

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 27, 2004**

PDF Solutions, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction
of Incorporation)

000-31311

(Commission File
Number)

25-1701361

(IRS Employer
Identification No.)

333 West San Carlos Street, Suite 700, San Jose, CA

(Address of Principal Executive Offices)

95110

(Zip Code)

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

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

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Item 7. Financial Statements and Exhibits.

(c) Exhibits.

- 99.1 Press Release dated January 27, 2004 regarding financial results and certain other information related to the fourth quarter and fiscal year end of 2003
- 99.2 Press Release dated January 27, 2004 regarding the financial outlook for the first and second quarters of fiscal 2004

Item 12. Results of Operations and Financial Condition.

On January 27, 2004, PDF Solutions, Inc. issued a press release regarding its financial results and certain other information related to the fourth quarter and fiscal year end of 2003. Also on January 27, 2004, PDF Solutions, Inc. issued a press release regarding the financial outlook for the first and second quarters of fiscal year 2004. A copy of each press release is attached as Exhibit 99.1 and Exhibit 99.2, respectively.

Use of Non-GAAP Information

In addition to providing results that are determined in accordance with Generally Accepted Accounting Principles (GAAP), PDF Solutions also provides certain non-GAAP financial measures that exclude certain charges as additional information relating to its operating results. PDF's 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 has also chosen to provide this information to investors to enable them to perform meaningful comparisons of its 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 intangibles.

EXHIBIT INDEX

| Number | Exhibit |
|--------|--|
| 99.1 | Press Release dated January 27, 2004 regarding financial results and certain other information related to the fourth quarter and fiscal year end of 2003 |
| 99.2 | Press Release dated January 27, 2004 regarding the financial outlook for the first and second quarters of fiscal year 2004 |

NEWS RELEASE

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PDF SOLUTIONS(R) REPORTS FOURTH QUARTER AND TOTAL
 YEAR 2003 FINANCIAL RESULTS

SAN JOSE, Calif.--January 27, 2004--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 full fiscal year ended December 31, 2003.

Revenue for the fourth fiscal quarter of 2003 totaled \$12.1 million, an increase of 34% compared with revenue of \$9.0 million for the fourth fiscal quarter of 2002. Pro forma net loss for the fourth fiscal quarter of 2003, excluding amortization of stock-based compensation and acquired intangible assets, totaled \$135,000, or \$0.01 per diluted share, compared with a pro forma net loss of \$264,000, or \$0.01 per diluted share, for the fourth fiscal quarter of 2002. Reported net loss for the fourth fiscal quarter of 2003 totaled \$1.3 million, or \$0.05 per diluted share, compared with a reported net loss of \$806,000, or \$0.04 per diluted share, for the fourth fiscal quarter of 2002. Revenue for the full fiscal year ended December 31, 2003 totaled \$42.5 million with reported net loss for the fiscal year totaling \$4.5 million or \$0.19 per diluted share.

"During 2003, we strengthened our competitive position by adding more of the world's leading semiconductor companies to our customer list and broadening our technology offering through both acquisition and new product development, while maintaining our healthy balance sheet," said John Kibarian, PDF's President and Chief Executive Officer.

As previously announced, the company will hold a live conference call beginning at 3:00 p.m. PDT/6:00 p.m. EDT today to discuss the quarterly results. A live webcast of this conference call will be available on the company's website at <http://ir.pdf.com/medialist.cfm>. A

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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 the company's 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.

ABOUT PDF SOLUTIONS

PDF Solutions, Inc. (Nasdaq: PDFS) is the leading provider of process-design integration technologies for manufacturing integrated circuits (ICs). PDF's 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(R) is a registered trademark of PDF Solutions, Inc.

FORWARD-LOOKING STATEMENTS

Some of the statements in this press release are forward looking, including the statement regarding PDF's competitive positioning in the semiconductor industry. The words "strengthen", "adding", "broadening" and similar expressions also

identify forward looking statements. Actual results could differ materially from those expressed in any 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's products and services. Readers should also refer to the risk disclosures set forth in PDF's periodic public filings with the Securities and Exchange Commission, including, without limitation, its annual report on Form 10-K, most recently filed on March 26, 2003, and on its quarterly reports Form 10-Q, most recently filed on November 20, 2003 as amended. The forward-looking statements contained in this release are made as of the date hereof, and PDF 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.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(IN THOUSANDS)

| | DECEMBER 31, 2003 | DECEMBER 31, 2002 |
|---|----------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 39,110 | \$ 71,490 |
| Accounts receivable, net of allowances | 11,869 | 7,924 |
| Prepaid expenses and other current assets | 2,614 | 2,413 |
| Deferred tax assets | 1,808 | 1,993 |
| | ----- | ----- |
| Total current assets | 55,401 | 83,820 |
| Property and equipment, net | 4,110 | 3,533 |
| Goodwill | 40,548 | 662 |
| Intangible assets, net | 22,906 | 220 |
| Deferred tax assets | -- | 1,053 |
| Other assets | 1,002 | 511 |
| | ----- | ----- |
| Total assets | \$ 123,967 | \$ 89,799 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 835 | \$ 499 |
| Accrued compensation and related benefits | 1,952 | 1,143 |
| Other accrued liabilities | 1,757 | 1,669 |
| Other acquisition obligations | 1,608 | -- |
| Taxes payable | 2,871 | 1,838 |
| Deferred revenues | 3,300 | 4,496 |
| Billings in excess of recognized revenue | 465 | 606 |
| | ----- | ----- |
| Total current liabilities | 12,788 | 10,251 |
| Long term liabilities | 287 | 54 |
| Deferred tax liabilities | 4,340 | 752 |
| | ----- | ----- |
| Total liabilities | 17,415 | 11,057 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Common stock | 4 | 3 |
| Additional paid-in-capital | 129,568 | 99,884 |
| Deferred stock-based compensation | (688) | (1,340) |
| Notes receivable from stockholders | (3,025) | (4,998) |
| Accumulated deficit | (19,362) | (14,845) |
| Accumulated other comprehensive income | 55 | 38 |
| | ----- | ----- |
| Total stockholders' equity | 106,552 | 78,742 |
| | ----- | ----- |

Total liabilities and stockholders' equity \$ 123,967 \$ 89,799
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PDF SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | THREE MONTHS ENDED | | TWELVE MONTHS ENDED | |
|--|----------------------|----------------------|----------------------|----------------------|
| | DECEMBER 31, 2003 | DECEMBER 31, 2002 | DECEMBER 31, 2003 | DECEMBER 31, 2002 |
| Revenue: | | | | |
| Design-to-silicon-yield solutions | \$ 10,454 | \$ 7,587 | \$ 35,629 | \$ 33,685 |
| Gain share | 1,615 | 1,407 | 6,897 | 10,039 |
| Total revenue | 12,069 | 8,994 | 42,526 | 43,724 |
| Cost and expenses: | | | | |
| Cost of design-to-silicon-yield solutions: | | | | |
| Direct costs of design-to-silicon yield solutions ... | 3,686 | 3,362 | 14,412 | 14,986 |
| Amortization of acquired core technology | 1,350 | 41 | 2,168 | 164 |
| Research and development | 5,318 | 4,104 | 18,441 | 15,247 |
| Selling, general and administrative | 3,739 | 2,472 | 12,459 | 10,188 |
| Stock-based compensation amortization* | 411 | 513 | 1,755 | 2,711 |
| Amortization of other acquired intangible assets | 410 | -- | 547 | -- |
| Write-off of in-process research and development | -- | -- | 800 | -- |
| Total costs and expenses | 14,914 | 10,492 | 50,582 | 43,296 |
| Income (loss) from operations | (2,845) | (1,498) | (8,056) | 428 |
| Interest and other income | 197 | 409 | 1,195 | 1,549 |
| Income (loss) before taxes | (2,648) | (1,089) | (6,861) | 1,977 |
| Tax (benefit) provision | (1,373) | (283) | (2,345) | 1,453 |
| Net income (loss) | \$ (1,275) | \$ (806) | \$ (4,516) | \$ 524 |
| Net income (loss) per share: | | | | |
| Basic | \$ (0.05) | \$ (0.04) | \$ (0.19) | \$ 0.02 |
| Diluted | \$ (0.05) | \$ (0.04) | \$ (0.19) | \$ 0.02 |
| Weighted average common shares: | | | | |
| Basic | 25,010 | 22,271 | 23,278 | 21,962 |
| Diluted | 25,010 | 22,271 | 23,278 | 23,199 |
| * Stock-based compensation amortization: | | | | |
| Cost of design-to-silicon yield solutions | \$ 52 | \$ 154 | \$ 345 | \$ 826 |
| Research and development | 314 | 230 | 1,099 | 1,341 |
| Selling, general and administrative | 45 | 129 | 311 | 544 |
| | \$ 411 | \$ 513 | \$ 1,755 | \$ 2,711 |

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PDF SOLUTIONS, INC.
RECONCILIATION OF REPORTED GAAP NET LOSS TO PRO FORMA NET LOSS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | THREE MONTHS ENDED | |
|----------------|----------------------|----------------------|
| | DECEMBER 31, 2003 | DECEMBER 31, 2002 |
| Net loss | \$ (1,275) | \$ (806) |

| | | |
|---|-----------|-----------|
| Stock-based compensation amortization | 411 | 513 |
| Amortization of intangibles, net of taxes | 729 | 29 |
| | ----- | ----- |
| Pro forma net loss | \$ (135) | \$ (264) |
| | ===== | ===== |
| Pro forma net loss per share - diluted | \$ (0.01) | \$ (0.01) |
| | ===== | ===== |
| Weighted average common shares - diluted | 25,010 | 22,271 |
| | ===== | ===== |

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NEWS RELEASE

| | |
|-----------------------------|-----------------------------------|
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PDF SOLUTIONS(R) PROVIDES FINANCIAL OUTLOOK FOR
THE FIRST AND SECOND FISCAL QUARTERS OF 2004

SAN JOSE, Calif.--January 27, 2003--PDF Solutions, Inc. (Nasdaq: PDFS), the leading provider of process-design integration technologies to enhance IC manufacturability, today provided its financial outlook for the first fiscal quarter ending March 31, 2004 and the second fiscal quarter ending June 30, 2004.

PDF Solutions expects total revenue in the range of \$12.5 million to \$13.0 million for the first fiscal quarter ending March 31, 2004. Pro forma net income (loss) for the first fiscal quarter of 2004, excluding amortization of stock-based compensation and acquired intangible assets, is projected in a range of (\$145,000) to \$205,000, or (\$0.01) to \$0.01 per diluted share. Reported net loss, on a GAAP basis, for the first fiscal quarter of 2004 is projected in a range of \$1.5 million to \$1.1 million, or \$0.06 to \$0.04 per diluted share.

PDF Solutions expects total revenue in the range of \$14.4 million to \$15.2 million for the second fiscal quarter ending June 30, 2004. Pro forma net income for the second fiscal quarter of 2004, excluding amortization of stock-based compensation and acquired intangible assets, is projected in a range of \$950,000 to \$1.4 million, or \$0.03 to \$0.05 per diluted share. Reported net income (loss), on a GAAP basis, for the second fiscal quarter of 2004 is projected in a range of (\$265,000) to \$230,000, or (\$0.01) to \$0.01 per diluted share.

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As previously announced, the company will hold a live conference call beginning at 3:00 p.m. PDT/6:00 p.m. EDT today to discuss the fourth quarter 2003 results and financial outlook for the first and second quarters of 2004. A live webcast of this conference call will be available on the company's 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 the company's 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's 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(R) is a registered trademark of PDF Solutions, Inc.

FORWARD-LOOKING STATEMENTS

Some of the statements in this press release are forward looking, including the statements regarding PDF's 2004 first and second fiscal quarter outlook, the expected growth in revenue, the pro forma net loss and net income and pro forma net loss and net income per share and the reported net loss and net loss per share. The words "estimate", "project", "expect", "believe" and similar expressions also identify forward-looking statements. Actual results could differ materially from those expressed in any 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's products and services. Readers should also refer to the risk disclosures set forth in PDF's periodic public filings with the Securities and Exchange Commission, including, without limitation, its annual report on Form 10-K,

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most recently filed on March 26, 2003, and its quarterly reports on Form 10-Q, most recently filed on November 20, 2003 as amended. The forward-looking statements contained in this release are made as of the date hereof, and PDF 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 REPORTED GAAP NET INCOME (LOSS) TO
 PROJECTED PRO FORMA NET INCOME (LOSS)
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

| PROJECTED RESULTS | THREE MONTHS ENDING MARCH 31, 2004 | |
|---|---------------------------------------|------------|
| ----- | ----- | ----- |
| Net loss per share - diluted..... | \$ (0.06) to | \$ (0.04) |
| | ===== | ===== |
| Net loss..... | \$ (1,485) to | \$ (1,135) |
| Stock-based compensation amortization..... | 250 | 250 |
| Amortization of acquired intangibles, net of taxes... | 1,090 | 1,090 |
| | ----- | ----- |
| Pro forma net income (loss)..... | \$ (145) to | \$ 205 |
| | ===== | ===== |
| Pro forma net income (loss) per share - diluted..... | \$ (0.01) to | \$ 0.01 |
| | ===== | ===== |
| Weighted average common shares - basic..... | 25,400 | 25,400 |
| | ===== | ===== |
| Weighted average common shares - diluted..... | 25,400 | 27,000 |
| | ===== | ===== |

PROJECTED RESULTS

THREE MONTHS ENDING
 JUNE 30, 2004

| | | | |
|---|-----------|----|----------|
| ----- | ----- | | ----- |
| Net income (loss) per share - diluted..... | \$ (0.01) | to | \$ 0.01 |
| | ===== | | ===== |
| Net income (loss)..... | \$ (265) | to | \$ 230 |
| Stock-based compensation amortization..... | 140 | | 140 |
| Amortization of acquired intangibles, net of taxes... | 1,075 | | 1,075 |
| Pro forma net income..... | ----- | to | ----- |
| | \$ 950 | | \$ 1,445 |
| | ===== | | ===== |
| Pro forma net income per share - diluted..... | \$ 0.03 | to | \$ 0.05 |
| | ===== | | ===== |
| Weighted average common shares - basic..... | 25,500 | | 25,500 |
| | ===== | | ===== |
| Weighted average common shares - diluted..... | 27,300 | | 27,300 |
| | ===== | | ===== |

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