

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

FORM 8-K

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

Date of Report (Date of Earliest Event Reported): February 6, 2007

PDF SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

000-31311
(Commission File Number)

Delaware
(State or Other Jurisdiction of
Incorporation)

25-1701361
(I.R.S. Employer Identification No.)

**333 West San Carlos Street, Suite 700
San Jose, CA 95110**
(Address of principal executive offices, with zip code)

(408) 280-7900
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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TABLE OF CONTENTS

[Item 2.02 Results of Operations and Financial Condition.](#)

[Item 7.01 Regulation FD Disclosure.](#)

[Item 9.01. Financial Statements and Exhibits.](#)

[SIGNATURES](#)

[EXHIBIT INDEX](#)

[EXHIBIT 99.1](#)

[EXHIBIT 99.2](#)

Item 2.02 Results of Operations and Financial Condition.

On February 6, 2007, the Registrant issued a press release regarding its financial results and certain other information related to its fourth fiscal quarter and full fiscal year ended December 31, 2006. 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 furnished and shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into the filings of the Company under the Securities Act of 1933, as amended.

Item 7.01 Regulation FD Disclosure.

On February 6, 2007, the Registrant issued a press release regarding the financial outlook for the first fiscal quarter ending March 31, 2007 and the full fiscal year ending December 31, 2007. A copy of the press release is attached hereto as Exhibit 99.2. The information in this Item 7.01, including Exhibit 99.2, is furnished and shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into the filings of the Company under the Securities Act of 1933, as amended.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits

Exhibit No.	Description
99.1	Press Release dated February 6, 2007 regarding financial results and certain other information related to the fourth fiscal quarter and full fiscal year ended December 31, 2006.
99.2	Press Release dated February 6, 2007 regarding the financial outlook for the first fiscal quarter ending March 31, 2007 and the full fiscal year ending December 31, 2007.

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/ Keith A. Jones
Keith A. Jones
Vice President, Finance and Chief Financial Officer

Dated: February 6, 2007

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release dated February 6, 2007 regarding financial results and certain other information related to the fourth fiscal quarter and full fiscal year ended December 31, 2006.
99.2	Press Release dated February 6, 2007 regarding the financial outlook for the first fiscal quarter ending March 31, 2007 and the full fiscal year ending December 31, 2007.

News Release

Investor Relations Contact:
Steven Melman, V.P. of Investor Relations
PDF Solutions, Inc.
Tel: (408) 938-6445
Email: steve.melman@pdf.com

Investor Relations Contact:
Sonia Segovia, IR Coordinator
PDF Solutions, Inc.
Tel: (408) 938-6491
Email: sonia.segovia@pdf.com

**PDF Solutions® Reports Fourth Quarter
2006 Results**

Record Gain Share for Fiscal 2006 Highlights Record Total Year Revenue

SAN JOSE, Calif.—February 6, 2007—PDF Solutions, Inc. (NASDAQ: PDFS) the leading provider of process-design integration technologies to enhance IC manufacturability, today announced financial results for its fourth fiscal quarter ended December 31, 2006.

Revenue for the fourth fiscal quarter of 2006 totaled \$19.0 million, compared with revenue of \$19.0 million for the fourth fiscal quarter of 2005. Gain share revenue for the fourth fiscal quarter of 2006 totaled \$4.9 million, an increase of 28%, compared to the fourth fiscal quarter of 2005. Revenue for the full fiscal year ended December 31, 2006 totaled a record \$76.2 million with gain share revenue contributing a record \$20.0 million. On a GAAP basis, net loss for the fourth fiscal quarter of 2006 totaled approximately \$559,000, or \$0.02 per basic share, compared with net income of \$2.3 million, or \$0.09 per basic share, for the fourth fiscal quarter of 2005. The adoption of SFAS 123(R) during fiscal year 2006 and the previously announced acquisition of Si Automation S.A. in October 2006, resulted in \$1.9 million in stock-based compensation expense and an \$800,000 write-off of in-process research and development during the fourth fiscal quarter or approximately \$0.10 per basic share.

In addition to using GAAP results in evaluating PDF Solutions' business, management also believes it is useful to measure results using a non-GAAP measure of net income, which excludes stock-based compensation expense, amortization of acquired intangible assets and the write-off of in-process research and development. Using this non-GAAP measure, net income for the fourth fiscal quarter of 2006 totaled approximately \$2.3 million, or \$0.08 per diluted

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share, compared with non-GAAP net income of approximately \$3.9 million, or \$0.14 per diluted share, for the fourth fiscal quarter of 2005.

As previously announced, PDF will hold a live conference call beginning at 3:00 p.m. Pacific Time/6:00 p.m. Eastern Time today to discuss these results. A live webcast of this conference call will be available on PDF Solutions' website at <http://ir.pdf.com/medialist.cfm>. A replay of the call will be available at the same website address beginning approximately two hours after completion of the live call. Further, a copy of this press release, including the disclosure and reconciliation of certain non-GAAP financial measures to the comparable GAAP measure, which non-GAAP measures may be used periodically by PDF Solutions' management when discussing financial results with investors and analysts, will be available on PDF Solutions' website at http://www.pdf.com/news_archive.phtml following the date of this release.

Information Regarding Use of Non-GAAP Financial Measures

In addition to providing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), PDF Solutions also provides certain non-GAAP financial measures that exclude the effects of stock-based compensation expense, amortization of acquired intangible assets, the write-off of in-process research and development and their related income tax effects. PDF Solutions' management believes that the presentation of these measures provides useful supplemental information to investors regarding PDF's operating results. These non-GAAP financial measures are used by management internally to measure the company's profitability and performance. PDF's management believes that excluding the effects of stock-based compensation expense, amortization of acquired intangible assets, the write-off of in-process research and development and their related income tax effects, provides a useful supplemental measure of the company's ongoing operations in light of the fact that neither category of expense has a current effect on the future uses of cash nor do they have use with regards to the generation of current or future revenues. These non-GAAP results should not be considered an alternative to, or a substitute for, GAAP financial information, and may be different from similarly titled non-GAAP measures used by other companies. In particular, these non-GAAP financial measures are not a substitute for GAAP measures of income 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 has included these non-GAAP measures to give investors an opportunity to see the company's financial results as viewed by management. A reconciliation of the non-GAAP financial measures to the comparable GAAP financial measure is provided at the end of the company's financial statements presented below.

About PDF Solutions

PDF Solutions, Inc. (NASDAQ: PDFS) is a leading provider of process-design integration technologies for manufacturing integrated circuits (ICs). PDF Solutions' software, methodologies and services enable semiconductor companies to create IC designs that can be

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more easily manufactured using manufacturing processes that are more capable. By simulating deep sub-micron product and process interactions, the PDF solution offers clients reduced time to market, increased IC yield and performance, and enhanced product reliability and profitability. PDF Solutions also offers the industry leading Yield Management System (YMS) software, *dataPOWER*[®], and Fault Detection and Classification (FDC) software, *Maestria*[™], to enhance yield improvement and production control activities at leading fabrication facilities around the world. Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in Europe, Japan and China. For more information, visit www.pdf.com.

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

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 36,451	\$ 60,506
Short-term investments	16,402	—
Accounts receivable, net of allowances	27,575	22,082
Prepaid expenses and other current assets	2,796	1,992
Deferred tax assets	2,581	908
Total current assets	85,805	85,488
Property and equipment, net	3,916	3,328
Goodwill	60,034	39,886
Intangible assets, net	13,605	9,787
Deferred tax assets	4,912	877
Other assets	503	526
Total assets	<u>\$ 168,775</u>	<u>\$ 139,892</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,182	\$ 1,728
Accrued compensation and related benefits	3,325	4,922
Other accrued liabilities	3,843	1,469
Taxes payable	4,767	4,950
Deferred revenues	3,705	2,281
Billings in excess of recognized revenue	95	1,604
Current portion of long-term debt	302	—
Total current liabilities	19,219	16,954
Long-term debt	1,198	—
Other liabilities	221	257
Total liabilities	<u>20,638</u>	<u>17,211</u>
Stockholders' equity:		
Common stock	4	4
Additional paid-in-capital	167,370	141,720
Treasury stock, at cost	(5,549)	(5,549)
Deferred stock-based compensation	—	(27)
Accumulated deficit	(14,019)	(13,451)
Accumulated other comprehensive (loss) gain.	331	(16)
Total stockholders' equity	<u>148,137</u>	<u>122,681</u>
Total liabilities and stockholders' equity	<u>\$ 168,775</u>	<u>\$ 139,892</u>

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

	Three Months Ended		Twelve Months Ended	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
Revenue:				
Design-to-silicon-yield solutions:				
Integrated solutions	\$ 11,523	\$ 14,061	\$ 45,382	\$ 52,719
Software licenses	2,557	1,140	10,774	9,319
Gain share	4,873	3,821	20,028	11,890
Total revenue	<u>18,953</u>	<u>19,022</u>	<u>76,184</u>	<u>73,928</u>
Cost and expenses:				
Cost of design-to-silicon-yield solutions:				
Direct costs of design-to-silicon-yield solutions:				
Integrated solutions.	7,561	6,421	27,369	24,319
Software licenses	111	20	209	293
Amortization of acquired core technology	1,472	1,266	5,270	5,064
Research and development	8,051	5,654	27,594	22,204
Selling, general and administrative	5,079	3,964	19,929	16,146
Amortization of other acquired intangible assets	754	235	1,459	940
Write-off of in-process research and development	800	—	800	—
Total costs and expenses	<u>23,828</u>	<u>17,560</u>	<u>82,630</u>	<u>68,966</u>
Income (loss) from operations	(4,875)	1,462	(6,446)	4,962
Interest and other income, net	488	573	2,826	1,658
Income (loss) before taxes	(4,387)	2,035	(3,620)	6,620
Tax provision (benefit)	(3,828)	(217)	(3,052)	96
Net income (loss)	<u>\$ (559)</u>	<u>\$ 2,252</u>	<u>\$ (568)</u>	<u>\$ 6,524</u>
Net income (loss) per share:				
Basic	<u>\$ (0.02)</u>	<u>\$ 0.09</u>	<u>\$ (0.02)</u>	<u>\$ 0.25</u>
Diluted	<u>\$ (0.02)</u>	<u>\$ 0.08</u>	<u>\$ (0.02)</u>	<u>\$ 0.24</u>
Weighted average common shares:				
Basic	<u>27,459</u>	<u>26,272</u>	<u>26,885</u>	<u>25,983</u>
Diluted	<u>27,459</u>	<u>28,013</u>	<u>26,885</u>	<u>27,473</u>

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PDF SOLUTIONS, INC.
IMPACT OF NON-GAAP ADJUSTMENTS ON REPORTED NET INCOME (UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended December 31, 2006			Three Months Ended December 31, 2005		
	As reported	Adjustments	Non-GAAP	As reported	Adjustments	Non-GAAP
Revenue:						
Design to-silicon-yield solutions:						
Integrated solutions	\$ 11,523	\$ —	\$ 11,523	\$ 14,061	\$ —	\$ 14,061
Software licenses	2,557	—	2,557	1,140	—	1,140
Gain share	4,873	—	4,873	3,821	—	3,821
Total revenue	<u>18,953</u>	<u>—</u>	<u>18,953</u>	<u>19,022</u>	<u>—</u>	<u>19,022</u>
Cost and expenses:						
Cost of design-to-silicon-yield solutions:						
Direct cost of design-to-silicon-yield solutions:						
Integrated solutions	7,561	(547)	(a) 7,014	6,421	—	6,421
Software licenses	111	—	111	20	—	20
Amortization of acquired core technology	1,472	(1,472)	(b) —	1,266	(1,266)	(b) —
Research and development	8,051	(580)	(a) 7,471	5,654	—	5,654
Selling, general and administrative	5,079	(810)	(a) 4,269	3,964	(13)	(a) 3,951
Amortization of other acquired intangible assets	754	(754)	(b) —	235	(235)	(b) —
In-process research and development	800	(800)	(d) —	—	—	—
Total costs and expenses	<u>23,828</u>	<u>(4,963)</u>	<u>18,865</u>	<u>17,560</u>	<u>(1,514)</u>	<u>16,046</u>
Income (loss) from operations	(4,875)	4,963	88	1,462	1,514	2,976
Interest and other income, net	488	—	488	573	—	573
Income (loss) before taxes	(4,387)	4,963	576	2,035	1,514	3,549
Tax provision (benefit)	(3,828)	2,150	(a,b) (1,678)	(217)	(159)	(a,b) (376)
Net income (loss)	<u>\$ (559)</u>	<u>\$ 2,813</u>	<u>\$ 2,254</u>	<u>\$ 2,252</u>	<u>\$ 1,673</u>	<u>\$ 3,925</u>
Net income (loss) per share — diluted	<u>\$ (0.02)</u>	<u>\$ 0.10</u>	<u>\$ 0.08</u>	<u>\$ 0.08</u>	<u>\$ 0.06</u>	<u>\$ 0.14</u>
Weighted average common shares — diluted (c)	<u>27,459</u>	<u>28,484</u>	<u>28,484</u>	<u>28,013</u>	<u>28,013</u>	<u>28,013</u>

Notes:

- (a) The non-GAAP adjustments represent the reversal of stock-based compensation, net of taxes.
- (b) The non-GAAP adjustments represent the reversal of amortization of intangible assets, net of taxes.
- (c) The shares used in computing non-GAAP net income for the three months ended December 31, 2006 and 2005 include the dilutive impact of common stock options.
- (d) The non-GAAP adjustment represent the reversal of in-process research and development expense.

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News Release

Investor Relations Contact:
Steven Melman, V.P. of Investor Relations
PDF Solutions, Inc.
Tel: (408) 938-6445
Email: steve.melman@pdf.com

Investor Relations Contact:
Sonia Segovia, IR Coordinator
PDF Solutions, Inc.
Tel: (408) 938-6491
Email: sonia.segovia@pdf.com

PDF Solutions® Provides Financial Outlook For The First Quarter and Total Year Fiscal 2007

SAN JOSE, Calif.—February 6, 2007—PDF Solutions, Inc. (NASDAQ: PDFS), the leading provider of process-design integration technologies to enhance IC manufacturability, today provided its updated financial outlook for the first fiscal quarter ending March 31, 2007 and the total fiscal year ending December 31, 2007.

PDF Solutions expects total revenue in the range of \$21.5 million to \$22.5 million for the first fiscal quarter ending March 31, 2007. Gain share revenue for the first quarter is expected to be in the range of \$4.7 million to \$5.2 million. On a GAAP basis, net loss for the first fiscal quarter of 2007 is projected in a range of \$1.7 million to \$2.2 million, or \$0.06 to \$0.08 per basic share.

For the total fiscal year ending December 31, 2007, PDF Solutions expects total revenue in the range of \$105.0 million to \$111.0 million. On a GAAP basis, net income for the total fiscal year ending December 31, 2007 is projected in a range of \$4.3 million to \$6.2 million, or \$0.14 to \$0.21 per diluted share.

In addition to using GAAP results in evaluating PDF Solutions' business, management also believes it useful to measure results using a non-GAAP measure of net income, which excludes amortization of stock-based compensation and acquired intangible assets. Non-GAAP net income for the first fiscal quarter ending March 31, 2007 is projected in a range of \$3.7 million to \$4.3 million, or \$0.13 to \$0.15 per diluted share. Non-GAAP net income for the total fiscal year ending December 31, 2007 is projected in a range of \$21.4 million to \$23.3 million, or \$0.72 to \$0.78 per diluted share.

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As previously announced, PDF will hold a live conference call beginning at 3:00 p.m. Pacific Time/6:00 p.m. Eastern Time today to discuss its fourth quarter 2006 results and financial outlook for the first fiscal quarter and fiscal year 2007. A live webcast of this conference call will be available on PDF Solutions' website at <http://ir.pdf.com/medialist.cfm>. A replay of the call will be available at the same website address beginning approximately two hours after completion of the live call. Further, a copy of this press release, including the disclosure and reconciliation of certain non-GAAP financial measures to the most directly comparable GAAP measure, which non-GAAP measures may be used periodically by PDF Solutions' management when discussing financial results with investors and analysts, will be available on the company's website at http://www.pdf.com/news_archive.phtml following the date of this release.

Effectiveness of Guidance:

The outlook set forth above represents PDF Solutions' expectations only as of the date of this release, and should not be viewed as a statement about PDF Solutions' expectations after this date. Although this release will remain available on PDF Solutions' website, its continued availability does not indicate that PDF Solutions is reaffirming or confirming its continued validity. PDF Solutions does not intend to report on its progress, or provide comments to analysts or investors on, or otherwise update, such guidance until it releases its quarterly results.

Information Regarding Use of Non-GAAP Financial Measures:

In addition to providing guidance that is determined in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), PDF Solutions also provides certain non-GAAP financial measures that exclude the effects of stock-based compensation expense and amortization of acquired intangible assets, and their related income tax effects. PDF Solutions' management believes that the presentation of these measures provides useful supplemental information to investors regarding PDF's operating results. These non-GAAP financial measures are used by management internally to measure the company's profitability and performance. PDF's management believes that excluding the effects of stock-based compensation expense and amortization of acquired intangible assets, and their income tax effects, provides a useful supplemental measure of the company's ongoing operations in light of the fact that neither category of expense has a current effect on the future uses of cash nor do they have use with regards to the generation of current or future revenues. This non-GAAP guidance 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 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 has included these non-GAAP measures to give investors an opportunity to see the company as viewed by management. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measure is provided at the end of this press release.

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About PDF Solutions:

PDF Solutions, Inc. (NASDAQ: PDFS) is the leading provider of process-design integration technologies for manufacturing integrated circuits (ICs). PDF Solutions' software, methodologies and services enable semiconductor companies to create IC designs that can be more easily manufactured using manufacturing processes that are more capable. By simulating deep sub-micron product and process interactions, the PDF solution offers clients reduced time to market, increased IC yield and performance, and enhanced product reliability and profitability. PDF Solutions also offers the industry leading Yield Management System (YMS) software, *dataPOWER*®, and Fault Detection and Classification (FDC) software, *Maestria*™, to enhance yield improvement and production control activities at leading fabrication facilities around the world. Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in Europe, Japan and China. For more information, visit www.pdf.com.

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Forward-Looking Statements:

The statements in this press release regarding PDF Solutions' outlook for its first fiscal quarter and fiscal year 2007, including expected revenue, net income, and net income per share, are forward looking. 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: any unforeseen industry changes; difficulties in modifying PDF's solutions on a timely basis; and changes in the marketplace for our solutions, including the introduction of products or services competitive with PDF Solutions' products and services. Readers should also refer to the risk disclosures set forth in PDF Solutions' periodic public filings with the Securities and Exchange Commission, including, without limitation, its annual report on Form 10-K, most recently filed on March 16, 2006, and its quarterly reports on Form 10-Q, most recently filed on November 21, 2006. The forward-looking statements contained in this release 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.

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

PROJECTED RESULTS	Three Months Ending		
	March 31, 2007		
GAAP net income (loss) per share — basic	\$ (0.08)	to	\$ (0.06)
GAAP net income (loss)	\$ (2,200)	to	\$ (1,650)
Amortization of stock-based compensation, net of taxes	2,430		2,430
Amortization of acquired intangible assets, net of taxes	3,475		3,475
Non-GAAP net income	\$ 3,705	to	\$ 4,255
Non-GAAP net income per share — diluted	\$ 0.13	to	\$ 0.15
Weighted average common shares — basic	27,750		27,750
Weighted average common shares — diluted	29,000		29,000

PROJECTED RESULTS	Twelve Months Ending		
	December 31, 2007		
GAAP net income per share — diluted	\$ 0.14	to	\$ 0.21
GAAP net income	\$ 4,250	to	\$ 6,200
Amortization of stock-based compensation, net of taxes	8,740		8,740
Amortization of acquired intangible assets, net of taxes	8,360		8,360
Non-GAAP net income	\$ 21,350	to	\$ 23,300
Non-GAAP net income per share — diluted	\$ 0.72	to	\$ 0.78
Weighted average common shares — diluted	29,750		29,750

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