PDF SOLUTIONS INC
Form 10-Q
November 09, 2009
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended September 30, 2009

or

o **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 (State or Other Jurisdiction of Incorporation or Organization)	**25-1701361** (I.R.S. Employer Identification No.)
333 West San Carlos Street, Suite 700 **San Jose, California** (Address of Principal Executive Offices)	**95110** (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 x No o

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 o No o

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. (Check one):

o Large accelerated filer	x Accelerated filer
o Non-accelerated filer (Do not check if a smaller reporting company)	o 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 o No x

The number of shares outstanding of the Registrant s Common Stock as of October 30, 2009 was 26,528,407.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

PDF SOLUTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2009	December 31, 2008
	(In thousands, except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,176	$ 31,686
Short-term investments		9,051
Accounts receivable, net of allowance of $254 in 2009 and 2008	18,254	24,989
Prepaid expenses, deferred tax assets, and other current assets	2,771	5,147
Total current assets	54,201	70,873
Property and equipment, net	1,724	2,675
Non-current investments	718	718
Intangible assets, net	3,395	4,730
Deferred tax assets and other non-current assets	1,150	631
Total assets	$ 61,188	$ 79,627
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 117	$ 370
Accounts payable	1,438	1,384
Accrued compensation and related benefits	4,443	6,525
Taxes payable and other accrued liabilities	2,335	3,723
Deferred revenue	1,540	1,792
Billings in excess of recognized revenue	88	748
Total current liabilities	9,961	14,542
Long-term debt	148	512
Long-term taxes payable	3,506	3,356
Long-term other liabilities	1,494	1,447
Total liabilities	15,109	19,857
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 30,014 in 2009 and 29,339 in 2008; shares outstanding 26,525 in 2009 and 25,923 in 2008	4	4
Additional paid-in-capital	193,247	189,132
Treasury stock at cost, 3,489 shares in 2009 and 3,416 shares in 2008	(18,535)	(18,402)
Accumulated deficit	(129,410)	(112,620)
Accumulated other comprehensive income	773	1,656
Total stockholders equity	46,079	59,770
Total liabilities and stockholders equity	$ 61,188	$ 79,627

See notes to unaudited condensed consolidated financial statements

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PDF SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
	(In thousands, except per share amounts)			
Revenues:				
Design-to-silicon-yield solutions	$ 8,439	$ 13,348	$ 23,525	$ 43,824
Gainshare performance incentives	5,439	5,417	10,126	16,402
Total revenues	13,878	18,765	33,651	60,226
Cost of design-to-silicon-yield solutions:				
Direct costs of design-to-silicon-yield solutions	5,270	7,152	16,423	22,185
Amortization of acquired technology	360	631	1,079	1,893
Total cost of design-to-silicon-yield solutions	5,630	7,783	17,502	24,078
Gross margin	8,248	10,982	16,149	36,148
Operating expenses:				
Research and development	4,689	7,835	15,547	26,045
Selling, general and administrative	4,321	5,401	12,842	17,346
Amortization of other acquired intangible assets	86	194	260	583
Restructuring charges	1,743		3,578	1,471
Total operating expenses	10,839	13,430	32,227	45,445
Loss from operations	(2,591)	(2,448)	(16,078)	(9,297)
Interest and other income (expense), net	7	(343)	121	397
Loss before income taxes	(2,584)	(2,791)	(15,957)	(8,900)
Income tax provision	247	9,433	833	7,777
Net loss	$ (2,831)	$ (12,224)	$ (16,790)	$ (16,677)
Net loss per share basic and diluted	$ (0.11)	$ (0.44)	$ (0.64)	$ (0.60)
Weighted average common shares basic and diluted	26,499	27,540	26,306	27,663

See notes to unaudited condensed consolidated financial statements

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PDF SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30, 2009	2008
	(In thousands)	
Operating activities:		
Net loss	$ (16,790)	$ (16,677)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,097	1,447
Stock-based compensation expense	3,545	5,450
Losses on sale of investment security and disposal of fixed assets	70	450
Amortization of acquired intangible assets	1,339	2,476
Deferred taxes	(165)	8,446
Gain on debt extinguishment	(393)	
Changes in operating assets and liabilities:		
Accounts receivable, net of allowances	6,733	5,213
Prepaid expenses and other assets	2,034	189
Accounts payable	47	(1,638)
Accrued compensation and related benefits	(2,113)	(28)
Taxes payable and other accrued liabilities	(1,205)	(1,513)
Deferred revenues	(251)	(232)
Billings in excess of recognized revenue	(660)	(438)
Net cash provided by (used in) operating activities	(6,712)	3,145
Investing activities:		
Purchases of available-for-sale securities		(27,094)
Maturities and sales of available-for-sale securities	9,054	20,665
Purchases of property and equipment	(294)	(1,007)
Net cash provided by (used in) investing activities	8,760	(7,436)
Financing activities:		
Proceeds from exercise of stock options		63
Proceeds from Employee Stock Purchase Plan	570	590
Purchases of treasury stock	(133)	(3,108)
Principal payments on long-term debt	(234)	(361)
Net cash provided by (used in) financing activities	203	(2,816)
Effect of exchange rate changes on cash	(761)	(1,182)
Net increase (decrease) in cash and cash equivalents	1,490	(8,289)
Cash and cash equivalents, beginning of period	31,686	35,315
Cash and cash equivalents, end of period	$ 33,176	$ 27,026
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Taxes	$ 1,000	$ 1,837
Interest	$ 15	$ 31

See notes to unaudited condensed consolidated financial statements

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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), without audit, 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, 2008.

We have evaluated subsequent events through November 9, 2009, the date these financial statements were available for issuance and the filing date of this Quarterly Report on Form 10-Q. Subsequent events are events that occur after the balance sheet date but before financial statements are issued or are available to be issued.

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. A significant portion of the Company s revenues require estimates with respect to total costs which may be incurred and revenues earned. Actual results could differ from these estimates.

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

Revenue Recognition

The Company derives revenue from two sources: Design-to-Silicon-Yield Solutions, which include Services and Software Licenses, 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 for each element of Design-to-Silicon-Yield solutions as follows:

Services 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 accurate estimation of costs to perform obligations and the overall scope of each engagement. Revenue under contracts for solution implementation services is recognized as services are performed using the cost-to-cost percentage of completion method of contract accounting. Losses on solution implementation contracts are recognized in the period when they become evident. Revisions in profit estimates are reflected in the period in which the conditions that require the revisions become known and can be estimated.

On occasion, the Company has licensed its software products as a component of its fixed-price service contract. In such instances, the software products are licensed to customers over a specified term of the agreement with support and maintenance to be provided over the license term. Under these arrangements, where vendor-specific objective evidence of fair value (VSOE) exists for the support and maintenance element, the support and maintenance revenue is recognized separately over the term of the supporting period. The remaining fee is recognized as services are performed using the cost-to-cost percentage of completion method of contract accounting. VSOE for maintenance, in these instances, is generally established based upon a negotiated renewal rate. Under arrangements where software products are licensed as a component of its fixed-price service contract and where VSOE does not exist to allocate a portion of the total fixed-price to the undelivered elements, revenue is recognized for the total fixed-price as the lesser of either the percentage of completion method of contract accounting or ratably over the longer of either the term of the agreement or the support period. Costs incurred under these arrangements are deferred and recognized in proportion to revenue recognized under these arrangements.

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Revenue from related support and maintenance services is recognized ratably over the term of the support and maintenance contract, generally one year, while revenue from consulting, installation, and training services is recognized as services are performed. When bundled with software licenses in multiple element arrangements, 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. 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 VSOE does not exist to allocate a portion of the total fee to the undelivered elements, revenue is recognized ratably over the longest period of the undelivered elements.

Software Licenses The Company also licenses its software products separately from its integrated 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 VSOE does not exist to allocate a portion of the total fee to the undelivered elements, revenue is recognized ratably over the longest period of the undelivered elements, and such revenue is recorded as services revenue. 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 cost-to-cost percentage of completion method of contract accounting, and such revenue is recorded as services revenue.

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 incentives component where the customer may pay a variable fee, usually after the fixed fee period has ended. Revenue derived from gainshare performance incentives represents profit sharing and performance incentives earned based 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.

Software Development Costs Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. Because the Company believes its current process for developing software is essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

2. RECENT ACCOUNTING PRONOUNCEMENTS AND ACCOUNTING CHANGES

In October 2009, the Financial Accounting Standards Boards (FASB) issued an Accounting Standard Update on revenue recognition in relation to multiple-deliverable revenue arrangements. This update provides guidance on accounting for multiple deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. The amendments in this update will replace the term fair value in the revenue allocation guidance with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. This update is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact, if any, that the adoption of this updated standard will have on its financial results and position.

In October 2009, the FASB issued an Accounting Standard Update on software revenue recognition in relation to revenue arrangements that include software elements. This standard scopes out from software revenue recognition accounting, revenue arrangements for tangible products that contain both software and non-software components that function together to deliver the tangible products essential functionality. It also amends the determination of how arrangement consideration should be allocated to deliverables in a multiple-deliverable revenue arrangement. This update is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact, if any, that the adoption of this update will have on its financial results and position.

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Effective April 1, 2009, the Company adopted FASB s Accounting Standard Update on the disclosure of subsequent events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This standard requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The adoption of this accounting standard did not have a material impact on the Company s financial results and position.

Effective April 1, 2009, the Company adopted FASB s Accounting Standard Update on how to determine fair value when the volume and level of activity for assets or liabilities have significantly decreased and for identifying transactions that are not orderly. The adoption of this accounting standard did not have a material impact on the Company s financial results and position.

Effective April 1, 2009, the Company adopted FASB s Accounting Standard Update on how to account for recognition and presentation of other-than-temporary impairments of debt securities. This update amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments in the financial statements. The adoption of this standard did not have a material impact on the Company s financial results and position.

Effective April 1, 2009, the Company adopted FASB s Accounting Standard Update for disclosures about fair value of financial instruments. This update requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. These standards also require those disclosures in summarized financial information in interim reporting periods. The adoption of these standards had no impact on the Company s financial results and position.

Effective January 1, 2009, the Company adopted FASB s Accounting Standard Update for business combinations. These standards establish principles and requirements for how an acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, and the goodwill acquired. These standards also establish disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The adoption of this standard did not have an effect on the Company s financial results and position.

3. INVESTMENTS

The following tables summarize the Company s investments (in thousands):

	September 30, 2009			
	Amortized Costs	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Auction-rate securities	$ 1,000	$	$ (282)	$ 718
Included in non-current investments				$ 718

December 31, 2008

	Amortized Costs	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Commercial paper	$ 2,043	$ 4	$	$ 2,047
Agency obligations	6,544	68		6,612
Auction-rate securities	1,000		(282)	718
Corporate Securities	400		(8)	392
	$ 9,987	$ 72	$ (290)	$ 9,769
Included in short-term investments				$ 9,051
Included in non-current investments				718
Total				$ 9,769

As of September 30, 2009, the Company s investments consisted entirely of auction-rate securities. As of December 31, 2008, all securities, other than auction-rate securities held by the Company, had a maturity of one year or less. Please refer to Note 12 Fair Value for further discussion of auction-rate securities.

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4. ACCOUNTS RECEIVABLE

Accounts receivable include amounts that are unbilled at the end of the period. Unbilled accounts receivable are determined on an individual contract basis and were approximately $6.8 million and $10.5 million as of September 30, 2009 and December 31, 2008, respectively.

5. GOODWILL AND ACQUIRED INTANGIBLE ASSETS

Impairment on goodwill and acquired intangible assets is evaluated on an annual basis (or more frequently if indicators of impairment exist). Acquired intangible assets other than goodwill are amortized over their useful lives unless these lives are determined to be indefinite. The Company completed its annual impairment test in the fourth quarter of 2008 when the Company observed impairment indicators including the trading of common stock below the Company s book value and a further deterioration in the semiconductor industry, brought on by the deteriorating global economic environment. The Company also evaluated its acquired intangible assets for impairment. As a result of the impairment analyses, the Company recorded an impairment charge of $64.0 million related to goodwill and $6.3 million relating to its acquired intangible assets during the fourth quarter of 2008. During the nine months ended September 30, 2009, there were no indicators of impairment related to the Company s intangible assets.

The following table provides information relating to the intangible assets and goodwill as of September 30, 2009 and December 31, 2008 (in thousands):

	Amortization Period (Years)	December 31, 2008 Net Carrying Amount	Amortization	Foreign Currency Translation	September 30, 2009 Net Carrying Amount
Acquired Identifiable Intangibles					
Acquired technology	4 - 5	$ 3,608	$ (1,079)	$	$ 2,529
Brand name	4	129	(53)		76
Customer relationships and backlog	1 - 6	489	(96)		393
Patent and applications	7	400	(54)		346
Other acquired intangibles	4	104	(57)	4	51
Total		$ 4,730	$ (1,339)	$ 4	$ 3,395

	Amortization Period (Years)	December 31, 2007 Net Carrying Amount	Acquisitions	Purchase Price Adjustments	Amortization	Foreign Currency Translation	Impairment	December 31, 2008 Net Carrying Amount
Goodwill	N/A	$ 65,170	$ 147	$ (216)	$	$ (1,102)	$ (63,999)	$
Acquired identifiable intangibles:								
Acquired technology	4-5	$ 9,184	$ 420	$	$ (2,576)	$	$ (3,420)	$ 3,608
Brand name	4	361			(128)		(104)	129
Customer relationships and backlog	1-6	1,812	1,230		(509)		(2,044)	489

Patents and applications	7	1,283			(200)		(683)	400
Other acquired intangibles	4	178			(72)	(2)		104
Total		$ 12,818	$ 1,650	$	$ (3,485)	$ (2)	$ (6,251)	$ 4,730

The Company expects the annual amortization of acquired intangible assets to be as follows (in thousands):

Year Ending December 31,	**Amount**
2009 (remaining three-month period)	$ 446
2010	1,579
2011	830
2012	435
2013	74
2014 and thereafter	31
Total	$ 3,395

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6. 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 of the applicable stock purchase rights and stock options, generally four years. Stock-based compensation expenses before taxes related to the Company s employee stock purchase plan and stock-option plans were allocated as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cost of design-to-silicon-yield solutions	$ 278	$ 453	$ 1,111	$ 1,383
Research and development	341	537	1,093	1,843
Selling, general and administrative	465	723	1,341	2,224
Stock-based compensation expenses	$ 1,084	$ 1,713	$ 3,545	$ 5,450

The Company estimated the fair value of share-based awards granted 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:

Stock Plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Expected life (in years)	5.16	5.77	5.16	5.77
Volatility	63.5%	58.6%	63.1%	58.6%
Risk-free interest rate	2.54%	3.48%	2.44%	3.27%
Expected dividend				
Weighted average fair value per share of options granted during the period	$ 1.24	$ 2.75	$ 1.11	$ 3.13

Employee Stock Purchase Plan:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Expected life (in years)	1.25	1.26	1.25	1.31
Volatility	79.1%	69.8%	79.6%	60.8%
Risk-free interest rate	1.19%	2.33%	1.23%	2.80%
Expected dividend				
Weighted average fair value per share of employee stock issued during the period	$ 1.12	$ 2.43	$ 0.90	$ 3.13

On September 30, 2009, the Company has in effect the following stock-based compensation plans:

Stock Plans During 2001, the Company terminated the 1996 and 1997 Stock Plans as to future option grants, and adopted the 2001 Stock Plan. Under the Company s 2001 Stock Plan, on January 1 of each year, starting with year 2002, the number of shares in the reserve will increase by the lesser of (1) 3,000,000 shares, (2) 5% of the outstanding common stock on the last day of the immediately preceding year, or (3) the number of shares determined by the board of directors. Under the 2001 Stock Plan, the Company may grant stock purchase rights and stock options to purchase shares of common stock to employees, directors and consultants. The exercise price for stock options must generally be at prices not less than the fair market value at the date of grant for incentive stock options and not less than 85% of fair market value for non-statutory stock options. Stock options generally expire ten years from the date of grant and become vested and exercisable ratably over a four-year period.

Stock option activity under the Company s plan during the nine months ended September 30, 2009 was as follows:

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	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, 2009	4,412	$	8.93			
Granted	152		2.08			
Exercised						
Canceled	(235)		9.09			
Expired	(186)		9.12			
Outstanding, September 30, 2009	4,143		8.64	6.62	$	301
Vested and expected to vest, September 30, 2009	4,001		8.84	6.40	$	249
Exercisable, September 30, 2009	2,911		9.45	5.65	$	78

The aggregate intrinsic value in the table above represents the total intrinsic value based on the Company s closing stock price of $3.49 per share as of September 30, 2009, which would have been received by the option holders had all in-the-money option holders exercised their options as of that date. No stock options were exercised during the nine months ended September 30, 2009.

As of September 30, 2009, there was $4.4 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted average period of 2.1 years. The total fair value of shares vested during the nine months ended September 30, 2009 was $2.6 million.

Nonvested shares (restricted stock units) activity during the nine months ended September 30, 2009 were as follows:

	Shares (in thousands)		Weighted Average Grant Date Fair Value Per Share
Nonvested, January 1, 2009	852	$	8.64
Granted			
Vested	(217)		5.52
Forfeited	(102)		8.41
Nonvested, September 30, 2009	533		9.95

As of September 30, 2009, there was $3.2 million of total unrecognized compensation cost related to nonvested restricted stock units. That cost is expected to be recognized over a weighted average period of 3.0 years. The total compensation expense related to shares vested during the nine months ended September 30, 2009 was $1.3 million.

Employee Stock Purchase Plan In July 2001, the Company adopted an Employee Stock Purchase Plan (Purchase Plan), under which eligible employees can contribute up to 10% of their compensation, as defined in the Purchase Plan, towards the purchase of shares of PDF common stock at a price of 85% of the lower of the fair market value at the beginning of the offering period or the end of each six-month offering period. Under the Purchase Plan, on January 1 of each year, starting with 2002, the number of shares reserved for issuance will automatically increase by the lesser of (1) 675,000 shares, (2) 2% of the Company s outstanding common stock on the last day of the immediately preceding year, or (3) the number of shares determined by the board of directors. For the nine months ended September 30, 2009, the Purchase Plan compensation expense was $174,000.

Stock Repurchase Program On March 26, 2003, the Company s Board of Directors approved a share repurchase program to purchase up to $10.0 million of its outstanding common stock. This program was completed in August 2007 with 988,000 shares repurchased at the average price of $10.12 per share. On October 29, 2007, the Board of Directors approved a new program to repurchase up to an additional $10.0 million of the Company s common stock on the open market. The right to repurchase stock under this program will expire on October 29, 2010. As of September 30, 2009, 2.5 million shares have been repurchased at the average price of $3.41 per share under this program and $1.5 million remained available for future repurchases.

7. RESTRUCTURING

In 2008, the Company announced two restructuring plans to better allocate its resources to improve its operational results in light of current market conditions, one on April 29, 2008 and the other on October 28, 2008.

For the plan announced on April 29, 2008, the Company recorded restructuring charges of $1.5 million during the three months ended June 30, 2008, which primarily consisted of employee severance costs of $1.4 million. All severance costs and related fees were paid out and the activities were completed as of March 31, 2009.

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For the plan announced on October 28, 2008, the Company recorded restructuring charges of $5.5 million, primarily consisting of employee severance costs of $4.4 million and facility exit costs of $1.0 million. Of the $5.5 million, $3.6 million was recorded during the nine months ended September 30, 2009, which primarily consisted of employee severance costs. The following table summarizes the activities of these restructuring liabilities (in thousands):

Restructuring Announced on October 28, 2008	Severance	Facility Exit	Professional and Other Fees	Total
Balance, January 1, 2009	$ 860	$ 1,108	$ 31	$ 1,999
Restructuring charges	3,446		132	3,578
Payments	(3,730)	(336)	(145)	(4,211)
Balance, September 30, 2009	$ 576	$ 772	$ 18	$ 1,366

As of September 30, 2009, of the remaining accrual of $1.4 million, $908,000 was included in accrued liabilities and $458,000 was included in long-term other liabilities. Accrued severance of $582,000 and accrued professional and other fees of $18,000 are expected to be paid out in the three months ending December 31, 2009. Accrued facility exit costs will be paid in accordance with the lease payment schedule through 2013.

8. INCOME TAXES

The Company accounts for temporary differences between the book and tax basis of assets and liabilities by recording deferred tax assets and liabilities. The Company must assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent the Company believes that recovery is not likely, the Company must establish a valuation allowance. Changes in the Company s net deferred tax assets and valuation allowance in a period are recorded through the income tax provision in the condensed consolidated statements of operations.

The Company classifies its liabilities related to unrecognized tax benefits as long-term. The Company includes interest and penalties related to unrecognized tax benefits within the Company s income tax provision. As of September 30, 2009 and December 31, 2008, the Company had $674,000 and $562,000, respectively, accrued for payment of interest and penalties related to unrecognized tax benefits.

The Company s total amount of unrecognized tax benefits as of September 30, 2009 was $8.4 million, of which $2.8 million, if recognized, would affect the Company s effective tax rate. The Company s total amount of unrecognized tax benefits as of December 31, 2008 was $8.2 million, of which $2.8 million, if recognized, would affect the Company s effective tax rate. As of September 30, 2009, the Company has recognized a net amount of $3.5 million as long-term taxes payable for unrecognized tax benefits in its condensed consolidated balance sheets. The Company does not expect the change in unrecognized tax benefits over the next twelve months to materially impact its results of operations and financial position.

The Company conducts business globally and, as a result, files numerous consolidated and separate income tax returns in the U.S. federal, various state and foreign jurisdictions. Because the Company used some of the tax attributes carried forward from previous years to tax years that are still open, statutes of limitation remain open for all tax years to the extent of the attributes carried forward into tax year 2001 for federal tax purposes and tax year 2002 for California tax purposes. With few exceptions, the Company is no longer subject to income tax examinations in its major foreign subsidiaries jurisdictions for years before 2004.

9. NET LOSS PER SHARE

Basic net loss per share is computed by dividing net loss by the weighted average common shares outstanding for the period (excluding outstanding stock options and shares subject to repurchase). Diluted net loss per share reflects the weighted average common shares outstanding plus the potential effect of dilutive securities which are convertible into common shares (using the treasury stock method), except in cases where the effect would be anti-dilutive. The following is a reconciliation of the numerators and denominators used in computing basic and diluted net loss per share (in thousands, except per share amounts):

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	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Net loss	$ (2,831)	$ (12,224)	$ (16,790)	$ (16,677)
Denominator for basic calculation:				
Weighted average common shares outstanding basic	26,499	27,540	26,306	27,663
Dilutive items				
Stock options outstanding				
Denominator for diluted computation	26,499	27,540	26,306	27,663
Net loss per share basic and diluted	$ (0.11)	$ (0.44)	$ (0.64)	$ (0.60)

10. COMPREHENSIVE LOSS

The components of comprehensive loss are as follows (in thousands):

	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Net loss	$ (2,831)	$ (12,224)	$ (16,790)	$ (16,677)
Unrealized loss on investments, net of income tax effects	(4)	(97)	(65)	(182)
Foreign currency translation adjustments, net of income tax effects	223	(3,002)	(818)	(938)
Comprehensive loss	$ (2,612)	$ (15,323)	$ (17,673)	$ (17,797)

11. CUSTOMER AND GEOGRAPHIC INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or group, in deciding how to allocate resources and in assessing performance.

The Company s chief operating decision maker, the Chief Executive Officer, reviews discrete financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. Accordingly the Company considers itself to be in one operating segment, specifically the licensing and implementation of yield improvement solutions for integrated circuit manufacturers.

The Company had revenues from individual customers in excess of 10% of total revenues as follows:

Customer	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
A	25%	21%	15%	19%

B	17%	19%	22%	16%
C	11%	*%	10%	*%

* represents less than 10%

The Company had gross accounts receivable from the following individual customers in excess of 10% of gross accounts receivable as follows:

Customer	**September 30, 2009**	**December 31, 2008**
B	21%	17%
A	15%	12%
D	13%	12%
E	11%	11%
F	10%	*%

* represents less than 10%

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Revenues from customers by geographic area are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Asia	$ 9,680	$ 10,499	$ 20,724	$ 33,032
United States	3,084	5,307	10,128	16,072
Europe	1,114	2,959	2,799	11,122
Total	$ 13,878	$ 18,765	$ 33,651	$ 60,226

As of September 30, 2009 and December 31, 2008, long-lived assets related to PDF Solutions S.A.S. (formerly Si Automation S.A.), located in France, totaled $150,000 and $336,000, respectively. The majority of the Company s remaining long-lived assets are in the United States.

12. FAIR VALUE

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