

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT  
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): February 16, 2012

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 2.02. Results of Operations and Financial Condition.**

On February 16, 2012 PDF Solutions (the “Company”) issued a press release regarding its financial results and certain other information related to the fourth fiscal quarter and year ended December 31, 2011. A copy of the press release is attached hereto as Exhibit 99.1.

The information in this Item 2.02, including Exhibit 99.1, 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

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 99.1               | Press Release dated February 16, 2012 regarding financial results and certain other information related to the fourth fiscal quarter and year ended December 31, 2011. |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PDF SOLUTIONS, INC.  
(Registrant)

By: /s/ Gregory Walker  
Gregory Walker  
*VP, Finance, and Chief Financial Officer*  
*(Principal Financial Officer)*

Dated: February 16, 2012

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**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 99.1               | Press Release dated February 16, 2012 regarding financial results and certain other information related to the fourth fiscal quarter and year ended December 31, 2011. |

## *News Release*

Company Contacts:

Gregory Walker,  
VP, Finance and CFO  
Tel: (408) 938-6457  
Email: gregory.walker@pdf.com

Sonia Segovia,  
IR Coordinator  
Tel: (408) 938-6491  
Email: sonia.segovia@pdf.com

### **PDF Solutions® Reports Fourth Quarter and Full Year 2011 Results**

SAN JOSE, Calif.—February 16, 2012—PDF Solutions, Inc. (NASDAQ: PDFS) the leading provider of yield improvement technologies and services for the integrated circuit (IC) manufacturing process life cycle, today announced financial results for its fourth fiscal quarter and year ended December 31, 2011.

Total revenues for the fourth fiscal quarter of 2011 totaled \$17.6 million, up 4% from \$16.9 million for the third fiscal quarter of 2011 and up 9% when compared with total revenues of \$16.2 million for the fourth fiscal quarter of 2010. Gainshare performance incentives revenues totaled \$3.4 million, up 13% from \$3.0 million for the third fiscal quarter of 2011 and down 29% when compared to gainshare performance incentives revenues of \$4.9 million for the fourth fiscal quarter of 2010.

Revenues for the fiscal year ended December 31, 2011 totaled \$66.7 million, up 8% from \$61.7 million for the fiscal year ended December 31, 2010. Gainshare performance incentives revenues for the fiscal year ended December 31, 2011 totaled \$15.1 million, down 19% from \$18.6 million for the fiscal year ended December 31, 2010.

On a GAAP basis, net income for the fourth fiscal quarter of 2011 was \$2.1 million, or \$0.07 per basic and diluted share, compared to net income of \$626,000, or \$0.02 per basic and diluted share, for the third fiscal quarter of 2011, and net income of \$326,000, or \$0.01 per basic and diluted share, for the fourth fiscal quarter of 2010.

Net income for the fiscal year ended December 31, 2011 was \$1.9 million, or \$0.07 per basic and diluted share, compared to net income of \$22,000, or \$0.00 per basic and diluted share for the fiscal year ended December 31, 2010.

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Cash and cash equivalents were \$46.0 million at December 31, 2011 compared to cash and cash equivalents of \$38.2 million at December 31, 2010.

In addition to using GAAP results in evaluating PDF Solutions' business, PDF Solutions' management also believes it is useful to measure results using a non-GAAP measure of net income (loss), excluding stock-based compensation expenses, amortization of acquired technology and other acquired intangible assets, restructuring charges, and their related income tax effects, as applicable. Using this non-GAAP measure, the non-GAAP net income for the fourth fiscal quarter of 2011 was \$3.3 million, or \$0.12 per diluted share, compared to non-GAAP net income of \$2.0 million, or \$0.07 per diluted share, for the third fiscal quarter of 2011, and non-GAAP net income of \$2.3 million, or \$0.08 per diluted share for the fourth fiscal quarter of 2010. Also, using this non-GAAP measure, the non-GAAP net income for the fiscal year ended December 31, 2011 was \$7.4 million, or \$0.26 per diluted share, compared to non-GAAP net income of \$7.8 million, or \$0.28 per diluted share, for the fiscal year ended December 31, 2010.

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, February 16, 2012. The call will be simultaneously web cast on PDF Solutions' website at <http://www.pdf.com/events>. A replay of the web cast will be available at the same website address beginning approximately two hours after completion of the live call. A copy of this press release, including the disclosure and reconciliation of certain non-GAAP financial measures to the comparable GAAP measures, which non-GAAP measures may be used periodically by PDF Solutions' management when discussing financial results with investors and analysts, will also be available on PDF Solutions' website at <http://www.pdf.com/press-releases> following the date of this release.

#### **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 that exclude the effects of stock-based compensation expenses, amortization of acquired technology and intangible assets, restructuring charges, and their related income tax effects, as applicable. PDF Solutions' management believes that the presentation of these measures provides useful supplemental information to investors regarding PDF's operating results. These non-GAAP financial measures are used by management internally to measure the company's profitability and performance. PDF Solutions' management believes that excluding the effects of stock-based compensation expenses, amortization of acquired technology and intangible assets, restructuring charges, and their related income tax effects, as applicable, provides a useful supplemental measure of 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 restructuring charges) nor do they have use with regards to the generation of current or future revenues. These non-GAAP results should not be considered an alternative to, or a substitute for, GAAP financial information, and may be different from similarly titled non-GAAP measures used by other companies. In particular, these non-GAAP financial measures are not a substitute for GAAP measures of income or loss as a measure of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity. Since management uses these non-GAAP financial measures internally to measure profitability and performance, PDF Solutions has included these non-GAAP measures to give investors an opportunity to see the company's financial results as viewed by management. A reconciliation of the non-GAAP financial measures to the comparable GAAP financial measures is provided at the end of the company's financial statements presented below.

## About PDF Solutions

PDF Solutions, Inc. (NASDAQ: PDFS) is the leading provider of yield improvement technologies and services for the IC manufacturing process life cycle. PDF Solutions offers solutions that are designed to enable clients to lower costs of IC design and manufacture, enhance time to market, and improve profitability by addressing design and manufacturing interactions from product design to initial process ramps to mature manufacturing operations. PDF Solutions' Characterization Vehicle® (CV®) test chips provide the core modeling capabilities, and are used by more leading manufacturers than any other test chips in the industry. PDF Solutions' industry leading yield management system software, *dataPOWER*®, and fault detection and classification software, *mæstria*®, enhance yield improvement and production control activities at leading fabs around the world. Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in China, Europe, Japan, Korea, Singapore, and Taiwan. For the company's latest news and information, visit <http://www.pdf.com/>.

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

|   | <u>December 31,<br/>2011</u> | <u>December 31,<br/>2010(*)</u> |
|---|------------------------------|---------------------------------|
| <b>ASSETS</b>                               |                              |                                 |
| Current assets:                             |                              |                                 |
| Cash and cash equivalents                   | \$ 46,041                    | \$ 38,154                       |
| Accounts receivable, net                    | 20,863                       | 22,121                          |
| Prepaid expenses and other current assets   | 3,717                        | 3,185                           |
| Total current assets                        | 70,621                       | 63,460                          |
| Non-current investments                     | 784                          | 718                             |
| Property and equipment, net                 | 777                          | 797                             |
| Intangible assets, net                      | 539                          | 1,369                           |
| Other non-current assets                    | 1,663                        | 2,048                           |
| Total assets                                | <u>74,384</u>                | <u>68,392</u>                   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                              |                                 |
| Current liabilities:                        |                              |                                 |
| Accounts payable                            | \$ 974                       | \$ 1,080                        |
| Accrued compensation and related benefits   | 5,026                        | 3,964                           |
| Accrued and other current liabilities       | 2,335                        | 2,636                           |
| Deferred revenues                           | 2,961                        | 3,021                           |
| Billings in excess of recognized revenues   | 2,089                        | 1,802                           |
| Current portion of long-term debt           | -                            | 108                             |
| Total current liabilities                   | 13,385                       | 12,611                          |
| Long-term income taxes payable              | 3,489                        | 3,690                           |
| Other non-current liabilities               | 667                          | 1,259                           |
| Total liabilities                           | <u>17,541</u>                | <u>17,560</u>                   |
| Stockholders' equity:                       |                              |                                 |
| Common stock                                | 4                            | 4                               |
| Additional paid-in-capital                  | 208,826                      | 200,866                         |
| Treasury stock at cost                      | (22,899)                     | (19,298)                        |
| Accumulated deficit                         | (128,789)                    | (130,669)                       |
| Accumulated other comprehensive income      | (299)                        | (71)                            |
| Total stockholders' equity                  | 56,843                       | 50,832                          |
| Total liabilities and stockholders' equity  | <u>\$ 74,384</u>             | <u>\$ 68,392</u>                |

(\*) Includes revisions to correct previously reported amounts. As a part of the Company's remediation process to address material weaknesses in its internal control over financial reporting as reported in its Form 10-K in fiscal year 2010, the Company implemented additional internal control and review procedures. Through such procedures, during the fiscal year 2011, the Company identified errors that affected prior periods, including primarily relating to its accounting for stock compensation under its employee stock purchase plan. The effect of the errors was not material to any previously issued financial statements; however, the cumulative effect of correcting the errors in the current year would have been material to fiscal year 2011. Therefore, the Company revised its prior period financial statements. As part of this revision, the Company also reversed other previously disclosed out-of-period adjustments, which were immaterial, and recorded them instead in the periods in which the errors originated. The aggregate impact by quarter was to increase net income by \$170,000 for the three months ended December 31, 2010. The aggregate impact by the year was to decrease net income by \$225,000 for the year ended December 31, 2011 and decrease net income by \$204,000 for the year ended December 31, 2010.

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

|   | Three months ended   |                       |                         | Twelve months ended  |                         |
|---|----------------------|-----------------------|-------------------------|----------------------|-------------------------|
|   | December 31,<br>2011 | September 30,<br>2011 | December 31,<br>2010(*) | December 31,<br>2011 | December 31,<br>2010(*) |
| <b>Revenues:</b>                                  |                      |                       |                         |                      |                         |
| Design-to-silicon-yield solutions                 | \$ 14,160            | \$ 13,903             | \$ 11,352               | \$ 51,633            | \$ 43,080               |
| Gainshare performance incentives                  | 3,436                | 3,036                 | 4,866                   | 15,079               | 18,570                  |
| Total revenues                                    | <u>17,596</u>        | <u>16,939</u>         | <u>16,218</u>           | <u>66,712</u>        | <u>61,650</u>           |
| <b>Cost of design-to-silicon-yield solutions:</b> |                      |                       |                         |                      |                         |
| Direct costs of design-to-silicon-yield solutions | 8,066                | 7,650                 | 7,004                   | 29,416               | 26,900                  |
| Amortization of acquired technology               | 158                  | 156                   | 207                     | 626                  | 1,285                   |
| Total cost of design-to-silicon-yield solutions   | <u>8,224</u>         | <u>7,806</u>          | <u>7,211</u>            | <u>30,042</u>        | <u>28,185</u>           |
| Gross profit                                      | 9,372                | 9,133                 | 9,007                   | 36,670               | 33,465                  |
| <b>Operating expenses:</b>                        |                      |                       |                         |                      |                         |
| Research and development                          | 3,060                | 3,366                 | 3,997                   | 13,972               | 14,955                  |
| Selling, general and administrative               | 4,119                | 4,158                 | 3,480                   | 18,358               | 16,002                  |
| Amortization of other acquired intangible assets  | 51                   | 51                    | 57                      | 204                  | 295                     |
| Restructuring charges                             | 19                   | 4                     | 615                     | (110)                | 885                     |
| Total operating expenses                          | <u>7,249</u>         | <u>7,579</u>          | <u>8,149</u>            | <u>32,424</u>        | <u>32,137</u>           |
| Income (loss) from operations                     | 2,123                | 1,554                 | 858                     | 4,246                | 1,328                   |
| Interest and other income (expense), net          | 282                  | 201                   | (10)                    | 73                   | 20                      |
| Income (loss) before income taxes                 | 2,405                | 1,755                 | 848                     | 4,319                | 1,348                   |
| Income tax provision (benefit)                    | 292                  | 1,129                 | 522                     | 2,439                | 1,326                   |
| Net income (loss)                                 | <u>\$ 2,113</u>      | <u>\$ 626</u>         | <u>\$ 326</u>           | <u>\$ 1,880</u>      | <u>\$ 22</u>            |
| <b>Net income (loss) per share:</b>               |                      |                       |                         |                      |                         |
| Basic   | <u>\$ 0.07</u>       | <u>\$ 0.02</u>        | <u>\$ 0.01</u>          | <u>\$ 0.07</u>       | <u>\$ 0.00</u>          |
| Diluted   | <u>\$ 0.07</u>       | <u>\$ 0.02</u>        | <u>\$ 0.01</u>          | <u>\$ 0.07</u>       | <u>\$ 0.00</u>          |
| <b>Weighted average common shares:</b>            |                      |                       |                         |                      |                         |
| Basic   | 28,298               | 28,124                | 27,566                  | 28,086               | 27,257                  |
| Diluted   | 28,518               | 28,348                | 27,767                  | 28,431               | 27,471                  |

(\*) Includes revisions to correct previously reported amounts.

PDF SOLUTIONS, INC.

RECONCILIATION OF GAAP NET INCOME TO NON-GAAP NET INCOME AND NON-GAAP NET INCOME TO EBITAR (UNAUDITED)

(In thousands, except per share amounts)

|  | Three months ended   |                       |                         | Twelve months ended  |                         |
|--|----------------------|-----------------------|-------------------------|----------------------|-------------------------|
|  | December 31,<br>2011 | September 30,<br>2011 | December 31,<br>2010(*) | December 31,<br>2011 | December 31,<br>2010(*) |
| GAAP net income  | \$ 2,113             | \$ 626                | \$ 326                  | \$ 1,880             | \$ 22                   |
| Adjustments to reconcile GAAP net income to non-GAAP net income: |                      |                       |                         |                      |                         |
| Stock-based compensation expense                                 | 1,004                | 1,193                 | 1,122                   | 4,791                | 5,313                   |
| Amortization of acquired technology                              | 158                  | 156                   | 207                     | 626                  | 1,285                   |
| Amortization of other acquired intangible assets                 | 51                   | 51                    | 57                      | 204                  | 295                     |
| Restructuring charges  | 19                   | 4                     | 615                     | (110)                | 885                     |
| Non-GAAP net income  | <u>\$ 3,345</u>      | <u>\$ 2,030</u>       | <u>\$ 2,327</u>         | <u>\$ 7,391</u>      | <u>\$ 7,800</u>         |
| Adjustments to reconcile non-GAAP net income to EBITAR(**):      |                      |                       |                         |                      |                         |
| Tax provision (benefit)  | 292                  | 1,129                 | 522                     | 2,439                | 1,326                   |
| EBITAR   | <u>\$ 3,637</u>      | <u>\$ 3,159</u>       | <u>\$ 2,849</u>         | <u>\$ 9,830</u>      | <u>\$ 9,126</u>         |
| EBITAR as a percentage of total revenues                         | 21%                  | 19%                   | 18%                     | 15%                  | 15%                     |
| GAAP net income per diluted share                                | <u>\$ 0.07</u>       | <u>\$ 0.02</u>        | <u>\$ 0.01</u>          | <u>\$ 0.07</u>       | <u>\$ 0.00</u>          |
| Non-GAAP net income per diluted share                            | <u>\$ 0.12</u>       | <u>\$ 0.07</u>        | <u>\$ 0.08</u>          | <u>\$ 0.26</u>       | <u>\$ 0.28</u>          |
| Shares used in diluted shares calculation                        | 28,518               | 28,348                | 27,767                  | 28,431               | 27,471                  |

(\*) Includes revisions to correct previously reported amounts.

(\*\*) EBITAR means the Company's non-GAAP, pre-tax net income, which excludes stock-based compensation, amortization of acquired intangibles, restructuring charges and tax provisions.