

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of Earliest Event Reported): October 28, 2008

PDF SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

000-31311
(Commission File Number)

Delaware
(State or Other Jurisdiction of
Incorporation)

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

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

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

On October 28, 2008, the Registrant issued a press release regarding its financial results and certain other information related to the third fiscal quarter of 2008 ended September 30, 2008. 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 October 28, 2008, the Registrant issued a press release regarding the financial outlook for the fourth fiscal quarter ending December 31, 2008. 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 October 28, 2008 regarding financial results and certain other information related to the third fiscal quarter of 2008 ended September 30, 2008.
99.2	Press Release dated October 28, 2008 regarding the financial outlook for the fourth fiscal quarter ending December 31, 2008.

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: October 28, 2008

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release dated October 28, 2008 regarding financial results and certain other information related to the third fiscal quarter of 2008 ended September 30, 2008.
99.2	Press Release dated October 28, 2008 regarding the financial outlook for the fourth fiscal quarter ending December 31, 2008.

News Release

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**PDF Solutions® Reports Third Quarter
2008 Results**

SAN JOSE, Calif.—October 28, 2008—PDF Solutions, Inc. (NASDAQ: PDFS) the leading provider of yield improvement technologies and services for the integrated circuit (IC) manufacturing process life cycle, today announced financial results for its third fiscal quarter ended September 30, 2008.

Total revenue for the third fiscal quarter of 2008 totaled \$18.8 million, down 11% from \$21.1 million in the second fiscal quarter of 2008 and down 22% when compared with total revenue of \$24.1 million for the third fiscal quarter of 2007. Gain share revenue totaled \$5.4 million, down 4% from \$5.7 million in the second fiscal quarter of 2008 and down 20% when compared to gain share revenue of \$6.8 million for the third fiscal quarter of 2007. Net loss for the third fiscal quarter was \$12.2 million, or \$0.44 per basic and diluted share, compared to a net loss of \$1.9 million, or \$0.07 per basic and diluted share in the second fiscal quarter of 2008 and a net loss for the third fiscal quarter of 2007 of \$939,000, or \$0.03 per basic and diluted 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 technology and intangible assets, loss on sale of commercial paper from bankrupt institution, deferred tax asset valuation allowance, and their related income tax effects, as applicable. Using this non-GAAP measure, the non-GAAP net income for the third fiscal quarter of 2008 totaled approximately \$192,000, or \$0.01 per diluted share, compared with non-GAAP net income of \$5.3 million, or \$0.19 per diluted share, for the third fiscal quarter of 2007.

Additionally, during the third quarter ended September 30, 2008, PDF Solutions utilized a portion of the \$10 million share repurchase plan previously authorized by its Board of Directors to repurchase 81,300 of its shares on the open market at a weighted average cost of \$6.11, for a total repurchase value of \$497,000. Early in the fourth quarter ending December 31, 2008, PDF Solutions completed its acquisition of the fault, detection and classification business of Triant Holdings, Inc., a British Columbia corporation. Additional information regarding this acquisition is described in Form 8-K's filed by the Company with the Securities and Exchange Commission on September 2, 2008 and October 14, 2008.

As previously announced, PDF Solutions will discuss these results on a live conference call beginning at 3:00 p.m. Pacific Time/6:00 p.m. Eastern Time today. The call will be simultaneously web cast on PDF Solutions' website at <http://ir.pdf.com/events.cfm>. A replay of the web cast 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 measures, 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 technology and intangible assets, loss on sale of commercial paper from bankrupt institution, deferred tax asset valuation allowance, and their related income tax effects, as applicable. PDF Solutions' management believes that the presentation of these measures provides useful supplemental information to investors regarding PDF Solutions' operating results. These non-GAAP financial measures are used by management internally to measure the company's profitability and performance. PDF Solutions' management believes that excluding the effects of stock-based compensation expense, amortization of

acquired technology and intangible assets, loss on sale of commercial paper from bankrupt institution, deferred tax asset valuation allowance, and their related income tax effects, as applicable, provides a useful supplemental measure of the company's ongoing operations in light of the fact that none of these categories of expense has a current effect on the future uses of cash (with the exception of loss on sale of commercial paper from bankrupt institution) 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 Solutions has included these non-GAAP measures to give investors an opportunity to see the company's financial results as viewed by management. A reconciliation of the non-GAAP financial measures to the comparable GAAP financial measure is provided at the end of the company's financial statements presented below.

About PDF Solutions

PDF Solutions, Inc. (NASDAQ: PDFS) is the leading provider of yield improvement technologies and services for the IC manufacturing process life cycle. PDF Solutions offers solutions that are designed to enable clients to lower costs of IC design and manufacture, enhance time to market, and improve profitability by addressing design and manufacturing interactions from product design to initial process ramps to mature manufacturing operations. PDF Solutions' Characterization Vehicle® (CV®) test chips provide the core modeling capabilities, and are used by more leading manufacturers than any other test chips in the industry. PDF Solutions' industry leading yield management system software, *dataPOWER*®, and fault detection and classification software, *mæstria*®, enhance yield improvement and production control activities at leading fabs around the world. Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in China, Europe, Japan, Korea, Singapore and Taiwan. For the company's latest news and information, visit <http://www.pdf.com/>.

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

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,026	\$ 35,315
Short-term investments	15,178	9,949
Accounts receivable, net	33,355	38,526
Prepaid expenses, deferred tax assets, and other current assets	5,543	5,030
Total current assets	81,102	88,820
Property and equipment, net	3,049	3,621
Non-current investments	841	—
Goodwill	64,103	65,170
Intangible assets, net	10,342	12,818
Other non-current assets	600	8,922
Total assets	<u>\$ 160,037</u>	<u>\$ 179,351</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 393	\$ 421
Accounts payable	1,810	3,469
Accrued compensation and related benefits	5,874	5,950
Other accrued liabilities	2,292	2,604
Taxes payable	31	208
Deferred revenue	2,966	3,159
Billings in excess of recognized revenue	115	553
Total current liabilities	13,481	16,364
Long-term debt	550	907
Long-term taxes payable	3,339	5,581
Other liabilities	1,295	29
Total liabilities	18,665	22,881
Stockholders' equity:		
Preferred stock	—	—
Common stock	4	4
Additional paid-in-capital	187,373	181,566
Treasury stock at cost	(14,632)	(11,524)
Accumulated deficit	(33,569)	(16,892)
Accumulated other comprehensive income	2,196	3,316
Total stockholders' equity	141,372	156,470
Total liabilities and stockholders' equity	<u>\$ 160,037</u>	<u>\$ 179,351</u>

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:				
Design-to-silicon-yield solutions	\$ 13,348	\$ 17,261	\$ 43,824	\$ 52,318
Gainshare performance incentives	5,417	6,807	16,402	17,590
Total revenues	<u>18,765</u>	<u>24,068</u>	<u>60,226</u>	<u>69,908</u>
Cost of design-to-silicon-yield solutions:				
Direct costs of design-to-silicon-yield solutions	7,152	8,100	22,185	22,976
Amortization of acquired technology	631	1,331	1,893	4,516
Total cost of design-to silicon-yield solutions	<u>7,783</u>	<u>9,431</u>	<u>24,078</u>	<u>27,492</u>
Gross margin	10,982	14,637	36,148	42,416
Operating expenses:				
Research and development	7,835	9,008	26,045	26,175
Selling, general and administrative	5,401	5,789	17,346	18,278
Amortization of other acquired intangible assets	194	985	583	3,029
Restructuring charges	—	—	1,471	—
Total operating expenses	<u>13,430</u>	<u>15,782</u>	<u>45,445</u>	<u>47,482</u>
Loss from operations	(2,448)	(1,145)	(9,297)	(5,066)
Interest and other income, net	(343)	322	397	1,347
Loss before taxes	(2,791)	(823)	(8,900)	(3,719)
Income tax provision	9,433	116	7,777	276
Net loss	<u>\$ (12,224)</u>	<u>\$ (939)</u>	<u>\$ (16,677)</u>	<u>\$ (3,995)</u>
Net loss per share — basic and diluted	<u>\$ (0.44)</u>	<u>\$ (0.03)</u>	<u>\$ (0.60)</u>	<u>\$ (0.14)</u>
Weighted average common shares — basic and diluted	<u>27,540</u>	<u>28,223</u>	<u>27,663</u>	<u>28,127</u>

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PDF SOLUTIONS, INC.
NON-GAAP RESULTS (UNAUDITED)
(In thousands, except per share amounts)

	<u>Three Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>
GAAP net loss	\$ (12,224)	\$ (939)
Stock-based compensation expense — cost of design-to-silicon-yield solutions	454	435
Stock-based compensation expense — research and development	536	553
Stock-based compensation expense — selling, general and administrative	723	682
Amortization of acquired core technology	631	1,331
Amortization of other acquired intangible assets	194	985
Loss on sale of commercial paper from bankrupt institution	445	—
Deferred tax asset valuation allowance	9,433	—
Tax impact on reversal of stock-based compensation and amortization of intangible assets	—	2,280
Non-GAAP net income	<u>\$ 192</u>	<u>\$ 5,327</u>
GAAP net loss per diluted share	<u>\$ (0.44)</u>	<u>\$ (0.03)</u>
Non-GAAP net income per diluted share	<u>\$ 0.01</u>	<u>\$ 0.19</u>
Shares used in computing diluted non-GAAP measure of net income per share	<u>27,688</u>	<u>28,713</u>

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News Release

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**PDF Solutions® Provides Financial Outlook For
The Fourth Fiscal Quarter of 2008**

SAN JOSE, Calif.—October 28, 2008—PDF Solutions, Inc. (NASDAQ: PDFS), the leading provider of yield improvement technologies and services for the integrated circuit (IC) manufacturing process life cycle, today provided its financial outlook for the fourth fiscal quarter ending December 31, 2008.

PDF Solutions expects total revenue in the range of \$16.0 million to \$17.5 million for the fourth fiscal quarter ending December 31, 2008. Gain share revenue for the fourth quarter is expected to be in the range of \$3.0 million to \$3.8 million. On a GAAP basis, including a restructuring charge of \$1.6 million, the net loss for the fourth fiscal quarter of 2008 is projected in a range of \$6.0 million to \$4.4 million, or \$0.22 to \$0.16 per basic and 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 stock-based compensation expense, amortization of acquired technology and intangible assets, one-time restructuring charges, and their related income tax effects, as applicable. Non-GAAP net income (loss) for the fourth fiscal quarter ending December 31, 2008 is projected in a range of (\$1.4 million) to \$100,000; or \$(0.05) to \$0.00 per basic and diluted share.

As previously announced, PDF Solutions will discuss its third quarter 2008 results and financial outlook for the fourth quarter ending December 31, 2008 on a live conference call beginning at 3:00 p.m. Pacific Time/6:00 p.m. Eastern Time today. The call will be simultaneously web cast on PDF Solutions' website at <http://ir.pdf.com/events.cfm>. A replay of the web cast 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 measures, 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, amortization of acquired technology and intangible assets, one-time restructuring charges, and their related income tax effects, as applicable. PDF Solutions' management believes that the presentation of these measures provides useful supplemental information to investors regarding PDF Solutions' operating results. These non-GAAP financial measures are used by management internally to measure the company's profitability and performance. PDF Solutions' management believes that excluding the effects of stock-based compensation expense, amortization of acquired technology and intangible assets, one-time restructuring charges, and their income tax effects, as applicable, provides a useful supplemental measure of the company's ongoing operations in light of the fact that none of these categories of expense has a current effect on the future uses of cash (with the exception of one-time restructuring charges) 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 Solutions 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.

About PDF Solutions:

PDF Solutions, Inc. (NASDAQ: PDFS) is the leading provider of yield improvement technologies and services for the IC manufacturing process life cycle. PDF Solutions offers solutions that are designed to enable clients to lower costs of IC design and manufacture, enhance time to market, and improve profitability by addressing design and manufacturing interactions from product design to initial process ramps to mature manufacturing operations. PDF Solutions' Characterization Vehicle® (CV®) test chips provide the core modeling capabilities, and are used by more leading manufacturers than any other test chips in the industry. PDF Solutions' industry leading yield management system software, *dataPOWER*®, and fault detection and classification software, *mæstria*®, enhance yield improvement and production control activities at leading fabs around the world. Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in China, Europe, Japan and Korea. For the company's latest news and information, visit <http://www.pdf.com/>.

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Forward-Looking Statements:

The statements in this press release regarding PDF Solutions' outlook for its fourth fiscal quarter ending December 31, 2008, including expected revenue, net loss, and net loss 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 such solutions, including the introduction of products or services competitive with PDF Solutions' products and services and other risks set forth in PDF Solutions' periodic public filings with the Securities and Exchange Commission, including, without limitation, its annual reports on Form 10-K, most recently filed on March 17, 2008, and its quarterly reports on Form 10-Q, most recently filed on August 11, 2008. 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 LOSS TO PROJECTED
NON-GAAP NET INCOME (LOSS)
(In thousands, except per share data)

PROJECTED RESULTS	Three Months Ending December 31, 2008		
GAAP net loss per share basic	\$ (0.22)	to	\$ (0.16)
GAAP net loss	\$ (5,950)	to	\$ (4,420)
Restructuring charges, net of taxes	1,580		1,580
Amortization of stock-based compensation, net of taxes	1,880		1,880
Amortization of acquired technology and intangible assets, net of taxes	1,060		1,060
Non-GAAP net income (loss)	\$ (1,430)	to	\$ 100
Non-GAAP net income (loss) per share — diluted	\$ (0.05)	to	\$ 0.00
Weighted average common shares	27,500		27,500

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