PDF SOLUTIONS INC
Form 10-Q
August 04, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended June 30, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to ______________

Commission File Number 000-31311

PDF SOLUTIONS, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware	**25-1701361**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

333 West San Carlos Street, Suite 1000

San Jose, California	**95110**
(Address of Principal Executive Offices)	(Zip Code)

(408) 280-7900

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the Registrant's Common Stock as of July 28, 2016 was 31,341,201.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

PDF SOLUTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except par value)

	June 30, 2016	**December 31, 2015**
ASSETS		
Current assets:		
Cash and cash equivalents	$122,222	$126,158
Accounts receivable, net of allowance of $200 and $299, respectively	34,786	33,438
Prepaid expenses and other current assets	4,728	3,655
Total current assets	161,736	163,251
Property and equipment, net	16,076	11,325
Deferred tax assets	10,106	10,299
Goodwill	215	215
Intangible assets, net	4,603	5,028
Other non-current assets	9,497	1,651
Total assets	$202,233	$191,769
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$2,469	$1,293
Accrued compensation and related benefits	5,150	4,812
Accrued and other current liabilities	2,924	2,382
Deferred revenues – current portion	5,740	4,702
Billings in excess of recognized revenue	312	1,267
Total current liabilities	16,595	14,456
Long-term income taxes payable	2,594	2,540
Other non-current liabilities	328	466
Total liabilities	19,517	17,462
Commitments and contingencies (Note 9)		
Stockholders' equity:		
	—	—

Preferred stock, $0.00015 par value, 5,000 shares authorized, no shares issued and outstanding		
Common stock, $0.00015 par value, 70,000 shares authorized: shares issued 37,880 and 37,476, respectively; shares outstanding 31,311 and 31,111, respectively	5	5
Additional paid-in-capital	272,886	266,008
Treasury stock at cost, 6,569 and 6,365 shares in 2016 and 2015, respectively	(53,301)	(50,383)
Accumulated deficit	(35,504)	(39,780)
Accumulated other comprehensive loss	(1,370)	(1,543)
Total stockholders’ equity	182,716	174,307
Total liabilities and stockholders’ equity	$ 202,233	$ 191,769

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

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PDF SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Design-to-silicon-yield solutions	$20,574	$14,159	$39,152	$32,311
Gainshare performance incentives	6,114	9,051	12,617	17,716
Total revenues	26,688	23,210	51,769	50,027
Costs of Design-to-silicon-yield solutions:				
Direct costs of Design-to-silicon-yield solutions	10,558	9,888	20,668	18,692
Amortization of acquired technology	96	—	192	—
Total cost of Design-to-silicon-yield solutions	10,654	9,888	20,860	18,692
Gross profit	16,034	13,322	30,909	31,335
Operating expenses:				
Research and development	7,060	4,437	13,371	8,525
Selling, general and administrative	5,094	5,216	10,218	9,672
Amortization of other acquired intangible assets	117	—	234	—
Total operating expenses	12,271	9,653	23,823	18,197
Income from operations	3,763	3,669	7,086	13,138
Interest and other income (expense), net	(51)	52	(287)	103
Income before income taxes	3,712	3,721	6,799	13,241
Income tax provision	1,498	1,572	2,523	5,125
Net income	$2,214	$2,149	$4,276	$8,116
Net income per share:				
Basic	$0.07	$0.07	$0.14	$0.26
Diluted	$0.07	$0.07	$0.13	$0.25
Weighted average common shares:				
Basic	31,276	31,522	31,222	31,429

Diluted	32,023	32,400	31,872	32,345
Net income	$2,214	$2,149	$4,276	$8,116
Other comprehensive income:				
Foreign currency translation adjustments, net of tax	(186)	146	173	(602)
Comprehensive income	$2,028	$2,295	$4,449	$7,514

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

PDF SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six Months Ended June 30, 2016	2015
Operating activities:		
Net income	$4,276	$8,116
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,624	1,237
Stock-based compensation expense	4,957	4,554
Amortization of acquired intangible assets	425	—
Deferred taxes	192	997
Loss on disposal of property and equipment	107	3
Purchases of treasury stock in connection with tax withholdings on restricted stock grants	(1,075)	(1,052)
Reversal of allowance for doubtful accounts	(99)	(82)
Unrealized loss (gain) on foreign currency forward contract	(34)	3
Tax benefit related to stock-based compensation expense	748	2,094
Excess tax benefit from stock-based compensation	(708)	(1,980)
Changes in operating assets and liabilities:		
Accounts receivable	(1,249)	6,861
Prepaid expenses and other assets	(8,908)	(4,428)
Accounts payable	610	(39)
Accrued compensation and related benefits	346	(1,521)
Accrued and other liabilities	(223)	256
Deferred revenues	947	1,774
Billings in excess of recognized revenues	(955)	—
Net cash provided by operating activities	981	16,793
Investing activities:		
Purchases of property and equipment	(5,051)	(2,388)
Net cash used in investing activities	(5,051)	(2,388)
Financing activities:		
Proceeds from exercise of stock options	452	4,764
Proceeds from employee stock purchase plan	778	680
Excess tax benefit from stock-based compensation	708	1,980
Purchases of treasury stock	(1,843)	(5,571)
Net cash provided by financing activities	95	1,853
Effect of exchange rate changes on cash and cash equivalents	39	(23)

Net change in cash and cash equivalents	(3,936)	16,235
Cash and cash equivalents, beginning of period	126,158	115,464
Cash and cash equivalents, end of period	$122,222	$131,699
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Taxes	$1,336	$3,920
Property and equipment received and accrued in accounts payable and accrued and other liabilities	$1,656	$582

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

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PDF SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

Basis of Presentation

The interim unaudited condensed consolidated financial statements included herein have been prepared by PDF Solutions, Inc. (“the Company”) pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), including the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The interim unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments necessary (consisting only of normal recurring adjustments), to present a fair statement of results for the interim periods presented. The operating results for any interim period are not necessarily indicative of the results that may be expected for other interim periods or the full fiscal year. The accompanying interim unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after the elimination of all intercompany balances and transactions.

The condensed consolidated balance sheet at December 31, 2015, has been derived from the audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates in these financial statements include revenue recognition for fixed-price solution implementation service contracts, accounting for goodwill and intangible assets, stock-based compensation expense and accounting for income taxes. Actual results could differ from those estimates.

Revenue Recognition — The Company derives revenue from two sources: Design-to-silicon-yield solutions and Gainshare performance incentives.

Design-to-Silicon-Yield Solutions — Revenue that is derived from Design-to-silicon-yield solutions comes from services and software licenses. The Company recognizes revenue of Design-to-silicon-yield solutions as follows:

The Company generates a significant portion of its Design-to-silicon-yield solutions revenue from fixed-price solution implementation service contracts delivered over a specific period of time. These contracts require reliable estimation of costs to perform obligations and the overall scope of each engagement. Revenue under project–based contracts for solution implementation services is recognized as services are performed using percentage of completion method of contract accounting based on costs or labor-hours input method, whichever is the most appropriate measure of the progress towards completion of the contract. Losses on fixed-price solution implementation contracts are recognized in the period when they become probable. Revisions in profit estimates are reflected in the period in which the conditions that require the revisions become known and can be estimated (cumulative catch-up method). During the period ended June 30, 2016, we recognized changes in one project's profitability from revisions in estimates due to the customer's directed scope changes that resulted in favorable changes of in our net income for the three months and six months ended June 30, 2016 of $0.9 million or $0.03 per diluted share. Revenue under time and materials contracts for solution implementation services are recognized as the services are performed. On occasion, the Company licenses its software products as a component of its fixed-price service contracts. In such instances, the software products are licensed to customers over a specified term of the agreement with support and maintenance to be provided at each customer's option over the license term. The amount of product and service revenue recognized in a given period is affected by the Company's judgment as to whether an arrangement includes multiple deliverables and, if so, the Company's determination of the fair value of each deliverable. In general, vendor-specific objective evidence of selling price ("VSOE") does not exist for the Company's solution implementation services and software products and because the Company's services and products include our unique technology, the Company is not able to determine third-party evidence of selling price ("TPE"). Therefore, in such circumstances the Company uses best estimated selling prices ("BESP") in the allocation of arrangement consideration. In determining BESP, the Company applies significant judgment as the Company's weighs a variety of factors, based on the facts and circumstances of the arrangement. The Company typically arrives at BESP for a product or service that is not sold separately by considering company-specific factors such as geographies, internal costs, gross margin objectives, pricing practices used to establish bundled pricing, and existing portfolio pricing and discounting. After fair value is established for each deliverable, the total transaction amount is allocated to each deliverable based upon its relative fair value. Fees allocated to solution implementation services are recognized using the percentage of completion method of contract accounting. Fees allocated to software and related support and maintenance are recognized under software revenue recognition guidance.

The Company also licenses its software products separately from its solution implementations. For software license arrangements that do not require significant modification or customization of the underlying software, software license revenue is recognized under the residual method when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the fee is fixed or determinable, (4) collectability is probable, and (5) the arrangement does not require services that are essential to the functionality of the software. When arrangements include multiple elements such as support and maintenance, consulting (other than for its fixed price solution implementations), installation, and training, revenue is allocated to each element of a transaction based upon its fair value as determined by the Company’s VSOE and such services are recorded as services revenue. VSOE for maintenance is generally established based upon negotiated renewal rates while VSOE for consulting, installation, and training services is established based upon the Company’s customary pricing for such services when sold separately. When software is licensed for a specified term, fees for support and maintenance are generally bundled with the license fee over the entire term of the contract. The Company is unable to establish VSOE of fair value for maintenance services that are generally bundled with term licenses. In these cases, the Company recognizes revenue ratably over the term of the contract.

Revenue from Software-as-a-Service (SaaS) that allows for the use of a hosted software product or service over a contractually determined period of time without taking possession of software is accounted for as a subscription and recognized as revenue ratably over the coverage period beginning on the date the service is first made available to customers.

Revenue for software licenses with extended payment terms is not recognized in excess of amounts due. For software license arrangements that require significant modification or customization of the underlying software, the software license revenue is recognized as services are performed using the percentage of completion method of contract accounting, and such revenue is recorded as services revenue.

Deferred revenues consist primarily of amounts invoiced in advance of revenue recognition and are recognized as the revenue recognition criteria are met. Deferred revenues that will be recognized during the succeeding 12-month period are recorded as current deferred revenues and the remaining portion is recorded as non- current deferred revenues. The non-current portion of deferred revenue was $0.2 million as of June 30, 2016 and $0.3 million as of December 31, 2015. This balance was recorded in the other non-current liabilities in the accompanying condensed consolidated balance sheets.

Gainshare Performance Incentives — When the Company enters into a contract to provide yield improvement services, the contract usually includes two components: (1) a fixed fee for performance by the Company of services delivered over a specific period of time; and (2) a Gainshare performance incentive component where the customer may pay a contingent variable fee, usually after the fixed fee period has ended. Revenue derived from Gainshare performance incentives represents profit sharing and performance incentives earned contingent upon the Company’s customers reaching certain defined operational levels established in related solution implementation service contracts. Gainshare performance incentives periods are usually subsequent to the delivery of all contractual services and therefore have no cost to the Company. Due to the uncertainties surrounding attainment of such operational levels, the Company recognizes Gainshare performance incentives revenue (to the extent of completion of the related solution implementation contract) upon receipt of performance reports or other related information from the customer supporting the determination of amounts and probability of collection.

2. RECENT ACCOUNTING PRONOUNCEMENTS

There have been no developments to recently issued accounting standards, including the expected dates of adoption and estimated effects on the Company's consolidated financial statements and footnote disclosures, from those disclosed in the Company's 2015 Annual Report on Form 10-K, except for the following:

In February 2016, the Financial Accounting Standards Board (or FASB) issued Accounting Standards Update (or ASU) No. 2016-2, Leases (Topic 842). The update requires that most leases, including operating leases, be recorded on the balance sheet as an asset and a liability, initially measured at the present value of the lease payments. Subsequently, the lease asset will be amortized generally on a straight-line basis over the lease term, and the lease liability will bear interest expense and be reduced for lease payments. The amendments in this update are effective for public companies' financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This update clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The amendments in this update are effective for public companies' financial statements issued for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The update is effective for interim and annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments in this update affect entities with transactions included within the scope of Topic 606. The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this Update do not change the core principle of the guidance in Topic 606. Rather, the amendments in this update clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The amendments in this update are effective for public companies' financial statements issued for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

In May 2016, the FASB issued ASU No. 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 pursuant to Staff announcements at the March 3, 2016 EITF Meeting. The purpose of this standard is to rescind from the FASB Accounting Standards Codification certain SEC paragraphs as a result of two SEC Staff Announcements at the March 3, 2016 meeting. The amendments in this update related to Topic 605 are effective for interim and annual reporting periods beginning after December 15, 2017 and amendments related to Topic 815 are effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 660): Narrow-Scope Improvements and Practical Expedients. The purpose of this standard is to clarify certain narrow aspects of Topic 660 such as assessing the collectability criterion, presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition, and technical correction. This standard is effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

3. BALANCE SHEET COMPONENTS

Accounts receivable include amounts that are unbilled at the end of the period that are expected to be billed and collected within 12-month period. Unbilled accounts receivable are determined on an individual contract basis. Unbilled accounts receivable, included in accounts receivable, totaled $15.4 million and $11.5 million as of June 30, 2016 and December 31, 2015, respectively. Unbilled accounts receivable that are not expected to be billed and collected during the succeeding 12-month period are recorded in other non-current assets and totaled $8.0 million and $0.1 million as of June 30, 2016 and December 31, 2015, respectively. The increase in other non-current asset is due to the increase in the long-term unbilled portion of two of the Company’s Design-to-silicon-yield solutions contracts. Deferred cost balance was $0.7 million and zero as of June 30, 2016 and 2015, respectively.

Property and equipment consists of (in thousands):

	June 30, 2016	December 31, 2015
Property and equipment, net:		
Computer equipment	$10,209	$9,188
Software	1,828	1,713
Furniture, fixtures and equipment	963	907
Leasehold improvements	1,123	1,126
Test equipment	9,667	7,214
Construction-in-progress	7,432	4,777
	31,222	24,925
Less: accumulated depreciation	(15,146)	(13,600)
Total	$16,076	$11,325

Depreciation and amortization expense was $0.9 million and $0.6 million for the three months ended June 30, 2016 and 2015, respectively. Depreciation and amortization expense was $1.6 million and $1.2 million for the six months ended June 30, 2016 and 2015, respectively.

As of both June 30, 2016 and December 31, 2015, the carrying amount of goodwill was $0.2 million. The following is a rollforward of the Company's goodwill balance (in thousands):

	June 30, 2016
Balance as of December 31, 2015	$215
Adjustment	—
Balance as of June 30, 2016	$215

Intangible assets balance was $4.6 million and $5.0 million as of June 30, 2016 and December 31, 2015, respectively. Intangible assets as of June 30, 2016 and December 31, 2015 consist of the following (in thousands):

	June 30, 2016	December 31, 2015

	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired identifiable intangibles:							
Customer relationships	1 - 9	$5,920	$ (3,686)	$ 2,234	$5,920	$ (3,547)	$ 2,373
Developed technology	4 - 6	14,100	(12,167)	1,933	14,100	(11,976)	2,124
Tradename	2 - 4	610	(558)	52	610	(533)	77
Backlog	1	100	(96)	4	100	(46)	54
Patent	7 - 10	1,800	(1,420)	380	1,800	(1,400)	400
Other acquired intangibles	4	255	(255)	-	255	(255)	-
Total		$22,785	$ (18,182)	$ 4,603	$22,785	$ (17,757)	$ 5,028

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The weighted average amortization period for acquired identifiable intangible assets was 6.83 years as of June 30, 2016. For the three months ended June 30, 2016 and 2015, intangible asset amortization expense was $0.2 million and zero, respectively. For the six months ended June 30, 2016 and 2015, intangible asset amortization expense was $0.4 million and zero, respectively. The Company expects annual amortization of acquired identifiable intangible assets to be as follows (in thousands):

Period Ending June 30,	
2016 (remaining 6 months)	$380
2017	728
2018	701
2019	701
2020	701
2021 and thereafter	1,392
Total future amortization expense	$4,603

Intangible assets are amortized over their useful lives unless these lives are determined to be indefinite. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. During the three and six months ended June 30, 2016, there were no indicators of impairment related to the Company’s intangible assets.

4. STOCKHOLDERS’ EQUITY

Stock-based compensation is estimated at the grant date based on the award’s fair value and is recognized on a straight-line basis over the vesting periods, generally four years. Stock-based compensation expense before taxes related to the Company’s stock plans and employee stock purchase plan was allocated as follows (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2016	**2015**	**2016**	**2015**
Cost of design-to-silicon yield-solutions	$956	$914	$2,041	$1,801
Research and development	651	510	1,357	1,001
Selling, general and administrative	684	931	1,559	1,752
Stock-based compensation expense	$2,291	$2,355	$4,957	$4,554

On June 30, 2016, the Company had the following stock-based compensation plans:

Stock Plans — All new equity awards are issued by the Company under its 2011 Stock Incentive Plan, as amended and restated from time to time (the "2011 Plan"). The 2011 Plan was initially approved by the Company's stockholders at the annual meeting of stockholders on November 16, 2011, and then again – as amended and restated each time –at the 2013 annual meeting of stockholders on May 28, 2013, the 2014 annual meeting of stockholders on May 27, 2014, and most recently at the annual meeting of stockholders on May 31, 2016. Under the 2011 Plan, the Company may award stock options, stock appreciation rights, stock grants or stock units covering shares of the Company's common stock to employees, directors, non-employee directors and contractors. The aggregate number of shares reserved for awards under this plan is 7,800,000 shares, plus up to 3,500,000 shares previously issued under the 2001 Plan that are forfeited or repurchased by the Company or shares subject to awards previously issued under the 2001 Plan that expire or that terminate without having been exercised or settled in full on or after November 16, 2011. In case of awards other than options or stock appreciation rights, the aggregate number of shares reserved under the plan will be decreased at a rate of 1.33 shares issued pursuant to such awards. The exercise price for stock options must generally be at prices no less than the fair market value at the date of grant. Stock options generally expire ten years from the date of grant and become vested and exercisable over a four-year period.

In 2001, the Company adopted a 2001 Stock Plan (the "2001 Plan"). In 2003, in connection with its acquisition of IDS Systems Inc., the Company assumed IDS' 2001 Stock Option / Stock Issuance Plan (the "IDS Plan"). Both the 2001Plan and the IDS Plan expired in 2011. Stock options granted under the 2001 and IDS Plans generally expire ten years from the date of grant and become vested and exercisable over a four-year period. Although no new awards may be granted under the 2001 or IDS Plans, awards made under the 2001 and IDS Plans that are currently outstanding remain subject to the terms of each plan, as applicable.

The Company estimated the fair value of share-based awards granted under the Stock Plan during the period using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions, resulting in the following weighted average fair values:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expected life (in years)	4.42	4.51	4.42	4.51
Volatility	43.58%	46.8%	44.26%	46.7%
Risk-free interest rate	1.30 %	1.41%	1.25 %	1.34%
Expected dividend	—	—	—	—
Weighted average fair value per share of options granted during the period	$5.00	$6.61	$4.46	$6.50

As of June 30, 2016, 8.3 million shares of common stock were reserved to cover stock-based awards under the 2011 Plan, of which 4.5 million shares were available for future grant. The number of shares reserved and available under the 2011 Plan includes 0.5 million shares that were subject to awards previously made under the 2001 Plan and were forfeited, expired or repurchased by the Company after adoption of the 2011 Plan through June 30, 2016. As of June 30, 2016, there were no outstanding awards that had been granted outside of the 2011, 2001 or the IDS Plans (collectively, the "Stock Plans").

Stock option activity under the Company’s Stock Plans during the six months ended June 30, 2016, was as follows:

	Number of Options (in thousands)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, January 1, 2016	1,764	$ 7.88		
Granted (weighted average fair value of $4.46 per share)	50	$ 11.87		
Exercised	(63)	$ 7.20		
Canceled	(7)	$ 15.01		
Expired	(75)	$ 13.79		
Outstanding, June 30, 2016				