

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): December 16, 2005

PDF SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

000-31311
(Commission File Number)

Delaware
(State or Other Jurisdiction of
Incorporation)

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

333 West San Carlos Street, Suite 700
San Jose, CA 95110
(Address of principal executive offices, with zip code)

(408) 280-7900
(Registrant's telephone number, including area code)

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement

On December 16, 2005, the Registrant announced the appointment of Keith A. Jones to the position of Vice President, Finance and Chief Financial Officer, effective January 1, 2006. Mr. Jones' employment agreement (the "Agreement") provides for an annual base salary of \$200,000. The Agreement also provides for the grant of options to purchase 125,000 shares of the Registrant's Common Stock, with 20% of the options vesting upon execution of the Agreement and the remaining 80% vesting in equal monthly installments over the next four years (subject to acceleration for a change of control of the Registrant). Under the Agreement, Mr. Jones is eligible for a \$35,000 signing bonus in lieu of any 2005 performance-based bonus related to his current position with the Registrant. Beginning in 2006, Mr. Jones will be eligible for yearly performance-based bonuses in conjunction with the Registrant's executive staff incentive bonus plan. Mr. Jones' employment is terminable at will, however, he is entitled to severance equal to approximately six months worth of compensation in the event that he is terminated without cause. A copy of the Agreement is filed with this report as Exhibit 10.1.

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers

On December 16, 2005, the Registrant announced the appointment of Keith A. Jones to the position of Vice President, Finance and Chief Financial Officer, effective January 1, 2006. Mr. Jones, 34, replaces Mr. P. Steven Melman. Mr. Melman has been Vice President, Finance and Administration and Chief Financial Officer of PDF since joining the Registrant in 1998, however, a medical condition now requires him to take a less demanding role at the company. Effective January 1, 2006, Mr. Melman will fill the newly created position of Vice President, Investor Relations and Strategic Initiatives.

Mr. Jones has served as Director of Finance and SEC Compliance for the Registrant since July 2003, where he has managed various aspects of the Registrant's corporate finance function, including sales contract financial management, financial modeling, corporate taxation, SEC reporting and the coordination of Sarbanes Oxley compliance activities.

From September 2001 to July 2003, Mr. Jones served as Assistant Controller at Interwoven, Inc., an enterprise content management company, where he managed corporate finance activities including financial reporting, SEC compliance, taxation, contract revenue recognition and treasury. From April 2000 to July 2001, Mr. Jones served as Corporate Controller at eTime Capital, Inc., a financial software applications company, where he managed all aspects of the corporate accounting function. From July 1994 to April 2000, Mr. Jones served as an Audit Manager at Deloitte & Touche LLP, a public accounting firm, where he serviced a variety of audit clients in the high-tech manufacturing and software industries, performing financial audits, initial public offerings, acquisition due diligence, and spin-off activities.

The disclosures regarding Mr. Jones' employment agreement are described in Item 1.01 and are hereby incorporated by this reference into this Item 5.02. A copy of the press release announcing Mr. Jones' appointment is filed with this report as Exhibit 99.1.

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Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
10.1	Employment Agreement, dated October 10, 2005, between the Registrant and Keith A. Jones.
99.1	Press Release dated December 16, 2005 regarding the appointment of Keith A. Jones as the Registrant's new Vice President, Finance and Chief Financial Officer

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/ P. Steven Melman
P. Steven Melman
*Vice President, Finance and Administration and
Chief Financial Officer*

Dated: December 19, 2005

EXHIBIT INDEX

Exhibit No.	Description
10.1	Employment Agreement, dated October 10, 2005, between the Registrant and Keith A. Jones.
99.1	Press Release dated December 16, 2005 regarding the appointment of Keith A. Jones as the Registrant's new Vice President, Finance and Chief Financial Officer

October 10, 2005

Keith Jones
1119 Odyssey Court
San Jose, CA 95118

Dear Keith,

On behalf of PDF Solutions, Inc., (“PDF” or the Company”), I am pleased to extend to you this offer of a new position. Your new position will be Vice President of Finance and Chief Financial Officer, effective January 1, 2006, reporting to me. You will be based in PDF’s San Jose office at 333 West San Carlos Street, Suite 700, San Jose, CA 95110. This offer of a new position with PDF is conditioned upon your acceptance, in writing, of the terms and conditions as enumerated below.

1. Compensation. Commencing on January 1, 2006 (the “Commencement Date”), you shall be paid a base salary of \$200,000.00 per annum, paid to you semi-monthly at a rate of \$8,333.33 per payroll period. Your salary shall be paid in accordance with the Company’s standard payroll policies (subject to applicable withholding taxes as required by law).
2. Stock Options. Upon your acceptance of this offer, the Company’s Board of Directors will be presented with a unanimous written consent to immediately grant you an option to purchase 125,000 shares (the “Total Option Shares”) of the Company’s Common Stock with an exercise price equal to the fair market value of the Common Stock on the date of grant. Twenty-five thousand (25,000) shares will vest upon your acceptance of this offer or the date of grant, whichever is later. The remaining one hundred thousand (100,000) shares (the “Remaining Option Shares”) shall vest over a four year period commencing upon the date of grant, according to the following vesting schedule: 1/48 of the Total Remaining Option Shares shall become exercisable on a monthly basis. Vesting of the options shall be contingent upon your continued employment with the Company. The options will be incentive stock options (ISO) to the maximum extent permitted by the tax code and will be subject to the terms of the Company’s 2001 Stock Plan and execution of an applicable Stock Option Agreement to be entered into between you and the Company.

In the event of a Change of Control event, defined as an acquisition of greater than 50% of PDF’s Common Outstanding Stock, vesting of the grant stated in this Section 2 above will be accelerated by 24 months. Additionally, to the extent unvested at the date of the Change of Control event, previous grants 01-419 from August 26, 2003 and grant 01-484 from July 3, 2005 will also accelerate by 24 months.

3. Acceptance Bonus — Upon acceptance of your new position with the Company you will be granted an acceptance bonus. Within 30 days of acceptance of your new position you will be paid a \$35,000 bonus. The bonus payment is subject to applicable withholding taxes as required by law. In the event that you voluntarily terminate your employment with the Company before your first year anniversary of your acceptance of your new position, you agree

to repay the Company 100% of the sign-on bonus. Upon such termination, should you not take appropriate action to fully repay the sign-on bonus, you hereby authorize the company to withhold amounts equal to such bonus from any cash compensation owed by the company to you, including, but not limited to, base salary, accrued vacation, or earned bonuses. This Acceptance Bonus is in lieu of any 2005 performance bonus related to your current position.

4. Performance Bonus. You shall be eligible to participate in the Company's executive staff incentive bonus plan, effective January 1, 2006 (for payment in 2007) that may (from time to time and at the sole discretion and option of the Company) be made available to PDF executives. The structure of such plans and the amount of any bonus awarded under such plans shall be in alignment with the objectives of the official Company annual business plan for any year in question.
5. Termination. During the course of your employment with PDF, should you be terminated without cause you will be entitled to receive your base salary and benefits for a period of six (6) months, paid on a monthly basis, in addition to receiving six months accelerated vesting of all outstanding stock options.

Keith, I am delighted to be able to extend you this offer and look forward to working with you. To indicate your acceptance of this offer, please sign and date this letter in the space provided below and return it to me, Becky Baybrook or Steve Melman.

Very truly yours,

PDF SOLUTIONS, INC.

/s/ John K. Kibarian

JOHN K. KIBARIAN
Chief Executive Officer

ACKNOWLEDGMENTS & ACCEPTANCE

I accept this employment offer with the understanding that it is not a contract for a fixed term or specified period of time. I understand that my employment is voluntary, ("At Will"), and can be terminated either by me or by the company at any time, with or without notice and with or without cause. The provisions stated above supersede all prior representations or agreements, whether written or oral. This offer letter may not be modified or amended except by a written agreement, signed by the company and me.

THE FOREGOING TERMS AND CONDITIONS ARE HEREBY AGREED TO AND ACCEPTED:

Signed: /s/ Keith A. Jones Date: 10/13/2005

Print Name: Keith A. Jones

News Release

Investor Relations Contact:
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**PDF Solutions® To Appoint Keith Jones
Vice President of Finance & Chief Financial Officer**

Medical Condition Requires Steve Melman To Take New Position at PDF

SAN JOSE, Calif.—December 16, 2005—PDF Solutions, Inc. (Nasdaq: PDFS) the leading provider of process-design integration technologies to enhance IC manufacturability, today announced its plans to appoint Keith Jones to the position of Vice President of Finance and Chief Financial Officer, effective January 1, 2006.

Mr. Jones has served as Director of Finance and SEC Compliance at PDF Solutions since 2003. Prior to joining PDF Solutions, Mr. Jones served as Assistant Controller for Interwoven, Inc., as Controller for eTime Capital, Inc. and as an Audit Manager for Deloitte & Touche LLP. Mr. Jones received a B.S. in Business Administration from California State University, Fresno and is a Certified Public Accountant. “We are pleased to add Keith to our executive management team,” said John Kibarian, president and CEO of PDF Solutions, Inc. “Keith has contributed greatly as part of our financial team working along side our executive staff and has made a significant positive impact on our business operations.”

Mr. Melman has been Vice President of Finance and Chief Financial Officer of PDF since joining the company in 1998, however, a medical condition now requires him to take a less demanding role at PDF. Effective January 1, 2006, Mr. Melman will fill the newly created position of Vice President of Investor Relations and Strategic Initiatives. In this new position, Mr. Melman will be responsible for investor relations and coordinating such strategic initiatives as mergers & acquisitions and long-term business planning. “We are saddened that Steve’s medical condition requires him to take a less active role in our company,” added Kibarian,

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“however, we are pleased that he will maintain the channels of communication we have established with our investor community, will help coordinate strategic initiatives and will be available to advise our financial team.”

About PDF Solutions

PDF Solutions, Inc. (Nasdaq: PDFS) is the leading provider of process-design integration technologies for manufacturing integrated circuits (ICs). PDF Solutions’ software, methodologies and services enable semiconductor companies to create IC designs that can be more easily manufactured using manufacturing processes that are more capable. By simulating deep sub-micron product and process interactions, the PDF solution offers clients reduced time to market, increased IC yield and performance, and enhanced product reliability and profitability. Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in Europe and Japan. For more information, visit www.pdf.com.

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