

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 10, 2011

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 10, 2011, PDF Solutions Inc. (the "Company") issued a press release regarding its financial results and certain other information related to the fiscal quarter and year ended December 31, 2010. 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

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated February 10, 2011 regarding financial results and certain other information related to the fiscal quarter and year ended December 31, 2010.

## 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/ Joy E. Leo

Joy E. Leo  
*EVP, Chief Administration Officer and Acting Chief  
Financial Officer  
(Principal Financial Officer)*

Dated: February 10, 2011

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
99.1	Press Release dated February 10, 2011 regarding financial results and certain other information related to the fiscal quarter and year ended December 31, 2010.

## *News Release*

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### **PDF Solutions® Reports Fourth Quarter and Full Year 2010 Results**

SAN JOSE, Calif.—February 10, 2011—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 fiscal quarter and year ended December 31, 2010.

Total revenues for the fourth fiscal quarter of 2010 totaled \$16.2 million, up 9% from \$14.8 million for each of the third fiscal quarter of 2010 and the fourth fiscal quarter of 2009. Gainshare performance incentives revenues totaled \$4.9 million, up 12% from \$4.3 million for the third fiscal quarter of 2010 and down 14% when compared to \$5.6 million for the fourth fiscal quarter of 2009.

Net income for the fourth fiscal quarter of 2010 was \$156,000, or \$0.01 per basic and diluted share, compared to net income of \$50,000, or \$0.00 per basic and diluted share, for the third fiscal quarter of 2010, and net loss for the fourth fiscal quarter of 2009 of \$(701,000), or \$(0.03) per basic and diluted share.

Total revenues for the fiscal year ended December 31, 2010 were \$61.7 million, up 27% from \$48.4 million for the fiscal year ended December 31, 2009. Gainshare performance incentives revenues for the fiscal year ended December 31, 2010 totaled \$18.6 million, up 18% from \$15.8 million for the fiscal year ended December 31, 2009.

Net income for the fiscal year ended December 31, 2010 was \$227,000, or \$0.01 per basic and diluted share, compared to net loss of \$(17.5) million, or \$(0.66) per basic and diluted share for the fiscal year ended December 31, 2009.

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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 2010 totaled \$2.2 million, or \$0.08 per diluted share, compared to the non-GAAP net income of \$1.9 million, or \$0.07 per diluted share, for the third fiscal quarter of 2010, and the non-GAAP net income of \$1.4 million, or \$0.05 per diluted share for the fourth fiscal quarter of 2009. Also, using this non-GAAP measure, the non-GAAP net income for the fiscal year ended December 31, 2010 totaled \$7.9 million, or \$0.28 per diluted share, compared to a non-GAAP net loss of \$(6.9) million, or \$(0.26) per diluted share for the fiscal year ended December 31, 2009.

As previously announced, PDF Solutions will discuss these results on a live conference call beginning at 3:00 p.m. Pacific Time/6:00 p.m. Eastern Time today, February 10, 2010. 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 other acquired 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 other acquired 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.

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## 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,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 38,154	\$ 34,899
Accounts receivable, net	23,442	19,809
Prepaid expenses and other current assets	3,246	3,029
Total current assets	64,842	57,737
Property and equipment, net	797	1,573
Non-current investments	718	718
Intangible assets, net	1,369	2,954
Other non-current assets	727	495
Total assets	<u>\$ 68,453</u>	<u>\$ 63,477</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 108	\$ 115
Accounts payable	1,080	959
Accrued compensation and related benefits	3,964	4,438
Taxes payable and other accrued liabilities	2,400	3,502
Deferred revenues	3,021	1,584
Billings in excess of recognized revenues	1,802	1,953
Total current liabilities	12,375	12,551
Long-term debt	-	117
Long-term income taxes payable	3,668	3,218
Other non-current liabilities	1,495	1,704
Total liabilities	<u>17,538</u>	<u>17,590</u>
Stockholders' equity:		
Common stock	4	4
Additional paid-in-capital	200,144	194,081
Treasury stock at cost	(19,298)	(18,715)
Accumulated deficit	(129,884)	(130,111)
Accumulated other comprehensive income	(51)	628
Total stockholders' equity	<u>50,915</u>	<u>45,887</u>
Total liabilities and stockholders' equity	<u>\$ 68,453</u>	<u>\$ 63,477</u>

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

	<u>Three Months Ended December 31,</u>		<u>Twelve Months Ended December</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(In thousands, except per share amounts)			
Revenues:				
Design-to-silicon-yield solutions	\$ 11,352	\$ 9,137	\$ 43,080	\$ 32,662
Gainshare performance incentives	4,866	5,650	18,570	15,776
Total revenues	<u>16,218</u>	<u>14,787</u>	<u>61,650</u>	<u>48,438</u>
Cost of design-to-silicon-yield solutions:				
Direct costs of design-to-silicon-yield solutions	6,348	6,356	24,389	22,779
Amortization of acquired technology	207	360	1,285	1,439
Total cost of design-to-silicon-yield solutions	<u>6,555</u>	<u>6,716</u>	<u>25,674</u>	<u>24,218</u>
Gross profit	9,663	8,071	35,976	24,220
Operating expenses:				
Research and development	4,599	4,226	17,187	19,773
Selling, general and administrative	3,689	3,719	15,989	16,561
Amortization of other acquired intangible assets	57	89	295	349
Restructuring charges	543	934	885	4,512
Total operating expenses	<u>8,888</u>	<u>8,968</u>	<u>34,356</u>	<u>41,195</u>
Income (loss) from operations	775	(897)	1,620	(16,975)
Interest and other income (expense), net	(30)	116	0	237
Income (loss) before income taxes	745	(781)	1,620	(16,738)
Income tax provision (benefit)	589	(80)	1,393	753
Net income (loss)	<u>\$ 156</u>	<u>\$ (701)</u>	<u>\$ 227</u>	<u>\$ (17,491)</u>
Net income (loss) per share:				
Basic	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ 0.01</u>	<u>\$ (0.66)</u>
Diluted	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ 0.01</u>	<u>\$ (0.66)</u>
Weighted average common shares:				
Basic	<u>27,566</u>	<u>26,588</u>	<u>27,257</u>	<u>26,377</u>
Diluted	<u>27,767</u>	<u>26,588</u>	<u>27,478</u>	<u>26,377</u>

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**PDF SOLUTIONS, INC.**  
**RECONCILIATION OF GAAP NET INCOME (LOSS) TO NON-GAAP NET INCOME (LOSS) (UNAUDITED)**  
(In thousands, except per share amounts)

	<u>Three Months Ended December 31,</u>		<u>Twelve Months Ended December</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
GAAP net income (loss)	\$ 156	\$ (701)	\$ 227	\$ (17,491)
Stock-based compensation expenses	1,200	724	5,230	4,269
Amortization of acquired technology	207	360	1,285	1,439
Amortization of other acquired intangible assets	57	89	295	349
Restructuring charges	543	934	885	4,512
Non-GAAP net income (loss)	<u>\$ 2,163</u>	<u>\$ 1,406</u>	<u>\$ 7,922</u>	<u>\$ (6,922)</u>
GAAP net income (loss) per diluted share	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ 0.01</u>	<u>\$ (0.66)</u>
Non-GAAP net income (loss) per diluted share	<u>\$ 0.08</u>	<u>\$ 0.05</u>	<u>\$ 0.28</u>	<u>\$ (0.26)</u>
Shares used in computing diluted non-GAAP measure of net income (loss) per share	<u>28,248</u>	<u>27,430</u>	<u>27,993</u>	<u>26,377</u>

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