

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 21, 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.)

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 21, 2004, the Registrant issued a press release regarding its financial results and certain other information related to the third fiscal quarter of 2004 ended September 30, 2004. 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 (the “Exchange Act”), 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 or the Exchange Act.

Item 7.01 Regulation FD Disclosure.

On October 21, 2004, the Registrant issued a press release regarding the financial outlook for the fourth fiscal quarter ending December 31, 2004 and the first fiscal quarter ending March 31, 2005. 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 (the “Exchange Act”), 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 or the Exchange Act.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

Exhibit No.	Description
99.1	Press Release dated October 21, 2004 regarding financial results and certain other information related to the third fiscal quarter of 2004 ended September 30, 2004.
99.2	Press Release dated October 21, 2004 regarding the financial outlook for the fourth fiscal quarter ending December 31, 2004 and the first fiscal quarter ending March 31, 2005.

SIGNATURE

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)

Date: October 21, 2004

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

EXHIBIT INDEX

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NEWS RELEASE

Investor Relations Contact:
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PDF SOLUTIONS(R) REPORTS RECORD
THIRD QUARTER REVENUE

Results Represent 7th Sequential Quarter of Revenue Growth

SAN JOSE, Calif. -- October 21, 2004 -- 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, 2004.

Revenue for the third fiscal quarter of 2004 totaled a record \$16.5 million, an increase of 46%, compared with revenue of \$11.3 million for the third fiscal quarter of 2003. On a GAAP basis, net income for the third fiscal quarter of 2004 totaled approximately \$135,000, or \$0.01 per diluted share, compared with a net loss of approximately \$1.2 million, or \$0.05 per diluted share, for the third fiscal quarter of 2003.

In addition to using GAAP results in evaluating PDF's 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 and the write-off of in-process research and development resulting from the acquisition of IDS Software Systems, Inc. in September 2003. Using this non-GAAP measure, net income for the third fiscal quarter of 2004 totaled \$1.5 million, or \$0.06 per diluted share, compared with non-GAAP net income of approximately \$332,000, or \$0.01 per diluted share, for the third fiscal quarter of 2003.

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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 this conference call will be available on PDF'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 PDF's management when discussing financial results with investors and analysts, will be available on PDF'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.

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(IN THOUSANDS)

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 42,939	\$ 39,110
Accounts receivable, net of allowances	15,468	11,869
Prepaid expenses and other current assets	2,653	2,614
Deferred tax assets	1,433	1,808
	-----	-----
Total current assets	62,493	55,401
Property and equipment, net	3,444	4,110
Goodwill	40,590	40,548
Intangible assets, net	17,292	22,906
Other assets	798	1,002
	-----	-----
Total assets	\$ 124,617	\$ 123,967
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,594	\$ 835
Accrued compensation and related benefits	2,970	1,952
Other accrued liabilities	2,310	1,485
Other acquisition obligations	552	1,880
Taxes payable	3,285	2,871
Deferred revenue	3,346	3,300
Billings in excess of recognized revenue	2,807	465
	-----	-----
Total current liabilities	16,864	12,788
Long term liabilities	310	287
Deferred tax liabilities	2,584	4,340
	-----	-----
Total liabilities	19,758	17,415
	-----	-----
Stockholders' equity		
Common stock	4	4
Additional paid-in-capital	131,910	129,568
Treasury stock	(4,806)	--
Deferred stock-based compensation	(209)	(688)
Notes receivable from stockholders	(550)	(3,025)
Accumulated deficit	(21,530)	(19,361)
Accumulated other comprehensive income	40	54
	-----	-----
Total stockholders' equity	104,859	106,552
	-----	-----
Total liabilities and stockholders' equity	\$ 124,617	\$ 123,967
	=====	=====

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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, 2004	SEPTEMBER 30, 2003	SEPTEMBER 30, 2004	SEPTEMBER 30, 2003
	-----	-----	-----	-----
Revenue:				
Design-to-silicon-yield solutions	\$ 14,036	\$ 9,033	\$ 39,244	\$ 25,175
Gain share	2,414	2,267	5,051	5,282
	-----	-----	-----	-----
Total revenue	16,450	11,300	44,295	30,457

Cost and expenses:				
Cost of design-to-silicon-yield solutions:				
Direct costs of design-to-silicon-yield solutions:				
solutions:	5,887	3,768	15,610	10,726
Amortization of acquired core technology	1,266	652	3,943	818
Research and development	4,940	4,421	14,980	13,123
Selling, general and administrative	3,801	3,106	11,220	8,720
Stock-based compensation amortization*	134	366	681	1,344
Amortization of other acquired intangible assets	351	137	1,172	137
Write-off of in-process research and development	--	800	--	800
Total costs and expenses	16,379	13,250	47,606	35,668
Income (loss) from operations	71	(1,950)	(3,311)	(5,211)
Interest and other income	150	278	441	998
Income (loss) before taxes	221	(1,672)	(2,870)	(4,213)
Tax (benefit) provision	86	(441)	(702)	(972)
Net income (loss)	\$ 135	\$ (1,231)	\$ (2,168)	\$ (3,241)
Net income (loss) per share:				
Basic	\$ 0.01	\$ (0.05)	\$ (0.09)	\$ (0.14)
Diluted	\$ 0.01	\$ (0.05)	\$ (0.09)	\$ (0.14)
Weighted average common shares:				
Basic	25,293	23,002	25,310	22,701
Diluted	25,983	23,002	25,310	22,701
* Stock-based compensation amortization:				
Cost of design-to-silicon yield solutions	\$ 2	\$ 77	\$ 39	\$ 293
Research and development	130	222	606	785
Selling, general and administrative	2	67	36	266
	\$ 134	\$ 366	\$ 681	\$ 1,344

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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, 2004	SEPTEMBER 30, 2003
GAAP net income (loss)	\$ 135	\$ (1,231)
Stock-based compensation amortization	134	366
Amortization of intangibles, net of taxes	1,226	397
Write-off of in-process research and development	--	800
Non-GAAP net income	\$ 1,495	\$ 332
Non-GAAP net income per share - diluted	\$ 0.06	\$ 0.01
Weighted average common shares - diluted	25,983	24,383

USE OF NON-GAAP INFORMATION

In addition to providing results that are determined in accordance with Generally Accepted Accounting Principles (GAAP), PDF 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 PDF's 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 and the write-off of in-process research and development.

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NEWS RELEASE

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PDF SOLUTIONS(R) PROVIDES FINANCIAL OUTLOOK FOR
THE FOURTH QUARTER OF FISCAL 2004 AND THE FIRST
QUARTER OF FISCAL 2005

SAN JOSE, Calif. -- October 21, 2004 -- 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, 2004 and its outlook for the first fiscal quarter ending March 31, 2005.

PDF Solutions expects total revenue in the range of \$17.7 million to \$18.5 million for the fourth fiscal quarter ending December 31, 2004. Gain share revenue is expected to increase from the results achieved in the third quarter to a range of \$2.8 million to \$3.2 million for the fourth quarter. On a GAAP basis, net income for the fourth fiscal quarter of 2004 is projected in a range of \$1.1 million to \$1.6 million, or \$0.04 to \$0.06 per diluted share.

For the first fiscal quarter ending March 31, 2005, PDF Solutions expects total revenue in the range of \$18.0 million to \$18.8 million. On a GAAP basis, net income for the first fiscal quarter of 2005 is projected in a range of \$1.3 million to \$1.8 million, or \$0.05 to \$0.07 per diluted share.

In addition to using GAAP results in evaluating PDF's 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. Non-GAAP net income for the fourth fiscal quarter ending December 31, 2004 is projected in a range of \$2.3 million to \$2.8 million, or \$0.08 to \$0.10 per diluted share. Non-GAAP net income for the first

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fiscal quarter ending March 31, 2005 is projected in a range of \$2.3 million to \$2.8 million, or \$0.09 to \$0.11 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 2004 results and financial outlook for the fourth fiscal quarter of 2004 and the first fiscal quarter of 2005. A live webcast of this conference call will be available on PDF'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 PDF'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's expectations only as of the date of this release, and should not be viewed as a statement about PDF's expectations after this date. Although this release will remain available on PDF's website, its continued availability does not indicate that PDF 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

The statements in this press release regarding PDF's 2004 fourth fiscal quarter and 2005 first fiscal quarter outlook, 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'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

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Commission, including, without limitation, its annual report on Form 10-K, most recently filed on March 15, 2004 (as amended), and its quarterly reports on Form 10-Q, most recently filed on August 9, 2004. 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 GAAP NET INCOME TO PROJECTED
 NON-GAAP NET INCOME
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

PROJECTED RESULTS	THREE MONTHS ENDING DECEMBER 31, 2004	

GAAP net income per share - diluted	\$ 0.04	to \$ 0.06
	=====	=====
GAAP net income	\$ 1,050	\$ 1,550
Stock-based compensation amortization	60	60
Amortization of acquired intangibles, net of taxes	1,140	1,140
	-----	-----
Non-GAAP net income	\$ 2,250	to \$ 2,750
	=====	=====
Non-GAAP net income per share - diluted	\$ 0.08	to \$ 0.10
	=====	=====
Weighted average common shares - diluted	26,600	26,600
	=====	=====

PROJECTED RESULTS	THREE MONTHS ENDING MARCH 31, 2005	

GAAP net income per share - diluted	\$ 0.05	to \$ 0.07

	=====		=====
GAAP net income	\$ 1,250		\$ 1,750
Stock-based compensation amortization	45		45
Amortization of acquired intangibles, net of taxes	1,050		1,050
	-----		-----
Non-GAAP net income	\$ 2,345	to	\$ 2,845
	=====		=====
Non-GAAP net income per share - diluted	\$ 0.09	to	\$ 0.11
	=====		=====
Weighted average common shares - diluted	26,900		26,900
	=====		=====

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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), PDF 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 PDF's 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.

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