

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 23, 2003

PDF Solutions, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

000-31311

25-1701361

(State or Other Jurisdiction of Incorporation)

(Commission File Number)

(IRS Employer Identification No.)

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

95110

(Address of Principal Executive Offices)

(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 October 23, 2003 regarding financial results and certain other information related to the third quarter of fiscal 2003 |
| 99.2 | Press Release dated October 23, 2003 regarding the financial outlook for the fourth quarter of fiscal 2003 and the first quarter of fiscal 2004 |

Item 12. Results of Operations and Financial Condition.

On October 23, 2003, PDF Solutions, Inc. issued a press release regarding its financial results and certain other information related to the third quarter of fiscal year 2003. Also on October 23, 2003, PDF Solutions, Inc. issued a press release regarding the financial outlook for the fourth quarter of fiscal 2003 and the first quarter of fiscal 2004. A copy of each of these press releases is attached as Exhibit 99.1 and Exhibit 99.2.

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 October 23, 2003 regarding financial results and certain other information related to the third quarter of fiscal 2003 |
| 99.2 | Press Release dated October 23, 2003 regarding the financial outlook for the fourth quarter of fiscal 2003 and the first quarter of fiscal 2004 |

News Release

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PDF Solutions® Reports Third Quarter 2003 Financial Results

SAN JOSE, Calif.—October 23, 2003—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, 2003.

Revenue for the third fiscal quarter of 2003 totaled \$11.3 million, an increase of 2% compared with revenue of \$11.0 million for the third fiscal quarter of 2002. Pro forma net income for the third fiscal quarter of 2003, excluding amortization of stock-based compensation and acquired intangible assets and the write-off of in-process research and development resulting from the acquisition of IDS Software Systems, Inc., totaled \$332,000, or \$0.01 per diluted share, compared with pro forma net income of \$853,000, or \$0.04 per diluted share, for the third fiscal quarter of 2002. Reported net loss for the third fiscal quarter of 2003 totaled \$1.2 million, or \$0.05 per diluted share, compared with reported net income of \$185,000, or \$0.01 per diluted share, for the third fiscal quarter of 2002.

"We are pleased with our third fiscal quarter financial results and we are excited about the opportunities that lie ahead," said John Kibarian, PDF's President and Chief Executive Officer. "Closing the acquisition of IDS Software Systems, commencing the full integration of the people and the dataPOWER™ yield management products into PDF Solutions, and the public debut of our process-aware pDfx™ environment positions PDF to provide even more comprehensive yield improvement solutions to our customers as their need for such solutions continues to grow."

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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 quarterly results. A live webcast of this teleconference 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.

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® is a registered trademark, and dataPOWER™ and pDfx™ are trademarks, of PDF Solutions, Inc.

Forward-Looking Statements

Some of the statements in this press release are forward looking, including the statements regarding future market and revenue opportunities, and PDF's ability to integrate acquired technologies and gain market acceptance for new product offerings, at all or in a timely manner. The words "estimate", "project", "expect", "believe", "continues" 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 SEC, including, without limitation, its reports on Form 10-K, most recently filed on April 26, 2003, and on Form 10-Q, most recently filed on August 14, 2003. 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.
UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands)

| | <u>September 30,</u> 2003 | <u>December 31,</u> 2002 |
|---|------------------------------|-----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 46,567 | \$ 71,490 |
| Accounts receivable, net of allowances | 9,701 | 7,924 |
| Prepaid expenses and other current assets | 4,004 | 4,406 |
| | 60,272 | 83,820 |
| Property and equipment, net | 4,024 | 3,533 |
| Goodwill | 40,721 | 662 |
| Intangible assets, net | 24,666 | 220 |
| Other assets | 4,756 | 1,564 |
| | \$ 134,439 | \$ 89,799 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,429 | \$ 499 |
| Accrued compensation and related benefits | 2,238 | 1,143 |
| Other accrued liabilities | 2,433 | 1,669 |
| Other acquisition obligations | 7,646 | — |
| Taxes payable | 2,990 | 1,838 |
| Deferred revenues | 2,256 | 4,496 |
| Billings in excess of recognized revenue | 333 | 606 |
| | 19,325 | 10,251 |
| Deferred tax liability | 8,985 | 752 |
| Deferred rent | 102 | 39 |
| Long-term liabilities | 194 | 15 |
| | 28,606 | 11,057 |
| Stockholders' equity: | | |
| Common stock | 4 | 3 |
| Additional paid-in-capital | 128,685 | 99,884 |
| Deferred stock-based compensation | (1,098) | (1,340) |
| Notes receivable from stockholders | (3,755) | (4,998) |
| Accumulated deficit | (18,086) | (14,845) |
| Cumulative other comprehensive income | 83 | 38 |
| | 105,833 | 78,742 |
| Total liabilities and stockholders' equity | \$ 134,439 | \$ 89,799 |

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

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2003 | September 30, 2002 | September 30, 2003 | September 30, 2002 |
| Revenue: | | | | |
| Design-to-silicon-yield solutions | \$ 9,033 | \$ 8,213 | \$ 25,175 | \$ 26,098 |
| Gain share | 2,267 | 2,824 | 5,282 | 8,632 |
| Total revenue | 11,300 | 11,037 | 30,457 | 34,730 |
| Cost and expenses: | | | | |
| Cost of design-to-silicon-yield solutions | 3,768 | 3,650 | 10,726 | 11,624 |
| Research and development | 4,421 | 3,989 | 13,123 | 11,143 |
| Selling, general and administrative | 3,106 | 2,630 | 8,720 | 7,716 |
| Stock-based compensation amortization* | 366 | 640 | 1,344 | 2,198 |
| Amortization of acquired intangible assets | 789 | 41 | 955 | 123 |
| Write-off of in-process research and development | 800 | — | 800 | — |
| Total costs and expenses | 13,250 | 10,950 | 35,668 | 32,804 |
| Income (loss) from operations | (1,950) | 87 | (5,211) | 1,926 |
| Interest and other income | 278 | 443 | 998 | 1,140 |
| Income (loss) before taxes | (1,672) | 530 | (4,213) | 3,066 |
| Tax (benefit) provision | (441) | 345 | (972) | 1,736 |
| Net income (loss) | \$ (1,231) | \$ 185 | \$ (3,241) | \$ 1,330 |
| Net income (loss) per share: | | | | |
| Basic | \$ (0.05) | \$ 0.01 | \$ (0.14) | \$ 0.06 |
| Diluted | \$ (0.05) | \$ 0.01 | \$ (0.14) | \$ 0.06 |
| Weighted average common shares: | | | | |
| Basic | 23,002 | 22,127 | 22,701 | 21,860 |
| Diluted | 23,002 | 23,133 | 22,701 | 23,172 |
| * Stock-based compensation amortization: | | | | |
| Cost of design-to-silicon yield solutions | \$ 77 | \$ 186 | \$ 293 | \$ 672 |
| Research and development | 222 | 307 | 785 | 1,111 |
| Selling, general and administrative | 67 | 147 | 266 | 415 |
| | \$ 366 | \$ 640 | \$ 1,344 | \$ 2,198 |

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PDF SOLUTIONS, INC.
RECONCILIATION OF REPORTED GAAP NET INCOME (LOSS) TO PRO FORMA NET INCOME
(UNAUDITED)
(In thousands, except per share data)

| | Three Months Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2003 | September 30, 2002 |
| Net income (loss) | \$ (1,231) | \$ 185 |
| Stock-based compensation amortization | 366 | 640 |
| Amortization of intangibles, net | 397 | 28 |
| Write-off of in-process research and development | 800 | — |
| Pro forma net income | \$ 332 | \$ 853 |
| Pro forma net income per share – diluted | \$ 0.01 | \$ 0.04 |
| Weighted average common shares — diluted | 24,383 | 23,133 |

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News Release

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**PDF Solutions® Provides Financial Outlook For
The Fourth Fiscal Quarter of 2003 and The First Fiscal Quarter of 2004**

SAN JOSE, Calif.—October 23, 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 fourth fiscal quarter ending December 31, 2003 and the first fiscal quarter ending March 31, 2004.

PDF Solutions expects total revenue in the range of \$12.0 million to \$12.5 million for the fourth fiscal quarter ending December 31, 2003. Pro forma net loss for the fourth fiscal quarter of 2003, excluding amortization of stock-based compensation and acquired intangible assets, is projected in a range of \$405,000 to \$75,000, or \$0.02 to \$0.00 per diluted share. Reported net loss, on a GAAP basis, for the fourth fiscal quarter of 2003 is projected in a range of \$1.9 million to \$1.5 million, or \$0.08 to \$0.06 per diluted share.

PDF Solutions expects total revenue in the range of \$13.5 million to \$14.3 million for the first fiscal quarter ending March 31, 2004. Pro forma net income for the first fiscal quarter of 2004, excluding amortization of stock-based compensation and acquired intangible assets, is projected in a range of \$375,000 to \$750,000, or \$0.01 to \$0.03 per diluted share. Reported net loss, on a GAAP basis, for the first fiscal quarter of 2004 is projected in a range of \$955,000 to \$580,000, or \$0.04 to \$0.02 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 third quarter 2003 financial results and the financial outlook for the fourth quarter 2003 and first quarter 2004. A live webcast of this teleconference 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® 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 2003 fourth fiscal quarter and 2004 first 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 SEC, including, without limitation, its reports on Form 10-K, most recently filed on April 26, 2003, and on Form 10-Q, most recently filed on August 14, 2003. The forward-looking statements contained in this release are made as of the date hereof, and PDF does not assume any obligation

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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 December 31, 2003 | | |
|---|--|----|------------|
| Net loss per share — diluted | \$ (0.08) | to | \$ (0.06) |
| Net loss | \$ (1,865) | to | \$ (1,535) |
| Stock-based compensation amortization | 410 | | 410 |
| Amortization of acquired intangibles, net | 1,050 | | 1,050 |
| Pro forma net loss | \$ (405) | to | \$ (75) |
| Pro forma net loss per share – diluted | \$ (0.02) | to | \$ 0.00 |
| Weighted average common shares — diluted | 25,000 | | 25,000 |

| PROJECTED RESULTS | Three Months Ending March 31, 2004 | | |
|---|---|----|-----------|
| Net loss per share — basic | \$ (0.04) | to | \$ (0.02) |
| Net loss | \$ (955) | to | \$ (580) |
| Stock-based compensation amortization | 240 | | 240 |
| Amortization of acquired intangibles, net | 1,090 | | 1,090 |
| Pro forma net income | \$ 375 | to | \$ 750 |
| Pro forma net income per share – diluted | \$ 0.01 | to | \$ 0.03 |
| Weighted average common shares — basic | 25,000 | | 25,000 |
| Weighted average common shares — diluted | 26,250 | | 26,250 |

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