

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, 2005

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 (see General Instruction A.2. below):

- 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 January 27, 2005, 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, 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, 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.

Item 7.01 Regulation FD Disclosure.

January 27, 2005, the Registrant issued a press release regarding the financial outlook for the first fiscal quarter ending March 31, 2005 and the second fiscal quarter ending June 30, 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, 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.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

Exhibit No.	Description
99.1	Press Release dated January 27, 2005 regarding financial results and certain other information related to the fourth fiscal quarter and full fiscal year ended December 31, 2004.
99.2	Press Release dated January 27, 2005 regarding the financial outlook for the first fiscal quarter ending March 31, 2005 and the second fiscal quarter ending June 30, 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: January 27, 2005

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

EXHIBIT INDEX

Exhibit No.	Description
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99.2	Press Release dated January 27, 2005 regarding the financial outlook for the first fiscal quarter ending March 31, 2005 and the second fiscal quarter ending June 30, 2005.

News Release

Investor Relations Contact:
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**PDF Solutions® Reports Record
Fourth Quarter and Total Year 2004 Revenue**

Results Represent 8th Sequential Quarter of Revenue Growth

SAN JOSE, Calif.—January 27, 2005—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, 2004.

Revenue for the fourth fiscal quarter of 2004 totaled a record \$18.1 million, an increase of 50%, compared with revenue of \$12.1 million for the fourth fiscal quarter of 2003. On a GAAP basis, net income for the fourth fiscal quarter of 2004 totaled approximately \$1.6 million, or \$0.06 per diluted share, compared with a net loss of approximately \$1.3 million, or \$0.05 per diluted share, for the fourth fiscal quarter of 2003.

Revenue for the full fiscal year ended December 31, 2004 totaled a record \$62.3 million, an increase of 47%, compared with revenue of \$42.5 million for the full fiscal year ended December 31, 2003. On a GAAP basis, net loss for the full fiscal year of 2004 totaled approximately \$614,000, or \$0.02 per diluted share, compared with a net loss of approximately \$4.5 million, or \$0.19 per diluted share, for the full fiscal year of 2003.

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 fourth fiscal quarter of 2004 totaled \$3.6 million, or

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\$0.13 per diluted share, compared with non-GAAP net loss of approximately \$135,000, or \$0.01 per diluted share, for the fourth fiscal quarter of 2003.

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 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.

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

	December 31, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 45,660	\$ 39,110
Accounts receivable, net of allowances	15,978	11,869
Prepaid expenses and other current assets	2,685	2,614
Deferred tax assets	1,586	1,808
Total current assets	65,909	55,401
Property and equipment, net	3,321	4,110
Goodwill	39,886	40,548
Intangible assets, net	15,791	22,906
Other assets	500	1,002
Total assets	<u>\$ 125,407</u>	<u>\$ 123,967</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,023	\$ 835
Accrued compensation and related benefits	3,209	1,952
Other accrued liabilities	2,545	1,485
Other acquisition obligations	48	1,880
Taxes payable	3,286	2,871
Deferred revenue	2,905	3,300
Billings in excess of recognized revenue	1,581	465
Total current liabilities	14,597	12,788
Long term liabilities	311	287
Deferred tax liabilities	1,701	4,340
Total liabilities	16,609	17,415
Stockholders' equity:		
Common stock	4	4
Additional paid-in-capital	134,191	129,568
Treasury stock	(4,806)	—
Deferred stock-based compensation	(148)	(688)
Notes receivable from stockholders	(550)	(3,025)
Accumulated deficit	(19,975)	(19,361)
Accumulated other comprehensive income	82	54
Total stockholders' equity	108,798	106,552
Total liabilities and stockholders' equity	<u>\$ 125,407</u>	<u>\$ 123,967</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, 2004	December 31, 2003	December 31, 2004	December 31, 2003
Revenue:				
Design-to-silicon-yield solutions	\$ 15,300	\$ 10,454	\$ 54,544	\$ 35,629
Gain share	2,751	1,615	7,802	6,897
Total revenue	<u>18,051</u>	<u>12,069</u>	<u>62,346</u>	<u>42,526</u>
Cost and expenses:				
Cost of design-to-silicon-yield solutions:				
Direct costs of design-to-silicon-yield solutions:				
Amortization of acquired core technology	6,245	3,686	21,855	14,412
Research and development	1,266	1,350	5,209	2,168
Selling, general and administrative	5,352	5,318	20,332	18,441
Stock-based compensation amortization*	3,987	3,739	15,207	12,459
Amortization of other acquired intangible assets	61	411	742	1,755
Write-off of in-process research and development	235	410	1,406	547
	—	—	—	800
Total costs and expenses	<u>17,146</u>	<u>14,914</u>	<u>64,751</u>	<u>50,582</u>
Income (loss) from operations	905	(2,845)	(2,405)	(8,056)
Interest and other income	234	197	675	1,195
Income (loss) before taxes	1,139	(2,648)	(1,730)	(6,861)
Tax benefit	(414)	(1,373)	(1,116)	(2,345)
Net income (loss)	<u>\$ 1,553</u>	<u>\$ (1,275)</u>	<u>\$ (614)</u>	<u>\$ (4,516)</u>
Net income (loss) per share:				
Basic	<u>\$ 0.06</u>	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>	<u>\$ (0.19)</u>
Diluted	<u>0.06</u>	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>	<u>\$ (0.19)</u>
Weighted average common shares:				
Basic	<u>25,391</u>	<u>25,010</u>	<u>25,330</u>	<u>23,278</u>
Diluted	<u>26,975</u>	<u>25,010</u>	<u>25,330</u>	<u>23,278</u>
*Stock-based compensation amortization:				
Cost of design-to-silicon-yield solutions	\$ —	\$ 52	\$ 39	\$ 345
Research and development	61	314	667	1,099
Selling, general and administrative	—	45	36	311
	<u>\$ 61</u>	<u>\$ 411</u>	<u>\$ 742</u>	<u>\$ 1,755</u>

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

	Three Months Ended	
	December 31, 2004	December 31, 2003
GAAP net income (loss)	\$ 1,553	\$ (1,275)
Stock-based compensation amortization	61	411
Amortization of intangibles, net of taxes	2,019	729
Non-GAAP net income (loss)	3,633	(135)
Non-GAAP net income (loss) per share — diluted	\$ 0.13	\$ (0.01)
Weighted average common shares — diluted	26,975	25,010

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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News Release

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**PDF Solutions® Provides Financial Outlook For
The First and Second Quarters of Fiscal 2005**

SAN JOSE, Calif.—January 27, 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 first and second fiscal quarters ending March 31, 2005 and June 30, 2005, respectively.

PDF Solutions expects total revenue in the range of \$17.6 million to \$18.4 million for the first fiscal quarter ending March 31, 2005. Gain share revenue is expected in a range of \$2.2 million to \$2.6 million for the first quarter. On a GAAP basis, net income for the first fiscal quarter of 2005 is projected in a range of \$1.1 million to \$1.6 million, or \$0.04 to \$0.06 per diluted share.

For the second fiscal quarter ending June 30, 2005, PDF Solutions expects total revenue in the range of \$18.6 million to \$19.4 million. On a GAAP basis, net income for the second 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 first fiscal quarter ending March 31, 2005 is projected in a range of \$2.2 million to \$2.7 million, or \$0.08 to \$0.10 per diluted share. Non-GAAP net income for the second fiscal quarter ending June 30, 2005 is projected in a range of \$2.4 million to \$2.9 million, or \$0.09 to \$0.11 per diluted share.

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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 its fourth quarter 2004 results and financial outlook for the first and second fiscal quarters 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.

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Forward-Looking Statements

The statements in this press release regarding PDF's 2005 first and second 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 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 November 9, 2004. The forward-looking statements contained in this release are made as of the date hereof,

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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		
	March 31, 2005		
GAAP net income per share — diluted	<u>\$ 0.04</u>	to	<u>\$ 0.06</u>
GAAP net income	\$ 1,060	to	\$ 1,560
Stock-based compensation amortization	45		45
Amortization of acquired intangibles, net of taxes	1,050		1,050
Non-GAAP net income	<u>\$ 2,155</u>	to	<u>\$ 2,655</u>
Non-GAAP net income per share — diluted	<u>\$ 0.08</u>	to	<u>\$ 0.10</u>
Weighted average common shares — diluted	<u>27,350</u>		<u>27,350</u>

PROJECTED RESULTS	Three Months Ending		
	June 30, 2005		
GAAP net income per share — diluted	<u>\$ 0.05</u>	to	<u>\$ 0.07</u>
GAAP net income	\$ 1,335	to	\$ 1,835
Stock-based compensation amortization	30		30
Amortization of acquired intangibles, net of taxes	1,050		1,050
Non-GAAP net income	<u>\$ 2,415</u>	to	<u>\$ 2,915</u>
Non-GAAP net income per share — diluted	<u>\$ 0.09</u>	to	<u>\$ 0.11</u>
Weighted average common shares — diluted	<u>27,650</u>		<u>27,650</u>

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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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