

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): January 26, 2006**

**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)

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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](#)

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

On January 26, 2006, 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, 2005. 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, except as shall be expressly set forth by specific reference in such a filing.

**Item 7.01. Regulation FD Disclosure.**

Also on January 26, 2006, the Registrant issued a press release regarding the financial outlook for the first fiscal quarter ending March 31, 2006 and the second fiscal quarter ending June 30, 2006. 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, except as shall be expressly set forth by specific reference in such a filing.

**Item 9.01. Financial Statements and Exhibits.**

(c) Exhibits.

<b>Exhibit No.</b>	<b>Description</b>
99.1	Press Release dated January 26, 2006 regarding financial results and certain other information related to the fourth fiscal quarter and full fiscal year ended December 31, 2005.
99.2	Press Release dated January 26, 2006 regarding the financial outlook for the first fiscal quarter ending March 31, 2006 and the second fiscal quarter ending June 30, 2006.

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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: January 26, 2006

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**EXHIBIT INDEX**

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99.2	Press Release dated January 26, 2006 regarding the financial outlook for the first fiscal quarter ending March 31, 2006 and the second fiscal quarter ending June 30, 2006.

## ***News Release***

Investor Relations Contact:  
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### **PDF Solutions® Reports Record Fiscal 2005 Revenue & Net Income**

*Record Gain Share Contributes to 12<sup>th</sup> Sequential Quarter of Revenue Growth*

SAN JOSE, Calif.—January 26, 2006—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 and fiscal year ended December 31, 2005.

Revenue for the fourth fiscal quarter of 2005 totaled a record \$19.0 million, an increase of 5%, compared with revenue of \$18.1 million for the fourth fiscal quarter of 2004. Gain share revenue for the fourth fiscal quarter of 2005 totaled a record \$3.8 million, an increase of 39%, compared to the fourth fiscal quarter of 2004. On a GAAP basis, net income for the fourth fiscal quarter of 2005 totaled a record \$2.3 million, or \$0.08 per diluted share, compared with net income of \$1.6 million, or \$0.06 per diluted share, for the fourth fiscal quarter of 2004.

Revenue for the full fiscal year ended December 31, 2005 totaled a record \$73.9 million, an increase of 19%, compared with revenue of \$62.3 million for the full fiscal year ended December 31, 2004. On a GAAP basis, net income for the full fiscal year of 2005 totaled a record \$6.5 million, or \$0.24 per diluted share, compared with a net loss of approximately \$614,000, or \$0.02 per diluted share, for the full fiscal year of 2004.

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 or loss, which excludes amortization of stock-based compensation and acquired intangible assets. Using this non-GAAP measure, net income for the fourth fiscal quarter of 2005 totaled approximately

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\$3.9 million, or \$0.14 per diluted share, compared with non-GAAP net income of approximately \$3.6 million, or \$0.13 per diluted share, for the fourth fiscal quarter of 2004.

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](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 amortization of stock-based compensation and acquired intangible assets. 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 amortization of stock-based compensation and acquired intangible assets 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 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. Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in Europe and Japan. For more information, visit [www.pdf.com](http://www.pdf.com).

PDF Solutions® is a registered trademark of PDF Solutions, Inc.

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

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 60,506	\$ 45,660
Accounts receivable, net of allowances	22,082	15,978
Prepaid expenses and other current assets	1,992	2,685
Deferred tax assets	908	1,586
Total current assets	<u>85,488</u>	<u>65,909</u>
Property and equipment, net	3,328	3,321
Goodwill	39,886	39,886
Intangible assets, net	9,787	15,791
Deferred tax assets	877	—
Other assets	526	500
Total assets	<u>\$ 139,892</u>	<u>\$ 125,407</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,728	\$ 1,023
Accrued compensation and related benefits	4,922	3,209
Other accrued liabilities	1,469	2,593
Taxes payable	4,950	3,286
Deferred revenues	2,281	2,905
Billings in excess of recognized revenue	1,604	1,581
Total current liabilities	<u>16,954</u>	<u>14,597</u>
Long-term liabilities	257	311
Deferred tax liabilities	—	1,701
Total liabilities	<u>17,211</u>	<u>16,609</u>
Stockholders' equity:		
Common stock	4	4
Additional paid-in-capital	141,720	134,191
Treasury stock, at cost	(5,549)	(4,806)
Deferred stock-based compensation	(27)	(148)
Notes receivable from stockholders	—	(550)
Accumulated deficit	(13,451)	(19,975)
Accumulated other comprehensive income (loss)	(16)	82
Total stockholders' equity	<u>122,681</u>	<u>108,798</u>
Total liabilities and stockholders' equity	<u>\$ 139,892</u>	<u>\$ 125,407</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, 2005	December 31, 2004	December 31, 2005	December 31, 2004
<b>Revenue:</b>				
Design-to-silicon-yield solutions:				
Integrated solutions	\$ 14,061	\$ 13,491	\$ 52,719	\$ 49,573
Software licenses	1,140	1,809	9,319	4,971
Gain share	3,821	2,751	11,890	7,802
Total revenue	<u>19,022</u>	<u>18,051</u>	<u>73,928</u>	<u>62,346</u>
<b>Cost and expenses:</b>				
Cost of design-to-silicon-yield solutions:				
Direct costs of design-to-silicon-yield solutions:				
Integrated solutions	6,421	6,230	24,319	21,772
Software licenses	20	15	293	83
Amortization of acquired core technology	1,266	1,266	5,064	5,209
Research and development	5,641	5,352	22,106	20,332
Selling, general and administrative	3,964	3,987	16,138	15,207
Stock-based compensation amortization*	13	61	106	742
Amortization of other acquired intangible assets	235	235	940	1,406
Total costs and expenses	<u>17,560</u>	<u>17,146</u>	<u>68,966</u>	<u>64,751</u>
Income (loss) from operations	1,462	905	4,962	(2,405)
Interest and other income, net	573	234	1,658	675
Income (loss) before taxes	2,035	1,139	6,620	(1,730)
Tax provision (benefit)	(217)	(414)	96	(1,116)
Net income (loss)	<u>\$ 2,252</u>	<u>\$ 1,553</u>	<u>\$ 6,524</u>	<u>\$ (614)</u>
<b>Net income (loss) per share:</b>				
Basic	<u>\$ 0.09</u>	<u>\$ 0.06</u>	<u>\$ 0.25</u>	<u>\$ (0.02)</u>
Diluted	<u>\$ 0.08</u>	<u>\$ 0.06</u>	<u>\$ 0.24</u>	<u>\$ (0.02)</u>
<b>Weighted average common shares:</b>				
Basic	<u>26,272</u>	<u>25,391</u>	<u>25,983</u>	<u>25,330</u>
Diluted	<u>28,013</u>	<u>26,975</u>	<u>27,473</u>	<u>25,330</u>
<b>* Stock-based compensation amortization:</b>				
Cost of design-to-silicon-yield solutions	\$ —	\$ —	\$ —	\$ 39
Research and development	13	61	98	667
Selling, general and administrative	—	—	8	36
	<u>\$ 13</u>	<u>\$ 61</u>	<u>\$ 106</u>	<u>\$ 742</u>

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**PDF SOLUTIONS, INC.**  
**RECONCILIATION OF REPORTED GAAP NET INCOME TO NON-GAAP NET INCOME**  
**(UNAUDITED)**  
(In thousands, except per share amounts)

	<u>Three Months Ended</u>	
	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
GAAP net income	\$ 2,252	\$ 1,553
Stock-based compensation amortization	13	61
Amortization of intangibles, net of taxes	1,660	2,019
Non-GAAP net income	<u>\$ 3,925</u>	<u>\$ 3,633</u>
Non-GAAP net income per share — diluted	<u>\$ 0.14</u>	<u>\$ 0.13</u>
Weighted average common shares — diluted.	<u>28,013</u>	<u>26,975</u>

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## ***News Release***

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### **PDF Solutions® Provides Financial Outlook For The First and Second Quarters of Fiscal 2006**

SAN JOSE, Calif.—January 26, 2006—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 and second fiscal quarters ending March 31, 2006 and June 30, 2006, respectively.

PDF Solutions expects total revenue in the range of \$20.5 million to \$21.5 million for the first fiscal quarter ending March 31, 2006. Gain share revenue for the first quarter is expected to be in the range of \$3.8 million to \$4.2 million. On a GAAP basis, net income for the first fiscal quarter of 2006 is projected in a range of \$2.3 million to \$2.9 million, or \$0.08 to \$0.10 per diluted share. GAAP net income for the three months ending March 31, 2006 excludes the effects of the adoption of SFAS 123(R), as management is currently finalizing its future impact.

For the second fiscal quarter ending June 30, 2006, PDF Solutions expects total revenue in the range of \$21.8 million to \$22.8 million. On a GAAP basis, net income for the second fiscal quarter of 2006 is projected in a range of \$2.7 million to \$3.2 million, or \$0.09 to \$0.11 per diluted share. GAAP net income for the three months ending June 30, 2006 excludes the effects of the adoption of SFAS 123(R), as management is currently finalizing its future impact.

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 and the effects of the adoption SFAS 123(R). Non-GAAP net income for the first fiscal quarter ending March 31, 2006 is projected in a range of \$3.4 million to \$3.9 million, or \$0.12 to \$0.14 per diluted

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share. Non-GAAP net income for the second fiscal quarter ending June 30, 2006 is projected in a range of \$3.7 million to \$4.3 million, or \$0.13 to \$0.15 per diluted share.

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 2005 results and financial outlook for the first and second fiscal quarters of 2006. 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 the '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 amortization of stock-based compensation and acquired intangible assets. 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 's profitability and performance. PDF's management believes that excluding the effects of amortization of stock-based compensation and acquired intangible assets provides a useful supplemental measure of the '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'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 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. Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in Europe and Japan. For more information, visit [www.pdf.com](http://www.pdf.com).

*PDF Solutions® is a registered trademark of PDF Solutions, Inc.*

**Forward-Looking Statements:**

The statements in this press release regarding PDF Solutions' outlook for its first and second fiscal quarters of 2006, 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, 2005, and its quarterly reports on Form 10-Q, most recently filed on November 9, 2005. 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)

<b>PROJECTED RESULTS</b>	<b>Three Months Ending March 31, 2006</b>		
GAAP(1) net income per share — diluted	<u>\$ 0.08</u>	to	<u>\$ 0.10</u>
GAAP(1) net income	\$ 2,300	to	\$ 2,870
Amortization of acquired intangible assets, net of taxes	1,050		1,050
Non-GAAP net income	<u>\$ 3,350</u>	to	<u>\$ 3,920</u>
Non-GAAP net income per share — diluted.	<u>\$ 0.12</u>	to	<u>\$ 0.14</u>
Weighted average common shares — diluted	<u>28,500</u>		<u>28,500</u>

<b>PROJECTED RESULTS</b>	<b>Three Months Ending June, 2006</b>		
GAAP(1) net income per share — diluted	<u>\$ 0.09</u>	to	<u>\$ 0.11</u>
GAAP(1) net income	\$ 2,650	to	\$ 3,225
Amortization of acquired intangible assets, net of taxes	1,050		1,050
Non-GAAP net income	<u>\$ 3,700</u>	to	<u>\$ 4,275</u>
Non-GAAP net income per share — diluted.	<u>\$ 0.13</u>	to	<u>\$ 0.15</u>
Weighted average common shares — diluted	<u>29,000</u>		<u>29,000</u>

(1)GAAP net income for the three months ending March 31, 2006 and June 30, 2006 excludes the effects of the adoption of SFAS 123(R), as management is currently finalizing its future impact.

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