PDF SOLUTIONS INC
Form 10-Q
May 09, 2012

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

FORM 10-Q

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

For the Quarterly Period ended March 31, 2012

or

£ 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 1000 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 R No £

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 R No £

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.

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

The number of shares outstanding of the Registrant’s Common Stock as of May 2, 2012 was 28,553,358.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

PDF SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except par values)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45,531	$ 46,041
Accounts receivable, net of allowance of $291 and $254, respectively	27,876	20,863
Prepaid expenses and other current assets	2,481	3,717
Total current assets	75,888	70,621
Property and equipment, net	2,145	777
Non-current investments	784	784
Intangible assets, net	332	539
Other non-current assets	1,651	1,663
Total assets	$ 80,800	$ 74,384
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	1,420	974
Accrued compensation and related benefits	5,863	5,026
Accrued and other current liabilities	2,895	2,335
Deferred revenues	3,311	2,961
Billings in excess of recognized revenues	1,343	2,089
Total current liabilities	14,832	13,385
Long-term income taxes payable	2,940	3,489
Other non-current liabilities	557	667
Total liabilities	18,329	17,541
Commitments and contingencies (Note 13)		
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 32,879 and 32,635, respectively; shares outstanding 28,546 and 28,304, respectively	4	4
Additional paid-in-capital	210,783	208,826
Treasury stock, at cost, 4,333 and 4,331 shares, respectively	(22,918)	(22,899)
Accumulated deficit	(125,290)	(128,789)
Accumulated other comprehensive loss	(108)	(299)
Total stockholders' equity	62,471	56,843
Total liabilities and stockholders' equity	$ 80,800	$ 74,384

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

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PDF SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(unaudited)
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2012	2011
Revenues:		
Design-to-silicon-yield solutions	$ 13,386	$ 10,567
Gainshare performance incentives	7,257	4,450
Total revenues	20,643	15,017
Cost of design-to-silicon-yield solutions:		
Direct costs of design-to-silicon-yield solutions	8,572	6,438
Amortization of acquired technology	156	156
Total cost of design-to silicon-yield solutions	8,728	6,594
Gross profit	11,915	8,423
Operating expenses:		
Research and development	3,157	3,827
Selling, general and administrative	4,905	4,839
Amortization of other acquired intangible assets	51	51
Restructuring credits	(8)	(11)
Total operating expenses	8,105	8,706
Income (loss) from operations	3,810	(283)
Interest and other income (expense), net	(142)	(379)
Income (loss) before income taxes	3,668	(662)
Income tax provision	169	96
Net income (loss)	$ 3,499	$ (758)
Net income (loss) per share:		
Basic	$ 0.12	$ (0.03)
Diluted	$ 0.12	$ (0.03)
Weighted average common shares		
Basic	28,384	27,810
Diluted	29,046	27,810
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	191	310
Comprehensive income (loss)	$ 3,690	$ (448)

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

PDF SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Operating activities:		
Net income (loss)	$ 3,499	$ (758)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	90	131
Stock-based compensation expense	905	1,121
Amortization of acquired intangible assets	207	207
Deferred taxes	(23)	(84)
Purchases of treasury stock in connection with tax withholdings on restricted stock grants	(19)	(256)
Provisions for doubtful accounts	37	—
Changes in operating assets and liabilities:		
Accounts receivable	(6,786)	517
Prepaid expenses and other assets	(80)	(554)
Accounts payable	237	101
Accrued compensation and related benefits	810	(102)
Accrued and other liabilities	77	25
Deferred revenues	379	648
Billings in excess of recognized revenues	(746)	(451)
Net cash provided by (used in) operating activities	(1,413)	545
Investing activities:		
Purchases of property and equipment	(127)	(42)
Net cash used in investing activities	(127)	(42)
Financing activities:		
Proceeds from exercise of stock options	584	290
Proceeds from employee stock purchase plan	468	429
Principal payments on long-term obligations	—	(27)
Net cash provided by financing activities	1,052	692
Effect of exchange rate changes on cash and cash equivalents	(22)	47
Net change in cash and cash equivalents	(510)	1,242
Cash and cash equivalents, beginning of period	46,041	38,154
Cash and cash equivalents, end of period	$ 45,531	$ 39,396
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income Taxes	$ 440	$ 648

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited).

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”) 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, 2011.

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.

The condensed consolidated balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates in these financial statements include stock-based compensation expense, allowances for doubtful accounts receivable, estimates for useful lives associated with long-lived assets, restructuring charges, fair value of investment and income taxes and tax valuation allowances. Actual results could differ from those estimates.

Revision of prior period financial statements— As previously described in the Company’s quarterly report on Form 10-Q for the period ended September 30, 2011 and in the Company’s annual report on Form 10-K for the year ended December 31, 2011, the quarterly results for the three months ended March 31, 2011 have been revised as a result of errors that affected the prior period, primarily relating to the Company's accounting for stock compensation under its employee stock purchase plan which was identified during fiscal year of 2011. Although the effect of those errors was not material to any previously issued financial statements, the cumulative effect of correcting the identified errors in the current year would have been material for the fiscal year 2011 financial statements. Consequently, the Company concluded that it needed to revise 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. For the three months ended March 31, 2011, net loss increased $181,000 and basic and diluted net loss per share increased $0.01, as a result of these revisions. These revisions have no net impact on the Company’s net cash amounts provided by (used in) operating, financing or investing activities for the any of the periods previously reported.

Revenue Recognition — The Company derives revenue from two sources: Design-to-Silicon-Yield Solutions and gainshare performance incentives.

Design-to-Silicon-Yield Solutions — Revenues that are derived from Design-to-Silicon-Yield solutions come from services and software licenses. The Company recognizes revenue for each element of Design-to-Silicon-Yield solutions as follows:

The Company generates a significant portion of its Design-to-Silicon-Yield solutions revenues from fixed-price solution implementation service contracts delivered over a specific period of time. These contracts require reliable estimation of costs to perform obligations and the overall scope of each engagement. Revenues under project–based contracts for solution implementation services are recognized as services are performed using the cost-to-cost percentage of completion method of contract accounting. Revenues under time-based contracts for solution implementation services are recognized under the proportional performance method. Losses on solution implementation contracts are recognized in the period when they become probable. 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 licenses its software products as a component of its fixed-price service contracts. In such instances, the software products are licensed to customers over a specified term of the agreement with support and maintenance to be provided at each customer's option over the license term. The amount of product and service revenue recognized in a given period is affected by the Company’s judgment as to whether an arrangement includes multiple deliverables and, if so, the Company’s determination of the fair value of each deliverable. In general, vendor-specific objective evidence of selling price (“VSOE”) does not exist for the Company’s solution implementation services and software products and because the Company’s services and products include our unique technology, the Company is not able to determine third-party evidence of selling price (“TPE”). Therefore, the Company will use best estimated selling prices (“BESP”) in the allocation of arrangement consideration. In determining BESP, the Company applies significant judgment as the Company’s weighs a variety of factors, based on the facts and circumstances of the arrangement. The Company typically arrives at BESP for a product or service that is not sold separately by considering company-specific factors such as geographies, internal costs, gross margin objectives, pricing practices used to establish bundled pricing, and existing portfolio pricing and discounting. After fair value is established for each deliverable, the total transaction amount is allocated to each deliverable based upon its relative fair value. Fees allocated to solution implementation services are recognized using the cost-to-cost percentage of completion method of contract accounting. Fees allocated to software and related support and maintenance are recognized under software revenue recognition guidance.

The Company also licenses its software products separately from its 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. 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.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board ("FASB") amended its guidance related to the presentation of comprehensive income to increase comparability between U.S. GAAP and International Financial Reporting Standards ("IFRS"). This amended guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity and instead requires presenting in one continuous statement or two separate but consecutive statements. Additionally, the amendment requires entities to present reclassification adjustments to show the effect of reclassifications on both the components of other comprehensive income and the components of net income in interim and annual financial statements. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 with early adoption permitted. The guidance is effective for the Company's fiscal year beginning January 1, 2012. In October 2011, the FASB decided that the specific requirement to present items that are reclassified from other comprehensive income to net income alongside their respective components of net income and other comprehensive income will be deferred. Therefore, those requirements will not be effective for public entities for fiscal years and interim periods within those years beginning after December 15, 2011. The adoption of this guidance did not have a material impact on our consolidated financial statements, as it only requires a change in the format of presentation.

In May 2011, the FASB issued a new standard amending U.S. GAAP fair value measurements and disclosures for the purpose of ensuring that fair value measurement and disclosure requirements are the same across both U.S. GAAP and IFRS. The standard contains amendments changing the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements, clarifying the application of existing fair value measurement requirements and changing a particular principle for measuring fair value or for disclosing information about fair value measurements. Additionally, the standard expands certain disclosure requirements, including qualitative disclosures selected to level 3 fair value measurements. Early adoption is not permitted. This guidance is effective for the Company’s fiscal year beginning January 1, 2012. The adoption of this new standard did not have material impact the Company’s consolidated financial statements.

3. INVESTMENTS

The following table summarizes the Company’s investments (in thousands) at both March 31, 2012 and December 31, 2011:

	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Auction-rate securities	$1,000	$—	$(216)	$784

As of March 31, 2012 and December 31, 2011, the Company’s investments consisted entirely of auction-rate securities. Please refer to Note 12 “Fair Value” for further discussion of auction-rate securities.

4. ACCOUNTS RECEIVABLE

Accounts receivable includes amounts that are unbilled at the end of the period. Unbilled accounts receivable are determined on an individual contract basis and were $8.2 million and $11.0 million at March 31, 2012 and December 31, 2011, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of (in thousands):

	March 31, 2012	December 31, 2011
Property and equipment, net:		
Computer equipment	12,643	12,642
Software	3,562	3,543
Furniture, fixtures and equipment	1,053	1,060
Leasehold improvements	962	926
Test equipment	33	—
Construction in progress	1,378	—
	19,631	18,171
Less: accumulated depreciation	(17,486)	(17,394)
	2,145	777

The $1.4 million in construction-in-progress as of March 31, 2012 relates to prepayment for the construction of test equipment that was previously classified as prepaid expense and other current assets. Based on management assessment, it was determined that the useful life of the test equipment is more than one year. The Company plans to depreciate the test equipment over the estimated useful life of 3 to 5 years when the assets are put in use.

6. INTANGIBLE ASSETS

The following tables provide information relating to the intangible assets as of March 31, 2012 and December 31, 2011 (in thousands):

Acquired Identifiable Intangible	March 31, 2012 Amortization Period (Years)		Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount
Acquired technology	4-5	$	11,800	$	(11,696)	$	104
Brand name	4		510		(510)		—
Customer relationships and backlog	1-6		3,420		(3,352)		68
Patents and applications	7		1,400		(1,240)		160
Other acquired intangibles	4		255		(255)		—
Total		$	17,385	$	(17,053)	$	332

Acquired Identifiable Intangible	December 31, 2011 Amortization Period (Years)		Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount
Acquired technology	4-5	$	11,800	$	(11,539)	$	261
Brand name	4		510		(510)		—
Customer relationships and backlog	1-6		3,420		(3,320)		100
Patents and applications	7		1,400		(1,222)		178
Other acquired intangibles	4		255		(255)		—
Total		$	17,385	$	(16,846)	$	539

Intangible asset amortization expense was $207,000 for both the three months ended March 31, 2012 and 2011.

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

Year Ending December 31,		Amount
2012 (remaining nine-month period)	$	228
2013		74
2014		30
Total	$	332

Intangible assets are amortized over their useful lives unless these lives are determined to be indefinite. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. During the three months ended March 31, 2012 and 2011, there were no indicators of impairment related to the Company’s intangible assets.

7. 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 plans were allocated as follows (in thousands):

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cost of design-to-silicon-yield solutions	$ 319	$ 468
Research and development	187	343
Selling, general and administrative	399	310
Stock-based compensation expenses	$ 905	$ 1,121

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 March 31, 2012	Stock Plans Three Months Ended March 31, 2011	Employee Stock Purchase Plan Three Months Ended March 31, 2012	Employee Stock Purchase Plan Three Months Ended March 31, 2011
Expected life (in years)	4.58	4.74	1.25	1.25
Volatility	60.6%	62.2%	47.3%	48.7%
Risk-free interest rate	0.78%	1.80%	0.35%	0.37%
Expected dividend	—	—	—	—
Weighted average fair value per share of options granted during the period	$ 3.23	$ 2.90	—	—
Weighted average fair value per share of employee stock purchase plan rights during the period	—	—	$ 2.03	$ 1.87

On March 31, 2012, the Company has in effect the following stock-based compensation plans:

Stock Plans —

At the annual meeting of stockholders on November 16, 2011, the Company's stockholders approved the 2011 Stock Incentive Plan (the "2011 Plan"). Under the 2011 Plan, the Company may award stock options, stock appreciation rights, stock grants or stock units covering shares of the Company's common stock to employees, directors, non-employee directors and contractors. The aggregate number of shares reserved for awards under this plan is 3,200,000 shares, plus up to 3,500,000 shares previously issued under the 2001 Plan that are forfeited or repurchased by the Company or shares subject to awards previously issued under the 2001 Plan that expire or that terminate without having been exercised or settled in full. In case of awards other than options or stock appreciation rights, the aggregate number of shares reserved under the plan will be decreased at a rate of 1.33 shares issued pursuant to such awards. The exercise price for stock options must generally be at prices no less than the fair market value at the date of grant for incentive stock options. Stock options generally expire ten years from the date of grant and become vested and exercisable over a four-year period.

In 2001, the Company adopted a 2001 Stock Plan (the "2001 Plan"). In 2003, in connection with its acquisition of IDS Systems Inc., the Company assumed IDS' 2001 Stock Option / Stock Issuance Plan (the "IDS Plan"). Both of the 2001 and the IDS Plans expired in 2011. Stock options granted under the 2001 and IDS Plans generally expire ten years from the date of grant and become vested and exercisable over a four-year period. Although no new awards may be granted under the 2001 or IDS Plans, awards made under the 2001 and IDS Plans that are currently outstanding remain subject to the terms of each such plan.

As of March 31, 2012, the Company has authorized 6.7 million shares of common stock for issuance and exercise of options, of which 6.4 million shares are available for grant. As of March 31, 2012, there were no outstanding options that had been granted outside of the 2011, 2001 or the IDS Plans.

Stock option activity under the Company's plans during the three months ended March 31, 2012 was as follows:

	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, 2012	3,872	$ 5.91		
Granted	108	6.58		
Exercised	(141)	4.15		
Canceled	(23)	4.48		
Expired	(9)	4.92		
Outstanding, March 31, 2012	3,807	6.01	6.91	$ 10,749
Vested and expected to vest, March 31, 2012	3,559	6.04	6.78	$ 10,040
Exercisable, March 31, 2012	2,060	6.65	5.50	$ 5,199

The aggregate intrinsic value in the table above represents the total intrinsic value based on the Company's closing stock price of $8.43 per share as of March 31, 2012, which would have been received by the option holders had all "in-the-money" option holders exercised their options as of that date. The total intrinsic value of options exercised during the three months ended March 31, 2012 was $514,000.

As of March 31, 2012, there was $4.0 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted average period of 2.65 years. The total fair value of shares vested during the three months ended March 31, 2012 was $509,000.

Nonvested restricted stock units activity during the three months ended March 31, 2012 was as follows:

	Shares (in thousands)	Weighted Average Grant Date Fair Value Per Share
Nonvested, January 1, 2012	303	$ 7.82
Granted	9	8.38
Vested	(6)	7.15
Forfeited	(2)	7.34
Nonvested, March 31, 2012	304	7.85

As of March 31, 2012, there was $1.7 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 2.3 years.

Employee Stock Purchase Plan — In July 2001, the Company adopted a ten-year 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 the purchase period. The Purchase Plan consists of twenty-four-month offering periods with four six-month purchase periods in each 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. As of March 31, 2012, 1.0 million shares were available for future issuance under the Purchase Plan.

Stock Repurchase Program — On October 29, 2007, the Board of Directors adopted a program to repurchase up to $10.0 million of the Company's common stock on the open market. The initial program was for three years, but on October 19, 2010, the Board of Directors authorized an extension of, and an increase in, the program and the aggregate amount available to repurchase between October 19, 2010 and October 29, 2012 was reset to an additional $10.0 million of the Company's common stock. As of March 31, 2012, 3.3 million shares had been repurchased at the average price of $3.86 per share under this program and $6.3 million remained available for future repurchases.

8. RESTRUCTURING

On October 28, 2008, the Company announced a restructuring plan to better allocate its resources to improve its operational results in light of the market conditions. Under this plan, the Company recorded restructuring charges of $7.5 million, primarily consisting of employee severance costs of $4.8 million and facility exit costs of $2.5 million. The facility exit cost consists primarily of the cost of future obligations related to the locations. Discounted liabilities for future lease costs and the fair value of the related subleases of closed locations that are recorded is subject to adjustments as liabilities are settled. In assessing the discounted liabilities for future costs of obligations related to the locations, the Company made assumptions regarding the amounts of future subleases. If these assumptions or their related estimates change in the future, the Company may be required to record additional exit costs or reduce exit costs previously recorded. Exit costs recorded for each period presented include the effect of such changes in estimates. The following table summarizes the activities of these restructuring liabilities (in thousands) for the periods covered below:

	Three Months Ended March 31,	
	2012	2011
Beginning balance	$ 728	$ 1,379
Restructuring charges (credits)	(8)	(11)
Adjustments	4	10
Cash payments	(102)	(159)
Ending balance	$ 622	$ 1,219

The balance as of March 31, 2012 consists of $0.5 million of facility exit costs and $0.1 million of severance costs. The balance as of December 31, 2011 consists of $0.6 million of facility exit costs and $0.1 million of severance costs.

As of March 31, 2012, of the remaining accrual of $0.6 million, $0.5 million was included in accrued liabilities and other current liabilities and $0.1 million was included in other non-current liabilities. As of December 31, 2011, of the remaining accrual of $0.7 million, $0.5 million was included in accrued and other current liabilities and $0.2 million was included in other non-current liabilities. Accrued facility exit expenses will be paid in accordance with the lease payment schedule through 2013.

9. 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 March 31, 2012 and December 31, 2011, the Company had accrued for payment of interest and penalties related to unrecognized tax benefits of $376,000 and $442,000, respectively.

Income tax provision increased $73,000 for the three months ended March 31, 2012 to $169,000 as compared to an income tax provision of $96,000 for the three months ended March 31, 2011. The income tax provision for both the three months ended March 31, 2012 and the three months ended March 31, 2011 primarily consisted of foreign withholding taxes, statutory taxes and changes in unrecognized tax benefits.

The Company’s total amount of unrecognized tax benefits as of March 31, 2012 was $9.2 million, of which $2.6 million, if recognized, would affect the Company’s effective tax rate. The Company’s total amount of unrecognized tax benefits as of December 31, 2011 was $9.6 million, of which $3.0 million, if recognized, would affect the Company's effective tax rate. As of March 31, 2012, the Company has recognized a net amount of $2.9 million as long-term taxes payable for unrecognized tax benefits in its condensed consolidated balance sheet. The Company does not believe that it is reasonably possible that the change in unrecognized tax benefits over the next twelve months will 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 2002 for federal and California tax purposes. The Company’s France income tax examinations for 2009 were closed during the three months ended March 31, 2012, with immaterial adjustments. The Company is not subject to income tax examinations in any other of its major foreign subsidiaries’ jurisdictions.

10. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) by weighted average number of common shares outstanding for the period (excluding outstanding stock options and shares subject to repurchase). Diluted net income (loss) per share is computed using the weighted-average number of common shares outstanding for the period plus the potential effect of dilutive securities which are convertible into common shares (using the treasury stock method), except in cases in which the effect would be anti-dilutive. There are no dilutive shares included during the three months ended March 31, 2011 due to the net loss for the period. Under the treasury stock method, the amount that the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of the tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares. The following is a reconciliation of the numerators and denominators used in computing basic and diluted net income (loss) per share (in thousands except per share amount):

	Three Months Ended March 31, 2012	2011
Numerator:		
Net income (loss)	$3,499	$(758)
Denominator:		
Basic weighted-average shares outstanding	28,384	27,810
Effect of dilutive options and restricted stock	662	—
Diluted weighted average shares outstanding	29,046	27,810
Net income (loss) per share - Basic	$0.12	$(0.03)
Net income (loss) per share - Diluted	$0.12	$(0.03)

The following table sets forth potential shares of common stock that are not included in the diluted net loss per share calculation above because to do so would be anti-dilutive for the periods indicated (in thousands):

	Three Months Ended March 31, 2012	2011
Outstanding options	1,906	1,091
Nonvested restricted stock units	42	90
Total	1,948	1,181

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 regularly 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 March 31, 2012	2011
A	44%	20%
B	20%	19%
C	12%	17%
D	*%	13%

* 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	March 31, 2012	December 31, 2011
A	45%	34%
B	21%	23%
C	*%	10%

* represents less than 10%

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Revenues from customers by geographic area based on the location of the customers' work site are as follows (in thousands):

	Three Months Ended March 31,	
	2012	2011