
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): October 23, 2014

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 1000
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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TABLE OF CONTENTS

Item 2.02. Results of Operations and Financial Condition

Item 9.01. Financial Statements and Exhibits

SIGNATURES

EXHIBIT INDEX

Item 2.02. Results of Operations and Financial Condition.

On October 23, 2014, PDF Solutions (the “Company”) issued a press release regarding its financial results and certain other information related to the third fiscal quarter ended September 30, 2014. 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

Exhibit No.	Description
99.1	Press Release dated October 23, 2014 regarding financial results and certain other information related to the third fiscal quarter ended September 30, 2014.

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 C. Walker
Gregory C. Walker
VP, Finance, and Chief Financial Officer
(principal financial and accounting officer)

Dated: October 23, 2014

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release dated October 23, 2014 regarding financial results and certain other information related to the third fiscal quarter ended September 30, 2014.

News Release

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PDF Solutions® Reports Third Fiscal Quarter 2014 Results

SAN JOSE, Calif.—October 23, 2014—PDF Solutions, Inc. (“PDF Solutions” or the “Company”) (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 third fiscal quarter ended September 30, 2014.

Total revenues for the third fiscal quarter of 2014 totaled \$22.4 million, down 9% from \$24.6 million for the second fiscal quarter of 2014 and down 12% when compared to total revenues of \$25.5 million for the third fiscal quarter of 2013. Design-to-silicon-yield solutions revenue for the third fiscal quarter of 2014 totaled \$10.9 million, down 17% from \$13.1 million for the second fiscal quarter of 2014 and down 36% when compared to design-to-silicon-yield solutions revenue of \$17.0 million for the third fiscal quarter of 2013. Gainshare performance incentives revenue for the third fiscal quarter of 2014 totaled \$11.5 million, the same as the second fiscal quarter of 2014 and up 36% when compared to gainshare performance incentives revenue of \$8.5 million for the third fiscal quarter of 2013.

On a GAAP basis, net income for the third fiscal quarter of 2014 was \$1.8 million, or \$0.06 per basic and \$0.05 per diluted share, compared to \$4.7 million, or \$0.15 per basic and diluted share, for the second fiscal quarter of 2014, and compared to \$4.8 million, or \$0.16 per basic and \$0.15 per diluted share, for the third fiscal quarter of 2013.

Cash and cash equivalents were \$116.1 million at September 30, 2014, compared to \$89.4 million at December 31, 2013.

Non-GAAP net income for the third fiscal quarter of 2014 was \$6.3 million, or \$0.20 per diluted share, compared to \$9.0 million, or \$0.28 per diluted share, for the second fiscal quarter of 2014, and compared to \$8.6 million, or \$0.27 per diluted share, for the third fiscal quarter of 2013. EBITDAR for the third fiscal quarter of 2014 was \$7.6 million, or \$0.24 per diluted share, compared to \$10.6 million, or \$0.33 per diluted share, for the second fiscal quarter of 2014, and compared to \$9.8 million, or \$0.31 per diluted share, for the third fiscal quarter of 2013.

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 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. Non-GAAP net income excludes the effects of non-recurring items, stock-based compensation expenses, amortization of acquired technology and other acquired intangible assets, and their related income tax effects, as applicable, as well as adjusts for the non-cash portion of income taxes. EBITDAR is calculated by taking GAAP net income, adding back the effects of non-recurring items, stock-based compensation expenses, amortization of acquired technology and other acquired intangibles, depreciation expense and income tax provision (benefit). 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) 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. 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 statements made on the conference call to regarding PDF Solutions' financial results for its third fiscal quarter ended September 30, 2014, including the Company's future expected financial results, are forward looking and are subject to events and circumstances of the future. 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: customers' production volumes at Gainshare-covered facilities; continued adoption of the Company's solutions by new and existing customers; project milestones or delays and performance criteria achieved; the provision of technology and services prior to the execution of a final contract; 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, 2013, 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, 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®) electrical test chip infrastructure provides the core modeling capabilities, and is used by more leading manufacturers than any other test chips in the industry. Proprietary Template™ layout patterns provide optimum area, performance, and manufacturability for designing IC products. The proprietary Exensio™ solution for YieldAware™ FDC enables world-class variability control in manufacturing, in part by leveraging PDF Solutions' industry-leading dataPOWER® yield management system (YMS) and mæstria® fault detection and classification (FDC) software. Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in Canada, China, France, Germany, Italy, 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>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 116,121	\$ 89,371
Accounts receivable, net	27,064	34,860
Deferred tax assets - current portion	4,046	5,920
Prepaid expenses and other current assets	3,169	3,632
Total current assets	<u>150,400</u>	<u>133,783</u>
Property and equipment, net	8,679	7,064
Deferred tax assets - long-term portion	7,590	8,599
Other non-current assets	1,292	1,718
Total assets	<u><u>167,961</u></u>	<u><u>151,164</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 992	\$ 1,129
Accrued compensation and related benefits	5,181	7,707
Accrued and other current liabilities	1,564	1,593
Deferred revenues	2,637	2,096
Billings in excess of recognized revenues	-	343
Total current liabilities	<u>10,374</u>	<u>12,868</u>
Non-current liabilities	3,274	3,584
Total liabilities	<u>13,648</u>	<u>16,452</u>
Stockholders' equity:		
Common stock and additional paid-in-capital	245,812	233,818
Treasury stock at cost	(33,326)	(28,905)
Accumulated deficit	(57,937)	(70,649)
Accumulated other comprehensive income	(236)	448
Total stockholders' equity	<u>154,313</u>	<u>134,712</u>
Total liabilities and stockholders' equity	<u><u>\$ 167,961</u></u>	<u><u>\$ 151,164</u></u>

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

	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenues:					
Design-to-silicon-yield solutions	\$ 10,860	\$ 13,091	\$ 17,015	\$ 38,871	\$ 46,813
Gainshare performance incentives	11,546	11,519	8,474	35,231	27,562
Total revenues	22,406	24,610	25,489	74,102	74,375
Costs of design-to-silicon-yield solutions:					
Direct costs of design-to-silicon-yield solutions	9,722	8,847	10,507	28,273	29,905
Impairment of deferred costs	1,892	-	-	1,892	-
Total costs of design-to silicon-yield solutions	11,614	8,847	10,507	30,165	29,905
Gross profit	10,792	15,763	14,982	43,937	44,470
Operating expenses:					
Research and development	3,349	3,337	3,396	10,282	9,944
Selling, general and administrative	4,498	4,661	3,812	13,487	13,010
Amortization of other acquired intangible assets	-	12	19	31	56
Restructuring charges (credits)	-	-	8	57	(35)
Total operating expenses	7,847	8,010	7,235	23,857	22,975
Income from operations	2,945	7,753	7,747	20,080	21,495
Interest and other income (expense), net	33	(27)	(283)	(82)	(109)
Income before income taxes	2,978	7,726	7,464	19,998	21,386
Income tax provision	1,217	3,030	2,640	7,287	7,279
Net income	\$ 1,761	\$ 4,696	\$ 4,824	\$ 12,711	\$ 14,107
Net income per share:					
Basic	\$ 0.06	\$ 0.15	\$ 0.16	\$ 0.41	\$ 0.48
Diluted	\$ 0.05	\$ 0.15	\$ 0.15	\$ 0.40	\$ 0.45
Weighted average common shares:					
Basic	30,876	30,590	30,000	30,648	29,668
Diluted	32,079	31,882	31,623	31,975	31,198

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

	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
GAAP net income	\$ 1,761	\$ 4,696	\$ 4,824	\$ 12,711	\$ 14,107
Adjustments to reconcile GAAP net income to non-GAAP net income:					
Stock-based compensation expense	2,226	2,375	1,924	6,259	4,942
Impairment of deferred costs	1,892	-	-	1,892	-
Amortization of other acquired intangible assets	-	12	19	31	56
Restructuring charges (credits)	-	-	8	57	(35)
Non-cash portion of income tax expense	428	1,869	1,832	3,797	3,977
Non-GAAP net income	<u>\$ 6,307</u>	<u>\$ 8,952</u>	<u>\$ 8,607</u>	<u>\$ 24,747</u>	<u>\$ 23,047</u>
GAAP net income per diluted share	<u>\$ 0.05</u>	<u>\$ 0.15</u>	<u>\$ 0.15</u>	<u>\$ 0.40</u>	<u>\$ 0.45</u>
Non-GAAP net income per diluted share	<u>\$ 0.20</u>	<u>\$ 0.28</u>	<u>\$ 0.27</u>	<u>\$ 0.77</u>	<u>\$ 0.74</u>
Shares used in diluted shares calculation	32,079	31,882	31,623	31,975	31,198

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

	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
GAAP net income	\$ 1,761	4,696	4,824	\$ 12,711	14,107
Adjustments to reconcile GAAP net income to EBITDAR:					
Stock-based compensation expense	2,226	2,375	1,924	6,259	4,942
Impairment of deferred costs	1,892	-	-	1,892	-
Amortization of other acquired intangible assets	-	12	19	31	56
Restructuring charges (credits)	-	-	8	57	(35)
Depreciation expense	519	482	386	1,459	961
Income tax provision	1,217	3,030	2,640	7,287	7,279
EBITDAR	<u>\$ 7,615</u>	<u>\$ 10,595</u>	<u>\$ 9,801</u>	<u>\$ 29,696</u>	<u>\$ 27,310</u>
EBITDAR per diluted share	<u>\$ 0.24</u>	<u>\$ 0.33</u>	<u>\$ 0.31</u>	<u>\$ 0.93</u>	<u>\$ 0.88</u>
Shares used in diluted shares calculation	32,079	31,882	31,623	31,975	31,198