
Europe	\$ 4,325	\$ 3,958	\$ 4,331	\$ 3,602	\$ 3,581
% of Total	15%	14%	18%	16%	15%
APAC	\$ 11,193	\$ 11,250	\$ 11,261	\$ 8,240	\$ 11,777
% of Total	38%	41%	47%	37%	51%
Total revenues	\$ 29,555	\$ 27,419	\$ 24,200	\$ 22,367	\$ 23,112

Revenue by Geographic Area – Year to Date

(Dollars in thousands)

	Nine Months Ended September 30,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
North America	\$ 34,856	\$ 26,409	\$ 25,401
% of Total	43%	40%	40%
Europe	\$ 12,614	\$ 11,125	\$ 10,002
% of Total	16%	17%	16%
APAC	\$ 33,704	\$ 28,144	\$ 27,619
% of Total	42%	43%	44%
Total revenues	\$ 81,174	\$ 65,678	\$ 63,023

GAAP / 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 gross margin excludes stock-based compensation expense and the amortization of acquired technology. Non-GAAP net income (loss) exclude the effects of non-recurring items (including expenses related to an arbitration proceeding for a disputed customer contract), acquisition-related costs, 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, as well as adjustments for the non-cash portion of income taxes, tax impact of the CARES Act and 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 certain non-recurring items and acquisition-related costs) 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 (Loss) Income

Quarterly

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

	Q3'21	Q2'21	Q1'21	Q4'20	Q3'20
GAAP net loss	(\$ 2,407)	(\$ 4,484)	(\$ 7,597)	(\$ 33,449)	(\$ 2,734)
Adjustments to reconcile GAAP net loss to non-GAAP net income (loss):					
Stock-based compensation expense	3,363	2,742	3,369	2,987	3,130
Amortization of acquired technology	454	536	535	274	144
Amortization of other acquired intangible assets	314	314	314	220	174
Expenses of arbitration (1)	341	558	295	268	366
Acquisition-related costs (2)	—	—	—	752	—
Write-down in value of property and equipment	—	—	—	179	—
Tax impact of reconciling items (3)	—	—	—	1,931	(955)
Tax impact of the CARES Act (4)	—	—	—	1,099	—
Tax impact of valuation allowance for deferred tax assets (5)	334	52	1,166	24,471	—
Non-GAAP net income (loss)	\$ 2,399	(\$ 282)	(\$ 1,918)	(\$ 1,268)	\$ 125
GAAP net loss per diluted share	(\$ 0.06)	(\$ 0.12)	(\$ 0.21)	(\$ 0.91)	(\$ 0.08)
Non-GAAP net income (loss) per diluted share	\$ 0.06	(\$ 0.01)	(\$ 0.05)	(\$ 0.03)	\$ 0.00
Shares used in net income (loss) per diluted share calculation	37,916	37,004	36,974	36,727	36,727

- (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) Represents transaction expenses related to the acquisition of Cimetrix Incorporated in the fourth quarter of 2020.
- (3) Tax impact of reconciling items for the fourth quarter of 2020 pertains to the reversal of prior quarters' tax impact due to a full valuation allowance recognized against the U.S. deferred tax assets (DTA) on a GAAP basis. The above reconciling items do not have any tax expense or benefit on a GAAP basis for the year ended December 31, 2020 due to the full valuation allowance offsetting any tax impact from reconciling items.
- (4) 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).
- (5) The Company's GAAP tax expense is higher year-to-date compared to the non-GAAP tax expense, primarily due to the GAAP full U.S. federal and state valuation allowances. The Company's non-GAAP tax rate and resulting non-GAAP tax expense is not calculated with a full US federal or state valuation allowance due to recent cumulative profit on a non-GAAP basis. Each reporting period, management evaluates the need for a valuation allowance and may place a valuation allowance against its US net deferred tax assets (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,		
	2021	2020	2019
GAAP net loss	(\$ 14,488)	(\$ 6,914)	(\$ 4,088)
Adjustments to reconcile GAAP net loss to non-GAAP net income:			
Stock-based compensation expense	9,474	9,476	8,642
Amortization of acquired technology	1,525	431	431
Amortization of other acquired intangible assets	942	521	436
Expenses of arbitration (1)	1,194	830	—
Write-down in value of property and equipment	—	311	—
Restructuring charges and severance payment	—	—	122
Tax impact of reconciling items	—	(1,931)	(2,085)
Tax impact of the CARES Act (2)	—	(2,261)	—
Tax impact of valuation allowance for deferred tax assets (3)	1,552	—	—
Non-GAAP net income	\$ 199	\$ 463	\$ 3,458
GAAP net loss per diluted share	(\$ 0.39)	(\$ 0.21)	(\$ 0.13)
Non-GAAP net income per diluted share	\$ 0.01	\$ 0.01	\$ 0.10
Shares used in net income per diluted share calculation	37,723	34,705	33,025

- (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 Company's GAAP tax expense is higher year-to-date compared to the non-GAAP tax expense, primarily due to the GAAP full U.S. federal and state valuation allowances. The Company's non-GAAP tax rate and resulting non-GAAP tax expense is not calculated with a full US federal or state valuation allowance due to recent cumulative profit on a non-GAAP basis. Each reporting period, management evaluates the need for a valuation allowance and may place a valuation allowance against its US net deferred tax assets (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

	<i>(in thousands)</i>				
	<u>Q3'21</u>	<u>Q2'21</u>	<u>Q1'21</u>	<u>Q4'20</u>	<u>Q3'20</u>
Cost of Revenue - GAAP	\$ 11,070	\$ 10,785	\$ 10,663	\$ 9,839	\$ 9,493
Adjustments to reconcile GAAP Cost of Revenue to non-GAAP Cost of Revenue:					
Stock-based compensation expense	(670)	(538)	(652)	(872)	(790)
Amortization of acquired technology	(454)	(536)	(535)	(274)	(144)
Cost of Revenue - Non-GAAP	\$ 9,946	\$ 9,711	\$ 9,476	\$ 8,693	\$ 8,559
Research & Development - GAAP	\$ 10,657	\$ 11,064	\$ 10,841	\$ 9,981	\$ 8,328
Adjustments to reconcile GAAP R&D to non-GAAP R&D:					
Stock-based compensation expense	(1,299)	(1,126)	(1,588)	(1,187)	(1,148)
Write-down in value of property and equipment	—	—	—	(179)	—
Research & Development - Non-GAAP	\$ 9,358	\$ 9,938	\$ 9,253	\$ 8,615	\$ 7,180
Selling, General, & Administrative - GAAP	\$ 9,609	\$ 9,410	\$ 9,464	\$ 8,625	\$ 8,420
Adjustment to reconcile GAAP SG&A to non-GAAP SG&A:					
Stock-based compensation expense	(1,394)	(1,078)	(1,129)	(928)	(1,192)
Expenses of arbitration (1)	(341)	(558)	(295)	(268)	(366)
Acquisition-related costs (2)	—	—	—	(752)	—
Selling, General, & Administrative - Non-GAAP	\$ 7,874	\$ 7,774	\$ 8,040	\$ 6,677	\$ 6,862

(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.

(2) Represents transaction expenses related to the acquisition of Cimatrix Incorporated in the fourth quarter of 2020.

Reconciliation of GAAP to Non-GAAP Spending by Function

Year to Date

	<i>(in thousands)</i>		
	Nine Months Ended September 30,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Cost of Revenue - GAAP	\$ 32,518	\$ 26,926	\$ 24,414
Adjustments to reconcile GAAP Cost of Revenue to non-GAAP Cost of Revenue:			
Stock-based compensation expense	(1,860)	(2,582)	(2,404)
Amortization of acquired technology	(1,525)	(431)	(431)
Cost of Revenue - Non-GAAP	\$ 29,133	\$ 23,913	\$ 21,579
Research & Development - GAAP	\$ 32,562	\$ 24,672	\$ 23,993
Adjustments to reconcile GAAP R&D to non-GAAP R&D:			
Stock-based compensation expense	(4,013)	(3,613)	(3,681)
Write-down in value of property and equipment	—	(149)	—
Adjustment to contingent consideration related to acquisition	—	—	(30)
Research & Development - Non-GAAP	\$ 28,549	\$ 20,910	\$ 20,282
Selling, General, & Administrative - GAAP	\$ 28,482	\$ 24,052	\$ 19,941
Adjustment to reconcile GAAP SG&A to non-GAAP SG&A:			
Stock-based compensation expense	(3,601)	(3,281)	(2,557)
Expenses of arbitration (1)	(1,194)	(830)	—
Write-down in value of property and equipment	—	(162)	—
Selling, General, & Administrative - Non-GAAP	\$ 23,687	\$ 19,779	\$ 17,384

(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.