

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 31, 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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**Item 2.02. Results of Operations and Financial Condition.**

On October 31, 2007, the Registrant issued a press release regarding its financial results and certain other information related to the third fiscal quarter of 2007 ended September 30, 2007. 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 31, 2007, the Registrant issued a press release regarding the financial outlook for the fourth fiscal quarter 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

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated October 31, 2007 regarding financial results and certain other information related to the third fiscal quarter of 2007 ended September 30, 2007.
99.2	Press Release dated October 31, 2007 regarding the financial outlook for the fourth fiscal quarter ending December 31, 2007.

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**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 31, 2007

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**EXHIBIT INDEX**

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99.2	Press Release dated October 31, 2007 regarding the financial outlook for the fourth fiscal quarter ending December 31, 2007.

**News Release**

Investor Relations Contact:  
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**PDF Solutions® Reports Third Quarter  
2007 Results**

*Quarterly Gain Share A Strong Contributor to Overall Revenue Growth*

SAN JOSE, Calif.—October 31, 2007—PDF Solutions, Inc. (NASDAQ: PDFS) the leading provider of yield improvement technologies and services for the integrated circuit (IC) manufacturing process lifecycle, today announced financial results for its third fiscal quarter ended September 30, 2007.

Revenue for the third fiscal quarter of 2007 totaled \$24.1 million, an increase of 24%, compared with revenue of \$19.4 million for the third fiscal quarter of 2006. Gain share revenue for the third fiscal quarter of 2007 totaled \$6.8 million, an increase of 55%, compared to \$4.4 million for the third fiscal quarter of 2006. On a GAAP basis, net loss for the third fiscal quarter of 2007 totaled approximately \$939,000, or \$0.03 per basic share, compared with net income of approximately \$570,000, or \$0.02 per basic and diluted share, for the third fiscal quarter of 2006.

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 their related income tax effects. Using this non-GAAP measure, net income for the third fiscal quarter of 2007 totaled approximately \$5.3 million, or \$0.19 per diluted share, compared with non-GAAP net income of approximately \$3.6 million, or \$0.13 per diluted share, for the third fiscal quarter of 2006.

Additionally, during the third quarter ended September 30, 2007, PDF Solutions utilized the remaining balance available under the \$10 million share repurchase plan previously

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authorized by its Board of Directors. During the quarter, PDF Solutions repurchased 437,287 of its shares on the open market at a weighted average cost of \$10.18, for a total repurchase value of approximately \$4.5 million. On October 29, 2007, PDF Solutions' Board of Directors authorized an additional \$10.0 million share repurchase, to be utilized over the upcoming three years.

As previously announced, PDF 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/medialist.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 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](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, 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, 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 the leading provider of yield improvement technologies and services for the IC manufacturing process lifecycle. 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.

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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, *maestria*®, 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/>.

*Characterization Vehicle, CV, dataPOWER, Maestria, PDF Solutions, and the PDF Solutions logo are registered trademarks of PDF Solutions, Inc.*

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

	September 30, 2007	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 38,461	\$ 36,451
Short-term investments	11,500	16,402
Accounts receivable	32,609	27,575
Prepaid expenses and other current assets	2,825	2,796
Deferred tax assets	2,644	2,581
Total current assets	88,039	85,805
Property and equipment, net	3,761	3,916
Goodwill	64,593	60,034
Intangible assets, net	13,855	13,605
Deferred tax assets	6,265	4,994
Other assets	472	503
Total assets	<u>\$ 176,985</u>	<u>\$ 168,857</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 403	\$ 302
Accounts payable	2,424	3,182
Accrued compensation and related benefits	5,430	3,325
Other accrued liabilities	2,541	3,843
Taxes payable	2,919	4,767
Deferred revenue	4,221	3,705
Billings in excess of recognized revenue	301	95
Total current liabilities	18,239	19,219
Long-term debt	946	1,198
Long-term taxes payable	5,355	—
Other liabilities	78	221
Total liabilities	<u>24,618</u>	<u>20,638</u>
Stockholders' equity:		
Common stock	4	4
Additional paid-in-capital	177,992	167,323
Treasury stock at cost	(10,001)	(5,549)
Accumulated deficit	(18,423)	(13,890)
Accumulated other comprehensive income	2,795	331
Total stockholders' equity	<u>152,367</u>	<u>148,219</u>
Total liabilities and stockholders' equity	<u>\$ 176,985</u>	<u>\$ 168,857</u>

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

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
<b>Revenue:</b>				
Design-to-silicon-yield solutions				
Integrated solutions	\$ 16,294	\$ 11,153	\$ 46,090	\$ 33,859
Software licenses	967	3,811	6,228	8,217
Gain share	6,807	4,400	17,590	15,155
Total revenue	<u>24,068</u>	<u>19,364</u>	<u>69,908</u>	<u>57,231</u>
<b>Cost of design-to-silicon-yield solutions:</b>				
Direct costs of design-to-silicon-yield solutions				
Integrated solutions	8,052	6,734	22,842	19,808
Software licenses	48	58	134	98
Amortization of acquired core technology	1,331	1,266	4,516	3,798
Total cost of design-to silicon-yield solutions	<u>9,431</u>	<u>8,058</u>	<u>27,492</u>	<u>23,704</u>
Gross margin	14,637	11,306	42,416	33,527
<b>Operating expenses:</b>				
Research and development	9,008	6,416	26,175	19,543
Selling, general and administrative	5,789	5,028	18,278	14,850
Amortization of other acquired intangible assets	985	235	3,029	705
Total operating expenses	<u>15,782</u>	<u>11,679</u>	<u>47,482</u>	<u>35,098</u>
Loss from operations	(1,145)	(373)	(5,066)	(1,571)
Interest and other income, net	322	892	1,347	2,338
Income (loss) before taxes	(823)	519	(3,719)	767
Tax provision (benefit)	116	(51)	276	776
Net income (loss)	<u>\$ (939)</u>	<u>\$ 570</u>	<u>\$ (3,995)</u>	<u>\$ (9)</u>
<b>Net income (loss) per share:</b>				
Basic	<u>\$ (0.03)</u>	<u>\$ 0.02</u>	<u>\$ (0.14)</u>	<u>\$ (0.00)</u>
Diluted	<u>\$ (0.03)</u>	<u>\$ 0.02</u>	<u>\$ (0.14)</u>	<u>\$ (0.00)</u>
<b>Weighted average common shares:</b>				
Basic	<u>28,223</u>	<u>26,860</u>	<u>28,127</u>	<u>26,694</u>
Diluted	<u>28,223</u>	<u>27,621</u>	<u>28,127</u>	<u>26,694</u>

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

	Three Months Ended September 30, 2007			Three Months Ended September 30, 2006		
	As reported	Adjustment	Non-GAAP	As reported	Adjustment	Non-GAAP
<b>Revenue:</b>						
Design-to-silicon-yield solutions						
Integrated solutions	\$ 16,294	\$ —	\$ 16,294	\$ 11,153	\$ —	\$ 11,153
Software licenses	967	—	967	3,811	—	3,811
Gain share	6,807	—	6,807	4,400	—	4,400
Total revenue	24,068	—	24,068	19,364	—	19,364
<b>Cost of design-to-silicon-yield solutions:</b>						
Direct costs of design-to-silicon-yield solutions						
Integrated solutions	8,052	(435)(a)	7,617	6,734	(443)(a)	6,291
Software licenses	48	—	48	58	—	58
Amortization of acquired core technology	1,331	(1,331)(b)	—	1,266	(1,266)(b)	—
Total cost of design-to-silicon-yield solutions	9,431	(1,766)	7,665	8,058	(1,709)	6,349
Gross margin	14,637	1,766	16,403	11,306	1,709	13,015
<b>Operating expenses:</b>						
Research and development	9,008	(553)(a)	8,455	6,416	(443)(a)	5,973
Selling, general and administrative	5,789	(682)(a)	5,107	5,028	(621)(a)	4,407
Amortization of other acquired intangible assets	985	(985)(b)	—	235	(235)(b)	—
Total operating expenses	15,782	(2,220)	13,562	11,679	(1,299)	10,380
Income (loss) from operations	(1,145)	3,986	2,841	(373)	3,008	2,635
Interest and other income, net	322	—	322	892	—	892
Income (loss) before taxes	(823)	3,986	3,163	519	3,008	3,527
Tax provision (benefit)	116	(2,280)(c)	(2,164)	(51)	(51)(c)	(102)
Net income (loss)	\$ (939)	\$ 6,266	\$ 5,327	\$ 570	\$ 3,059	\$ 3,629
Net income (loss) per share – diluted	\$ (0.03)	\$ 0.22	\$ 0.19	\$ 0.02	\$ 0.11	\$ 0.13
Weighted average common shares – diluted	28,223	28,713(d)	28,713	27,621	27,621(d)	27,621

**Notes:**

- (a) The non-GAAP adjustments represent the reversal of stock-based compensation.
- (b) The non-GAAP adjustments represent the reversal of amortization of intangible assets.
- (c) The non-GAAP adjustments represent the tax impact from the reversal of stock-based compensation and amortization of intangible assets.
- (d) The shares used in computing non-GAAP net income for the three months ended September 30, 2007 and 2006 include the dilutive impact of common stock options.

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*News Release*

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**PDF Solutions® Provides Financial Outlook For  
The Fourth Fiscal Quarter of 2007**

SAN JOSE, Calif.—October 31, 2007—PDF Solutions, Inc. (NASDAQ: PDFS), the leading provider of yield improvement technologies and services for the integrated circuit (IC) manufacturing process lifecycle, today provided its financial outlook for the fourth fiscal quarter ending December 31, 2007.

PDF Solutions expects total revenue in the range of \$24.5 million to \$26.0 million for the fourth fiscal quarter ending December 31, 2007. Gain share revenue for the fourth quarter is expected to be in the range of \$6.0 million to \$6.5 million. On a GAAP basis, net income for the fourth fiscal quarter of 2007 is projected in a range of \$1.8 million to \$2.4 million, or \$0.06 to \$0.08 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 stock-based compensation expense, amortization of acquired intangible assets and their related income tax effects. Non-GAAP net income for the fourth fiscal quarter ending December 31, 2007 is projected in a range of \$5.9 million to \$6.5 million, or \$0.20 to \$0.22 per diluted share.

As previously announced, PDF will discuss its third quarter 2007 results and financial outlook for the fourth quarter ending December 31, 2007 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 be web cast on PDF Solutions' website at <http://ir.pdf.com/medialist.cfm>. A replay of the web cast will

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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](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 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 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.

**About PDF Solutions:**

PDF Solutions, Inc. (NASDAQ: PDFS) is the leading provider of yield improvement technologies and services for the IC manufacturing process lifecycle. 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

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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, *maestria*®, 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/>.

*Characterization Vehicle, CV, dataPOWER, Maestria, PDF Solutions, and the PDF Solutions logo are registered trademarks of PDF Solutions, Inc.*

**Forward-Looking Statements:**

The statements in this press release regarding PDF Solutions' outlook for its fourth fiscal quarter ending December 31, 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 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 report on Form 10-K, most recently filed on March 16, 2007, and its quarterly reports on Form 10-Q, most recently filed on August 9, 2007. 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 TO PROJECTED**  
**NON-GAAP NET INCOME**  
(In thousands, except per share data)

PROJECTED RESULTS	Three Months Ending December 31, 2007		
GAAP net income per share diluted	<u>\$ 0.06</u>	to	<u>\$ 0.08</u>
GAAP net income	\$ 1,760	to	\$ 2,360
Amortization of stock-based compensation, net of taxes	2,450		2,450
Amortization of acquired intangible assets, net of taxes	1,740		1,740
Non-GAAP net income	<u>\$ 5,950</u>	to	<u>\$ 6,550</u>
Non-GAAP net income per share — diluted	<u>\$ 0.20</u>	to	<u>\$ 0.22</u>
Weighted average common shares — diluted	<u>29,250</u>		<u>29,250</u>

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