

**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 20, 2005**

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 October 20, 2005, the Registrant issued a press release regarding its financial results and certain other information related to its third fiscal quarter ended September 30, 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 October 20, 2005, the Registrant issued a press release regarding the financial outlook for the fourth fiscal quarter ending December 31, 2005 and the first fiscal quarter ending March 31, 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.

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|---|
| 99.1 | Press Release dated October 20, 2005 regarding financial results and certain other information related to the third fiscal quarter ended September 30, 2005. |
| 99.2 | Press Release dated October 20, 2005 regarding the financial outlook for the fourth fiscal quarter ending December 31, 2005 and the first fiscal quarter ending March 31, 2006. |

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/ P. Steven Melman
P. Steven Melman
*Vice President, Finance and Administration and
Chief Financial Officer*

Dated: October 20, 2005

EXHIBIT INDEX

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News Release

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

Corporate Communications Contact:
Abbie Kendall, Principal
Armstrong Kendall, Inc.
Tel: (503) 672-4681
Email: abbie@akipr.com

PDF Solutions® Reports Record Third Quarter 2005 Revenue

Record Gainshare Contributes to 11th Sequential Quarter of Revenue Growth

SAN JOSE, Calif.—October 20, 2005—PDF Solutions, Inc. (Nasdaq: PDFS) the leading provider of process-design integration technologies to enhance IC manufacturability, today announced financial results for its third fiscal quarter ended September 30, 2005.

Revenue for the third fiscal quarter of 2005 totaled a record \$18.5 million, an increase of 12%, compared with revenue of \$16.5 million for the third fiscal quarter of 2004. Gainshare revenue for the third fiscal quarter of 2005 totaled a record \$3.1 million, an increase of 28%, compared to the third fiscal quarter of 2004. On a GAAP basis, net income for the third fiscal quarter of 2005 totaled approximately \$1.5 million, or \$0.06 per diluted share, compared with net income of approximately \$135,000, or \$0.01 per diluted share, for the third fiscal quarter of 2004.

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 or loss, which excludes amortization of stock-based compensation and acquired intangible assets. Using this non-GAAP measure, net income for the third fiscal quarter of 2005 totaled approximately \$3.0 million, or \$0.11 per diluted share, compared with non-GAAP net income of approximately \$1.5 million, or \$0.06 per diluted share, for the third 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 quarterly results. A live webcast of

- more -

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 PDF Solutions' website at http://www.pdf.com/news_archive.phtml following the date of this release.

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.

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

- more -

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

| | <u>September 30,</u> <u>2005</u> | <u>December 31,</u> <u>2004</u> |
|---|-------------------------------------|------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 59,341 | \$ 45,660 |
| Accounts receivable, net of allowances | 17,627 | 15,978 |
| Prepaid expenses and other current assets | 2,399 | 2,685 |
| Deferred tax assets | 2,265 | 1,586 |
| Total current assets | <u>81,632</u> | <u>65,909</u> |
| Property and equipment, net | 3,525 | 3,321 |
| Goodwill | 39,886 | 39,886 |
| Intangible assets, net | 11,288 | 15,791 |
| Other assets | 448 | 500 |
| Total assets | <u>\$ 136,779</u> | <u>\$ 125,407</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,443 | \$ 1,023 |
| Accrued compensation and related benefits | 4,296 | 3,209 |
| Other accrued liabilities | 1,767 | 2,593 |
| Taxes payable | 4,961 | 3,286 |
| Deferred revenues | 2,378 | 2,905 |
| Billings in excess of recognized revenue | 2,425 | 1,581 |
| Total current liabilities | <u>17,270</u> | <u>14,597</u> |
| Long-term liabilities | 272 | 311 |
| Deferred tax liabilities | 847 | 1,701 |
| Total liabilities | <u>18,389</u> | <u>16,609</u> |
| Stockholders' equity: | | |
| Common stock | 4 | 4 |
| Additional paid-in-capital | 139,676 | 134,191 |
| Treasury stock, at cost | (5,549) | (4,806) |
| Deferred stock-based compensation | (45) | (148) |
| Notes receivable from stockholders | — | (550) |
| Accumulated deficit | (15,703) | (19,975) |
| Accumulated other comprehensive income | 7 | 82 |
| Total stockholders' equity | <u>118,390</u> | <u>108,798</u> |
| Total liabilities and stockholders' equity | <u>\$ 136,779</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 | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2005 | September 30, 2004 | September 30, 2005 | September 30, 2004 |
| Revenue: | | | | |
| Design-to-silicon-yield solutions: | | | | |
| Integrated solutions. | \$ 13,834 | \$ 13,224 | \$ 38,658 | \$ 36,082 |
| Software licenses | 1,533 | 812 | 8,179 | 3,162 |
| Gain share | 3,090 | 2,414 | 8,069 | 5,051 |
| Total revenue | <u>18,457</u> | <u>16,450</u> | <u>54,906</u> | <u>44,295</u> |
| Cost and expenses: | | | | |
| Cost of design-to-silicon-yield solutions: | | | | |
| Direct costs of design-to-silicon-yield solutions: | | | | |
| Integrated solutions. | 6,382 | 5,881 | 17,898 | 15,541 |
| Software licenses | 15 | 6 | 273 | 69 |
| Amortization of acquired core technology | 1,266 | 1,266 | 3,798 | 3,943 |
| Research and development | 5,474 | 4,940 | 16,465 | 14,980 |
| Selling, general and administrative | 3,971 | 3,801 | 12,174 | 11,220 |
| Stock-based compensation amortization* | 19 | 134 | 93 | 681 |
| Amortization of other acquired intangible assets | 235 | 351 | 705 | 1,171 |
| Total costs and expenses | <u>17,362</u> | <u>16,379</u> | <u>51,406</u> | <u>47,605</u> |
| Income (loss) from operations | 1,095 | 71 | 3,500 | (3,310) |
| Interest and other income, net | 463 | 150 | 1,085 | 441 |
| Income (loss) before taxes | 1,558 | 221 | 4,585 | (2,869) |
| Tax provision (benefit) | 22 | 86 | 313 | (702) |
| Net income (loss) | <u>\$ 1,536</u> | <u>\$ 135</u> | <u>\$ 4,272</u> | <u>\$ (2,167)</u> |
| Net income (loss) per share: | | | | |
| Basic | <u>\$ 0.06</u> | <u>\$ 0.01</u> | <u>\$ 0.17</u> | <u>\$ (0.09)</u> |
| Diluted | <u>\$ 0.06</u> | <u>\$ 0.01</u> | <u>\$ 0.16</u> | <u>\$ (0.09)</u> |
| Weighted average common shares: | | | | |
| Basic | <u>26,101</u> | <u>25,293</u> | <u>25,887</u> | <u>25,310</u> |
| Diluted | <u>27,779</u> | <u>25,983</u> | <u>27,298</u> | <u>25,310</u> |
| * Stock-based compensation amortization: | | | | |
| Cost of design-to-silicon-yield solutions | \$ — | \$ 2 | \$ — | \$ 39 |
| Research and development | 11 | 130 | 85 | 606 |
| Selling, general and administrative | 8 | 2 | 8 | 36 |
| | <u>\$ 19</u> | <u>\$ 134</u> | <u>\$ 93</u> | <u>\$ 681</u> |

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

| | Three Months Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2005 | September 30, 2004 |
| GAAP net income | \$ 1,536 | \$ 135 |
| Stock-based compensation amortization | 19 | 134 |
| Amortization of intangibles, net of taxes | 1,480 | 1,226 |
| Non-GAAP net income | <u>\$ 3,035</u> | <u>\$ 1,495</u> |
| Non-GAAP net income per share —diluted | <u>\$ 0.11</u> | <u>\$ 0.06</u> |
| Weighted average common shares — diluted. | <u>27,779</u> | <u>25,983</u> |

Use of Non-GAAP Information

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 certain charges as additional information relating to its operating results. PDF Solutions' management believes that the presentation of these measures provides useful information to investors regarding certain additional financial and business trends relating to its financial condition and results of operations. PDF Solutions has also chosen to provide this information to investors to enable them to perform meaningful comparisons of PDF Solutions' past, present and future operating results. These measures are not in accordance with, or an alternative to, GAAP and may be different from non-GAAP measures used by other companies. The calculations of non-GAAP financial measures have been adjusted to exclude the effects of amortization of stock-based compensation and acquired intangible assets.

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News Release

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

Corporate Communications Contact:
Abbie Kendall, Principal
Armstrong Kendall, Inc.
Tel: (503) 672-4681
Email: abbie@akipr.com

PDF Solutions® Provides Financial Outlook For The Fourth Quarter of Fiscal 2005 and First Quarter of Fiscal 2006

SAN JOSE, Calif.—October 20, 2005—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 fourth fiscal quarter ending December 31, 2005 and the first fiscal quarter ending March 31, 2006, respectively.

PDF Solutions expects total revenue in the range of \$18.8 million to \$19.6 million for the fourth fiscal quarter ending December 31, 2005. Gain share revenue for the fourth quarter is expected to be in the range of \$3.1 million to \$3.5 million. On a GAAP basis, net income for the fourth fiscal quarter of 2005 is projected in a range of \$1.8 million to \$2.4 million, or \$0.06 to \$0.08 per diluted share.

For the first fiscal quarter ending March 31, 2006, PDF Solutions expects total revenue in the range of \$20.5 million to \$21.5 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 evaluating 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), where applicable. Non-GAAP net income for the fourth fiscal quarter ending December 31, 2005 is projected in a range of \$3.0 million to \$3.6 million, or

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\$0.11 to \$0.13 per diluted share. 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 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 third quarter 2005 results and financial outlook for the fourth fiscal quarter of 2005 and first fiscal quarter 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 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.

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.

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Forward-Looking Statements

The statements in this press release regarding PDF Solutions' outlook for its fourth fiscal quarter of 2005 and its first fiscal quarter 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

- more -

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 August 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.

- more -

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, 2005 | | |
|--|--|----|-----------------|
| GAAP net income per share — diluted | \$ 0.06 | to | \$ 0.08 |
| GAAP net income | \$ 1,790 | to | \$ 2,365 |
| Stock-based compensation amortization | 20 | | 20 |
| Amortization of acquired intangible assets, net of taxes | 1,230 | | 1,230 |
| Non-GAAP net income | <u>\$ 3,040</u> | to | <u>\$ 3,615</u> |
| Non-GAAP net income per share — diluted | <u>\$ 0.11</u> | to | <u>\$ 0.13</u> |
| Weighted average common shares — diluted | <u>28,250</u> | | <u>28,250</u> |

| PROJECTED RESULTS | Three Months Ending March 31, 2006 | | |
|--|---|----|-----------------|
| GAAP(1) net income per share — diluted | \$ 0.08 | to | \$ 0.10 |
| 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> |

(1) 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 evaluating its future impact.

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Use of Non-GAAP Information

In addition to providing results that are determined in accordance with Generally Accepted Accounting Principles (GAAP) of the United States of America, PDF Solutions also provides certain Non-GAAP financial measures that exclude certain charges as additional information relating to its operating results. PDF Solutions' management believes that the presentation of these measures provides useful information to investors regarding certain additional financial and business trends relating to its financial condition and results of operations. PDF Solutions has also chosen to provide this information to investors to enable them to perform meaningful comparisons of PDF Solutions' past, present and future operating results. These measures are not in accordance with, or an alternative to, GAAP and may be different from non-GAAP measures used by other companies. The calculations of non-GAAP financial measures have been adjusted to exclude the effects of amortization of stock-based compensation and acquired intangible assets.

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