Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) **September 24, 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)

TABLE OF CONTENTS

ITEM 2: ACQUISITION OR DISPOSITION OF ASSETS

As reported on the Current Report on Form 8-K filed on September 25, 2003, PDF Solutions, Inc. ("PDF" or the "Registrant"), a Delaware corporation, completed the acquisition of IDS Software Systems, Inc. ("IDS"), a privately-held Delaware corporation on September 24, 2003 (the "Closing Date") in a merger (the "Merger") of IDS with and into IDS Software Acquisition Corp. ("Merger Sub"), a Delaware corporation and wholly owned subsidiary of PDF, pursuant to the Amended and Restated Agreement and Plan of Reorganization, dated as of September 2, 2003, by and among PDF, Merger Sub, IDS and PDF Solutions, LLC (the "Agreement").

As a result of the Merger, each issued and outstanding share of IDS common stock was converted into the right to receive $1.52323 in cash and 0.13267 of a share of PDF common stock. A total of approximately $23,000,000 in cash was paid and 2,000,000 shares of PDF common stock were issued to the former IDS stockholders by PDF in connection with the Merger. In addition, options to acquire approximately 240,676 shares of PDF common stock were assumed in connection with the Merger.

This Form 8-K/A amends the Form 8-K filed on September 25, 2003 to include Item 7(a) Financial Statements and Item 7(b) Pro forma Financial Information.

ITEM 7: FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) Financial Statements of Business Acquired

Audited financial statements of IDS for the fiscal years ended September 30, 2002 and 2001 and the unaudited financial statements for the nine months ended June 30, 2003 and 2002 required by Item 7 (a) are attached as Exhibit 99.1 hereto.

(b) Pro Forma Financial Information

Unaudited Condensed Pro Forma Financial Statements of PDF and IDS required by this Item 7(b) are attached as Exhibit 99.2 hereto.

(c) Exhibits.

2.1*	Amended and Restated Agreement and Plan of Reorganization dated as of September 2, 2003 by and among PDF Solutions, Inc., IDS Software Acquisition Corp., PDF Solutions, LLC and IDS Software Systems, Inc.
23.1	Consent of Ernst & Young LLP, independent accountants of IDS.
99.1	Audited financial statements of IDS for the two years ended September 30, 2002 and September 30, 2001 and unaudited financial statements for the nine months ended June 30, 2003 and 2002.
99.2	Unaudited Pro Forma Condensed Combined Balance Sheet of PDF and IDS as of June 30, 2003.
	Unaudited Pro Forma Condensed Combined Statements of Operations of PDF and IDS for the year ended December 31, 2002 and the six months ended June 30, 2003.

*Previously filed on Current Form 8-K filed on September 25, 2003.

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.

Dated: November 12, 2003

PDF Solutions, Inc.
(Registrant)

By: /s/ P. Steven Melman

P. Steven Melman
Vice President & Chief Financial Officer

Table of Contents

EXHIBIT INDEX

2.1*	Amended and Restated Agreement and Plan of Reorganization dated as of September 2, 2003 by and among PDF Solutions, Inc., IDS Software Acquisition Corp., PDF Solutions, LLC and IDS Software Systems, Inc.
23.1	Consent of Ernst & Young LLP, independent accountants of IDS.
99.1	Audited financial statements of IDS for the two years ended September 30, 2002 and September 30, 2001 and unaudited financial statements for the nine months ended June 30, 2003 and 2002.
99.2	Unaudited Pro Forma Condensed Combined Balance Sheet of PDF and IDS as of June 30, 2003.
	Unaudited Pro Forma Condensed Combined Statements of Operations of PDF and IDS for the year ended December 31, 2002 and the six months ended June 30, 2003.

*Previously filed on Current Form 8-K filed on September 25, 2003.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in Registration Statements No. 333-102509 and 333-66758 of PDF Solutions, Inc., on Form S-8 of our report dated November 12, 2002, (which expresses an unqualified opinion and includes an explanatory paragraph referring to the Company's ability to continue as a going concern) on the consolidated financial statements of IDS Software Systems, Inc. appearing in this current report on Form 8-K/A of PDF Solutions, Inc.

/s/ Ernst and Young LLP

Palo Alto, California
November 6, 2003

EXHIBIT 99.1

Report of Independent Auditors

The Board of Directors
IDS Software Systems, Inc.

We have audited the accompanying balance sheets of IDS Software Systems, Inc. as of September 30, 2002 and 2001, and the related statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IDS Software Systems, Inc. at September 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1, the Company has a working capital deficiency, expects to experience cash flow problems in its operations and has a stockholders' deficit of $3,833,589. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

(Ernst & Young LLP)

November 12, 2002,
Palo Alto, California

IDS Software Systems, Inc.

Balance Sheets

	SEPTEMBER 30 2002	SEPTEMBER 30 2001	JUNE 30 2003
			(UNAUDITED)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 312,474	$ 33,301	$ 33,850
Investments	16,997	808,440	-
Accounts receivable, net	1,072,497	188,286	917,415
Taxes receivable	-	-	238,200
Prepaid expenses and other current assets	57,879	26,933	122,083
Total current assets	1,459,847	1,056,960	1,311,548
Property and equipment, net	351,101	250,163	300,757
Deferred tax asset	111,575	321,464	111,575

Deposits	112,974	101,546	85,052
Total assets	$ 2,035,497	$ 1,730,133	$ 1,808,932
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Line of credit	$ 500,000	$ -	$ -
Accounts payable	716,673	813,283	401,567
Accrued expenses	435,031	326,456	722,155
Deferred revenue	3,776,913	6,260,839	4,304,817
Deferred rent	90,391	55,497	81,241
Taxes payable	350,078	850,223	-
Short-term debt	-	444,590	-
Total current liabilities	5,869,086	8,750,888	5,509,780
Line of credit	-	120,000	-
Commitments and contingencies (Note 4)			
Stockholders' deficit:			
Common stock, $.001 par value: Authorized shares - 40,000,000; 15,821,620, 15,766,320 and 15,781,620 shares issued and outstanding as of September 30, 2002 and 2001 and June 30, 2003, respectively	15,821	15,766	15,781
Additional paid-in capital	4,358,100	4,341,565	6,212,213
Deferred stock compensation	-	-	(425,199)
Notes receivable from stockholders	(3,008,271)	(2,763,422)	(3,050,877)
Accumulated other comprehensive loss	-	(76,327)	-
Accumulated deficit	(5,199,239)	(8,658,337)	(6,452,766)
Total stockholders' deficit	(3,833,589)	(7,140,755)	(3,700,848)
Total liabilities and stockholders' deficit	$ 2,035,497	$ 1,730,133	$ 1,808,932

See accompanying notes.

IDS Software Systems, Inc.

Statements of Operations

	YEAR ENDED SEPTEMBER 30		NINE MONTHS ENDED JUNE 30	
	2002	2001	2003	2002
			(UNAUDITED)	(UNAUDITED)
Revenues:				
License	$ 5,456,009	$ 1,256,828	$ 1,783,073	$ 1,395,794
Service	3,230,950	2,609,411	2,801,073	2,494,781
Total revenues	8,686,959	3,866,239	4,584,146	3,890,575
Costs and expenses:				
Cost of license revenue	76,432	174,465	17,151	80,827
Cost of service revenue	259,264	156,325	433,547	160,276
Product development	2,912,805	3,073,582	2,598,194	2,145,448
Sales and marketing	732,815	873,815	810,933	506,760
General and administrative	794,017	792,867	959,255	536,029
Stock compensation expense	-	333,028	1,409,419	-
Total costs and expenses	4,775,333	5,404,082	6,228,499	3,429,340
Income (loss) from operations	3,911,626	(1,537,843)	(1,644,353)	461,235
Interest and other income	156,639	108,938	58,466	132,184
Interest and other expense	359,649	550,307	125,880	96,994
Income (loss) before taxes	3,708,616	(1,979,212)	(1,711,767)	496,425

Provision (benefit) for income taxes	249,518	376,701	(458,240)	33,417
Net income (loss)	$ 3,459,098	$(2,355,913)	$(1,253,527)	$ 463,008

See accompanying notes.

IDS Software Systems, Inc.

Statements of Stockholders' Deficit

	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK COMPENSATION
Balances at September 30, 2000	15,574,320	$ 15,574	$ 4,006,809	$ -
Unrealized loss on available-for-sale securities	-	-	-	-
Net loss	-	-	-	-
Comprehensive loss	-	-	-	-
Sale of common stock to Directors	192,000	192	1,728	-
Stock compensation	-	-	333,028	-
Net advances to stockholder	-	-	-	-
Balances at September 30, 2001	15,766,320	15,766	4,341,565	-
Realized loss on available-for-sale securities	-	-	-	-
Net income	-	-	-	-
Comprehensive income	-	-	-	-
Sale of common stock	7,300	7	2,183	-
Exercise of options to purchase common stock	48,000	48	14,352	-
Net advances to stockholder	-	-	-	-
Balances at September 30, 2002	15,821,620	15,821	4,358,100	-

	NOTES RECEIVABLE FROM STOCKHOLDERS	ACCUMULATED OTHER COMPREHENSIVE LOSS	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' DEFICIT
Balances at September 30, 2000	$ (2,194,036)	$ (74,122)	$ (6,302,424)	$ (4,548,199)
Unrealized loss on available-for-sale securities	-	(2,205)	-	(2,205)
Net loss	-	-	(2,355,913)	(2,355,913)
Comprehensive loss	-	-	-	(2,358,118)
Sale of common stock to Directors	-	-	-	1,920
Stock compensation	-	-	-	333,028
Net advances to stockholder	(569,386)	-	-	(569,386)
Balances at September 30, 2001	(2,763,422)	(76,327)	(8,658,337)	(7,140,755)
Realized loss on available-for-sale securities	-	76,327	-	76,327
Net income	-	-	3,459,098	3,459,098
Comprehensive income	-	-	-	3,535,425
Sale of common stock	-	-	-	2,190
Exercise of options to purchase common stock	-	-	-	14,400
Net advances to stockholder	(244,849)	-	-	(244,849)
Balances at September 30, 2002	(3,008,271)	-	(5,199,239)	(3,833,589)

	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK COMPENSATION
Net loss and comprehensive loss (unaudited)	-	-	-	-
Issuance of common stock in exchange for services (unaudited)	12,000	12	11,988	-
Exercise of options to purchase common stock (unaudited)	2,500	3	747	-
Repurchase of common stock (unaudited)	(79,500)	(80)	(715)	-
Deferred stock compensation on stock options issued to employees (unaudited)	-	-	454,713	(454,713)
Amortization of deferred stock compensation (unaudited)	-	-	-	29,514
Stock compensation expense related to stock transfers by a principal stockholder (unaudited)	-	-	1,128,400	-
Stock compensation expense related to				

modifications of stock options and to grants of stock options to non-employees (unaudited) -	-	-	251,505	-
Net advances to stockholder (unaudited)		-	-	-
Exercise of options to purchase common stock for a note receivable (unaudited)	25,000	25	7,475	-
Balances at June 30, 2003 (unaudited)	15,781,620	$ 15,781	$ 6,212,213	$ (425,199)

	NOTES RECEIVABLE FROM STOCKHOLDERS	ACCUMULATED COMPREHENSIVE LOSS	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' DEFICIT
Net loss and comprehensive loss (unaudited)	-	-	(1,253,527)	(1,253,527)
Issuance of common stock in exchange for services (unaudited)	-	-	-	12,000
Exercise of options to purchase common stock (unaudited)	-	-	-	750
Repurchase of common stock (unaudited)	-	-	-	(795)
Deferred stock compensation on stock options issued to employees (unaudited)	-	-	-	-
Amortization of deferred stock compensation (unaudited)	-	-	-	29,514
Stock compensation expense related to stock transfers by a principal stockholder (unaudited)	-	-	-	1,128,400
Stock compensation expense related to modifications of stock options and to grants of stock options to non-employees (unaudited) -	-	-	-	251,505
Net advances to stockholder (unaudited)	(35,106)	-	-	(35,106)
Exercise of options to purchase common stock for a note receivable (unaudited)	(7,500)	-	-	-
Balances at June 30, 2003 (unaudited)	$ (3,050,877)	$ -	$ (6,452,766)	$ (3,700,848)

See accompanying notes.

IDS SOFTWARE SYSTEMS, INC.

Statements of Cash Flows

	YEAR ENDED SEPTEMBER 30		NINE MONTHS ENDED JUNE 30	
	2002	2001	2003	2002
			(UNAUDITED)	(UNAUDITED)
OPERATING ACTIVITIES				
Net income (loss)	$ 3,459,098	$(2,355,913)	$(1,253,527)	$ 463,008
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Stock compensation expense related to stock and stock options issued for services	-	333,028	1,421,419	-
Realized loss on available-for-sale securities	316,757	497,165	2,383	62,027
Depreciation and amortization	154,328	119,102	127,277	88,908
Net changes in operating assets and liabilities:				
Accounts receivable	(884,211)	288,217	155,082	(2,201,693)
Prepaid expenses and other current assets	(30,946)	40,258	(64,204)	(22,017)
Taxes receivable	-	-	(238,200)	-
Deferred tax asset	209,889	(21,490)	-	-
Deposits	(11,428)	(101,546)	27,922	(2,700)
Accounts payable	(96,610)	(111,675)	(315,106)	75,831
Accrued expenses	108,575	166,268	287,124	(58,204)
Deferred revenue	(2,483,926)	1,997,740	527,904	1,857,326
Deferred rent	34,894	55,497	(9,150)	40,362
Taxes payable	(500,145)	333,856	(350,078)	(501,011)
Net cash provided by (used in) operating activities	276,275	1,240,507	318,846	(198,163)
INVESTING ACTIVITIES				
Purchases of available-for-sale securities	(328,596)	(2,260,935)	-	(298,172)
Sales of available-for-sale securities	879,609	1,456,709	14,614	310,327
Purchases of property and equipment	(255,266)	(179,926)	(76,933)	(199,764)
Net cash provided by (used in) investing activities	295,747	(984,152)	(62,319)	(187,609)
FINANCING ACTIVITIES				
Proceeds from borrowings on line of credit and short-term debt	2,553,000	327,791	-	380,000
Repayments of borrowings on line of credit and short-term debt	(2,617,590)	-	(500,000)	(53,428)
Proceeds from issuance of common stock	16,590	1,920	750	16,590
Repurchase of common stock	-	-	(795)	-
Net advances to stockholder	(244,849)	(569,386)	(35,106)	46,313
Repayment of loans from stockholders	-	(71,000)	-	-
Net cash used in financing activities	(292,849)	(310,675)	(535,151)	389,475
Net increase (decrease) in cash and cash equivalents	279,173	(54,320)	(278,624)	3,703
Cash and cash equivalents at beginning of period	33,301	87,621	312,474	33,301

Cash and cash equivalents at end of period	$ 312,474	$ 33,301	$ 33,850	$ 37,004
SUPPLEMENTAL DISCLOSURES				
Cash paid for interest	$ 30,298	$ 11,913	$ 16,309	$ 10,831
Cash paid for income taxes	$ 540,248	$ 70,000	$ 69,000	$ 58,750

See accompanying notes.

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION, DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

IDS Software Systems, Inc. (the "Company" or "IDS") was incorporated in California on October 4, 1991. The Company was reincorporated in Delaware on January 22, 2001. The Company provides data and yield management software tools used by the semiconductor and related industries. The Company markets its products primarily in the United States, Europe and Japan.

A majority of the Company's stock is owned and controlled by its founder and Chief Technology Officer ("CTO") and his spouse (the "Controlling shareholders"). The CTO also owns and controls a software development and service business, Global Software Services Inc. ("GSSI"), located in the Palestinian Authority, that provided services to the Company during 2001 and a part of 2002. The accompanying financial statements present only the accounts of IDS Software Systems, Inc. The Company operates primarily in one segment, the license, implementation and support of its software applications. Since the Company operates in one segment and in one group of similar products and services, all financial segment and product line information required by SFAS No. 131 can be found in the financial statements.

In January 1999, the Company entered into a consulting services and software development agreement with GSSI pursuant to which GSSI performed development and support services for the Company. These services included software development, as well as customization services provided under specific customer arrangements. The accompanying financial statements include charges of $240,000 and $1,361,183 for services invoiced by GSSI to the Company for the years ended September 30, 2002 and 2001, respectively, and are classified as product development expenses. The Company had recorded liabilities for services invoiced by GSSI to the Company of $650,000 and $400,000 as of September 30, 2001 and 2002, respectively and $100,000 as of June 30, 2003. This agreement was terminated effective June 30, 2002.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has a working capital deficiency, expects to experience cash flow problems in its operations and has a stockholders' deficit of $3,833,589 as of September 30, 2002. Future financing requirements depend on many factors, including the Company's ability to execute its business plan. Should additional financing be required, there can be no assurance that the Company will be able to raise additional financing or that financing will be available on satisfactory terms. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ORGANIZATION, DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION (CONTINUED)

The accompanying financial statements do not include any adjustments to reflect the future possible effects on the recoverability and classification of assets and liabilities that may results from the outcome of this uncertainty. Management believes that, to the extent that existing resources and anticipated revenues are insufficient to fund the Company's planned activities, additional debt or equity financing will be available from existing investors or others. See note 8 regarding discussion of acquisition by PDF Solutions, Inc.

UNAUDITED INTERIM FINANCIAL INFORMATION

The interim financial statements as of June 30, 2003 and for the nine months ended June 30, 2003 and 2002 are unaudited but they include all adjustments, consisting only of normal recurring adjustments that management considers necessary for a fair presentation of the Company's financial position at that date and its results of operations and cash flows for those periods. Operating results for such periods are not necessarily indicative of results to be expected for the full fiscal year or for any other future periods.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of risk include cash and cash equivalents and trade receivables. Cash and cash equivalents consist primarily of demand deposits, money market accounts and highly liquid instruments with original maturities of three months or less primarily held with one financial institution with a high credit rating.

The Company performs ongoing credit evaluations of its customers and generally does not require collateral. Losses on accounts receivable have been insignificant to date and the Company has not established a reserve for doubtful accounts receivable. Future credit losses may differ from the Company's estimates and could have a material impact on the Company's future results of operations. For the year ended September 30, 2002, four customers individually accounted for approximately 28%, 21%, 21% and 16% of revenues. For the year ended September 30, 2001, three customers individually accounted

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATION OF CREDIT RISK (CONTINUED)

for approximately 23%, 22%, and 12% of revenues. For the nine months ended June 30, 2003, three customers accounted for 22%, 21% and 12 % of revenues. For the nine months ended June 30, 2002, three customers individually accounted for 44%, 18% and 13% of revenues. As of September 30, 2002, three customers individually represent 54%, 11% and 9% of trade receivables. As of September 30, 2001, three customers individually represent 31%, 28%, and 16% of trade receivables. As of June 30, 2003, three customers individually represent 35%, 32% and 15% of trade receivables.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities are carried at cost, which approximates fair value due to the short maturity of these instruments.

INVESTMENTS

The Company accounts for its investments in marketable securities in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115"). Under SFAS 115, all debt and equity securities must be classified as held to maturity, trading or available for sale. Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each balance sheet date.

All investments in marketable securities have been classified as available for sale. Available-for-sale securities are recorded at fair value, with unrealized gains and losses reported as a separate component of stockholders' deficit, if material. Realized gains and losses and decline in value judged to be other than temporary, if any, on available-for-sale securities are included in other income. The cost of securities sold is based on the specific- identification method. Interest on securities classified as available for sale is included in interest income.

The Company records the fair value of marketable securities based on current quoted market prices. At September 30, 2002 and 2001, cash equivalents and cost of investments in marketable securities and their approximate fair values are as follows:

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS (CONTINUED)

	2002		
	COST	UNREALIZED LOSSES	FAIR MARKET VALUE
Cash and cash equivalents	$ 312,474	$ -	$ 312,474
Marketable securities	16,997	-	16,997
	$ 329,471	$ -	$ 329,471

	2001		
	COST	UNREALIZED LOSSES	FAIR MARKET VALUE
Cash and cash equivalents	$ 33,301	$ -	$ 33,301
Marketable securities	884,767	(76,327)	808,440
	$ 918,068	$ (76,327)	$ 841,741

The company had no marketable securities as of June 30, 2003.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, typically three years for computer equipment and five years for furniture, fixtures and office equipment.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company evaluates the recoverability of long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("SFAS 121"). SFAS 121 requires recognition of impairment of long-lived assets if the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets.

IDS SOFTWARE SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS (CONTINUED)

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"). The Company adopted SFAS 144 on October 1, 2002. The provisions of this statement did not have a significant impact on the Company's financial condition or operating results.

REVENUE RECOGNITION

The Company derives revenue principally from software license sales, software maintenance, integration services, training and consulting services. The Company recognizes revenue in accordance with Statement of Position ("SOP") 97-2, Software Revenue Recognition, as amended, and in certain instances in accordance with SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts.

License fee revenues are recognized when a binding agreement is in force, the product has been shipped, the license fee is fixed or determinable, and collectibility is probable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer. Certain of the Company's software arrangements include rights to multiple software products and/or services. The Company allocates the total fee among each of the deliverables using the residual method. Revenue is allocated to undelivered elements based on vendor-specific objective evidence ("VSOE") of fair value of such undelivered elements and the residual amounts of revenue are allocated to delivered elements. If no VSOE of fair value exists for undelivered elements, the Company defers all revenue until the Company has delivered all elements or until VSOE of fair value is established for the undelivered elements.

If the services are essential to the functionality of the software or payment of the license fees is dependent upon the performance of the services, both the software license and consulting fees are recognized under the completed contract method of contract accounting upon completion of the contract or customer's acceptance. Due to the unique requirements contracted by customers in these instances, the Company is unable to accurately estimate contract costs for each arrangement.

Software maintenance revenues are recognized ratably over the term of the maintenance period, which is generally one year. Software maintenance includes unspecified product maintenance updates on an if and when available basis, Internet-based technical support and telephone support. Revenues derived from consulting and integration services, which

REVENUE RECOGNITION (CONTINUED)

are not essential to the functionality of the software, under time and materials arrangements and for training are recognized as services are performed.

Deferred revenue is primarily comprised of support revenue not yet earned and deferred license revenue as a result of undelivered elements and or extended payment terms.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for employee stock options in accordance with Accounting

Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and has adopted the disclosure-only option of the Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123"). Equity instruments issued to non-employees are accounted for at their fair value at the date of grant. Options granted to non-employees are accounted for using the Black-Scholes method prescribed by SFAS 123 in accordance with Emerging Issues Task Force consensus No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

ADVERTISING EXPENSE

Advertising costs are expensed when incurred and included in sales and marketing expense. The Company had $48,401, $100,371 and $49,567 of advertising costs for the years ended September 30, 2002 and 2001, and the nine months ended June 30, 2003, respectively.

SOFTWARE DEVELOPMENT COSTS

The Company accounts for software development costs in accordance with Statement of Financial Accounting Standards No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, under which certain software development costs incurred subsequent to the establishment of technological feasibility are capitalized and amortized over the estimated lives of the related products. Technological feasibility is established upon completion of a working model. To date, the Company has not incurred significant costs subsequent to the establishment of its products' technological feasibility. Therefore, all software development costs have been charged to product development expense in the accompanying statements of operations.

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Company uses the liability method to account for income taxes as required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes other changes to stockholders' equity not reflected in net income (loss). The Company's components of other comprehensive income (loss) consist of unrealized gain/loss on available-for-sale securities.

2. RELATED PARTY TRANSACTIONS

As further described in Note 1, Organization, Description of Business and Basis of Presentation, and Note 6, Shareholders' Deficit, the accompanying financial statements include significant transactions with GSSI, an entity owned and controlled by the Company's founder and CTO.

See Note 6 of the financial statements with regard to shares of common stock granted to employees and others and with regard to loans of $3,008,271 as of September 30, 2002 to the Company's founder and CTO.

3. PROPERTY AND EQUIPMENT

Property and equipment and software license at cost consist of the following:

	SEPTEMBER 30, 2003 2002	2001	JUNE 30, 2003
			(UNAUDITED)
Computer equipment	$ 464,883	$ 429,600	$ 484,040
Furniture, fixtures and office equipment	277,708	257,725	281,484
Software license	200,000	-	254,000
	942,591	687,325	1,019,524
Less accumulated depreciation	(591,490)	(437,162)	(718,767)
	$ 351,101	$ 250,163	$ 300,757

4. COMMITMENTS AND CONTINGENCIES

The Company leases its office facilities under two noncancelable operating leases, which expire in 2004 and 2007.

The future minimum lease payments for operating leases are as follows:

For years ending September 30,	
2003	$ 362,504
2004	391,560
2005	122,082
2006	86,198
2007	89,760
Total minimum lease payments	$ 1,052,104

Rent expense aggregated approximately $291,000, $211,000 and $302,979 for the years ended September 30, 2002 and 2001 and for the nine months ended June 30, 2003, respectively.

4. COMMITMENTS AND CONTINGENCIES (CONTINUED)

From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of business. These claims, even if not meritorious, could result in the expenditure of significant financial and other resources. The Company is not currently aware of any material legal proceedings or claims, and management does not believe that the Company is subject to claims that would constitute material contingencies.

5. BORROWING ARRANGEMENTS

In September 2001, the Company entered into a loan and security agreement with a bank, which provides for borrowings of up to $500,000 for general corporate purposes. All outstanding principal plus accrued unpaid interest was due on November 15, 2002. Borrowings bear interest at the bank's prime rate plus 150 base points (7.5% at September 30, 2002) and are secured by the Company's equipment and accounts receivable, along with a personal guaranty given by the Company's founder and CTO. As of September 30, 2002, outstanding borrowings under the line of credit amounted to $500,000.

6. SHAREHOLDERS' DEFICIT

COMMON STOCK

The Company is authorized to issue 40,000,000 shares of common stock.

In January 1999, the Company sold 10,172,990 shares of common stock to employees, and others for $.001 per share. The Company determined the fair value to be $0.395 per share and recorded a total compensation charge of $4,006,809. (See Note 1, Accounting for Stock-Based Compensation.)

In February 2001, the Company sold 192,000 shares of common stock to members of the Board of Directors for a price of $.01 per share. The Company determined that the fair value per share was $1.7445 and a total compensation charge of $333,028 was recorded.

The fair values of $0.395 and $1.7445 in the years 1999 and 2001, respectively, were determined based on a valuation from a proposed merger transaction in June 2002. The compensation charge recorded was noncash based.

6. SHAREHOLDERS' DEFICIT (CONTINUED)

COMMON STOCK (CONTINUED)

During nine months ended June 30, 2003, the Company granted options to purchase 1,749,000 shares of the Company's common stock to employees. Deferred stock compensation of $454,713 was recorded during the nine months ended June 30, 2003, for the excess of fair value of the common stock underlying the options at the date of grant over the exercise price of the options. This amount is being amortized on a straight-line basis over the vesting period, generally four years.

In June 2003, the Company's CTO who is majority shareholder transferred 620,000 of his personal shares in the Company to two employees. While the issuance of such shares was not made directly by the Company, it has been deemed a capital contribution for accounting purposes and accordingly, the Company has recognized stock-based compensation expense of $1,128,400 during nine months ended June 30, 2003, as a result of this transaction.

STOCK SPLIT

In October 2001, the Company completed a 10-for-1 stock split of the common stock. All share information presented in these financial statements has been updated to reflect this stock split.

STOCK OPTION/STOCK ISSUANCE PLAN

In October 2001, the Company adopted a stock option plan. The Company issued options for 1,580,000 shares of common stock to employees and an option for 48,000 shares of common stock to a consultant. The options generally vest at 25% after the first year and then at 1/48 of the granted options at each month thereafter. All options expire 10 years after the grant date. The vesting for certain options is accelerated upon a change in control.

6. SHAREHOLDERS' DEFICIT (CONTINUED)

STOCK OPTION/ISSUANCE PLAN (CONTINUED)

Information related to the Plan for the year ended September 30, 2002 is as follows:

	SHARES AVAILABLE FOR GRANT	OUTSTANDING OPTIONS NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Shares authorized in 2002	3,000,000		
Options and stock purchase rights granted	(1,628,000)	1,628,000	$ 0.67
Options and stock purchase rights exercised	-	(48,000)	$ 0.30
Balance at September 30, 2002	1,372,000	1,580,000	$ 0.69

The outstanding options at September 30, 2002 have exercise prices of $0.30 to $1.00 and a weighted-average remaining contractual life of 9.73 years.

The weighted-average fair value of the options granted during the year ended September 30, 2002 was $0.69.

In accordance with the provisions of SFAS 123, the Company applies APB 25 and related interpretations in accounting for its stock option plans and stock purchase plan. Accordingly, the Company does not recognize compensation cost for stock options to employees granted at fair market value.

The effect of applying the minimum value method of SFAS 123 to options granted to employees in 2002 and the nine-month period ended June 30, 2003 did not result in pro forma net income (loss) that is materially different from the amount reported. Therefore, such pro forma information is not presented herein. The minimum value method was applied using the following weighted-average assumptions for 2002 and the nine months ended June 30, 2003: a risk-free interest rate of 4.0%, an expected life of five years, and no dividends.

6. SHAREHOLDERS' DEFICIT (CONTINUED)

LOANS RECEIVABLE FROM STOCKHOLDER

Included within stockholders' deficit in the accompanying financial statements at September 30, 2002 and 2001, are amounts receivable from the Company's CTO/majority stockholder of approximately $3,000,000 and $2,763,000, respectively. The loan is unsecured, accrues interest at 6.0% per annum and is due on November 30, 2003.

7. INCOME TAXES

The provision for income taxes in fiscal 2002 and 2001 consists of the following:

	2002	2001
Current:		
Federal	$ 38,829	$ 306,958
State	800	91,233
	39,629	398,191
Deferred:		
Federal	209,889	(21,490)

State	-	-
	209,889	(21,490)
Total provision for income taxes	$ 249,518	$ 376,701

7. INCOME TAXES (CONTINUED)

The reconciliations of the provision (benefit) for income taxes computed at the U.S. federal statutory tax rate to the effective rates are as follows:

	2002	2001
U. S. statutory rate	$ 1,260,929	$ (672,932)
State income taxes	528	60,214
Changes in valuation allowance	(960,644)	873,579
Utilization of research credit	(53,647)	-
Stock compensation expense	-	113,230
Other	2,352	2,610
Provision for income taxes	$ 249,518	$ 376,701

Deferred income taxes reflect the net tax effects of temporary differences between carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	2002	2001
Deferred tax assets:		
Accrual and reserves	$ 54,992	$ 156,530
Deferred revenue	995,152	2,312,253
Other	348,684	198,043
Total deferred tax assets	1,398,828	2,666,826
Valuation allowance	(1,287,252)	(2,345,362)
Net deferred assets	$ 111,576	$ 321,464

Realization of deferred tax assets is dependent on future earnings, if any, the timing and amount of which are uncertain. Accordingly, a valuation allowance in an amount approximately equal to the net deferred tax assets as of September 30, 2002 and 2001 has been established to reflect these uncertainties. The valuation allowance decreased by $1,058,110 and increased by $1,029,390 during the years ended September 30, 2002 and 2001, respectively.

7. INCOME TAXES (CONTINUED)

The Company had recorded a benefit of income taxes for the nine months ended June 30, 2003 for $(458,240). The tax benefit is calculated by applying the estimated effective annual tax rate for the fiscal year ending September 30, 2003 to the year to date pretax loss. The estimated effective tax rate is based upon expected pretax income for the fiscal year ending September 30, 2003 less anticipated research credits.

8. SUBSEQUENT EVENTS (UNAUDITED)

In December 2002, the company entered into a loan and security agreement with a bank to borrow $400,000. The loan was subsequently repaid by the Company. The borrowings bear interest at index rate plus 4.5% and were secured by the Company's equipment and accounts receivable, along with a personal guaranty given by the Company's majority stockholder.

In August 2003, the Company's CTO/majority stockholder exchanged 981,665 shares of the Company's common stock in consideration for repayment of his outstanding loan receivable to the Company. The value of the shares exchanged for the repayment of the loan was based on the value of the Company's common stock at the date of the exchange of $3.21 per share.

In September 2003, PDF Solutions, Inc. acquired all of the outstanding common shares of the Company, at which time IDS became a wholly owned subsidiary of PDF Solutions, Inc.

EXHIBIT 99.2

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On June 19, 2003, the Company announced that it had signed a definitive agreement to acquire IDS, a privately held company based in Foster City, CA. The acquisition subsequently completed on September 24, 2003. IDS developed and licensed yield management software applications and services dedicated to the semiconductor industry to enable customers to track and identify areas for yield improvement. The acquisition of IDS will provide the Company's customers with greater capabilities for managing product yield improvement through the use of the acquired technology and services. Under the amended terms of the agreement, PDF acquired all outstanding shares of IDS in consideration for $23.0 million in cash, issuance of 2,000,000 shares of the Company's common stock valued at $25.0 million, the assumption of all outstanding stock options valued at $1.7 million and transaction costs of $1.3 million, resulting in an aggregate purchase price of $51.0 million. The fair value of the Company's common stock was determined based on the average closing price per share of the Company's common stock over a 5-day period beginning two trading days before and ending two trading days after the amended terms of the acquisition were agreed to and announced (September 3, 2003). The fair value of the options assumed were calculated as of September 24, 2003 based on the Black-Scholes options pricing model. The acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the excess purchase price allocated to goodwill.

The following unaudited pro forma condensed combined financial statements are presented for illustrative purposes only and are not necessarily indicative of the combined financial position or results of operations for future periods or the financial position or results of operations that actually would have been realized had PDF and IDS been a combined company during the specified periods. The unaudited pro forma condensed combined financial statements, including the related notes, are qualified in their entirety by reference to, and should be read in conjunction with, the historical condensed consolidated financial statements and related notes of PDF, included in its Form 10-K and Form 10-Q, most recently filed with the Securities and Exchange Commission on March 26, 2003 and August 14, 2003, respectively, and the historical consolidated financial statements and related notes of IDS, included elsewhere in this Form 8-K/A.

The following unaudited pro forma condensed combined financial statements give effect to the merger between PDF and IDS using the purchase method of accounting. The unaudited pro forma condensed combined financial statements are based on the respective historical financial statements of PDF and IDS. The pro forma adjustments are based on management's estimates and independent valuation of the value of the tangible and intangible assets acquired.

The unaudited pro forma condensed combined balance sheet assumes the merger took place on June 30, 2003 and the unaudited pro forma condensed combined statements of operations assumes the acquisition took place at the beginning of the periods presented. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2002, combines PDF's statement of operations for the year ended December 31, 2002 with the statement of operations of IDS for its fiscal year ended September 30, 2002. The unaudited pro forma condensed combined statement of operations for the six months ended June 30, 2003, combines PDF's statement of operations for the six months ended June 30, 2003 with the statement of operations of IDS for the six months ended March 31, 2003. As a result of the difference in fiscal year ends of PDF and IDS, the operating results of IDS for the three months ended June 30, 2003, have not been included within the pro forma statements of operations presented below. Accordingly, the following table is being provided to present the operating results for the three months ended June 30, 2003, of IDS:

	(IN THOUSANDS)
Revenues	$ 1,608
Costs and expenses	3,034

Net loss	(1,426)

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF JUNE 30, 2003
(IN THOUSANDS)

	JUNE 30, 2003				
	HISTORICAL		PRO FORMA		
	PDF	IDS	ADJUSTMENTS		COMBINED
ASSETS					
Current assets:					
Cash and cash equivalents	$ 67,073	$ 34	$ (22,962)	(1)	$ 44,145
Accounts receivable, net of allowances	6,584	917	-		7,501
Prepaid expenses and other current assets	5,006	122	-		5,128
Total current assets	78,663	1,073	(22,962)		56,774
Property and equipment, net	3,453	301	-		3,754
Goodwill	662	-	38,894	(1)	39,556
Intangible assets, net	4,195	-	21,260	(1)	25,455
Other assets	1,815	197	(112)	(4)	1,900
Total assets	$ 88,788	$ 1,571	$ 37,080		$ 127,439
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Accounts payable	$ 1,370	$ 402	$ -		$ 1,772
Accrued compensation and related benefits	1,910	722	-		2,632
Other accrued liabilities	1,364	81	451	(4)	1,896
Other liabilities	1,500	-	1,288	(5)	2,788
Taxes payable	686	(238)	-		448
Deferred revenues	2,163	4,305	(3,029)	(4)	3,439
Billings in excess of recognized revenue	274	-	-		274
Current portion of long-term debt	17	-	-		17
Total current liabilities	9,284	5,272	(1,290)		13,266
Deferred tax liabilities	753	-	8,708	(3)	9,461
Other long-term liabilities	55	-	-		55
Total liabilities	10,092	5,272	7,418		22,782
Common stock	3	16	(15)	(1)	3
Additional paid-in-capital	100,641	6,212	21,468	(1)	128,322
Deferred stock-based compensation	(545)	(425)	(495)	(1)	(1,465)
Notes receivable from stockholders	(4,614)	(3,051)	3,051	(1)	(4,614)
Accumulated deficit	(16,855)	(6,453)	5,653	(1)	(17,655)
Cumulative other comprehensive income	66	-	-		66
Total stockholders' equity	78,696	(3,701)	29,662		104,657
Total liabilities and stockholders' equity	$ 88,788	$ 1,571	$ 37,080		$ 127,439

See notes to unaudited pro forma condensed combined financial statements.

PDF SOLUTIONS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2003
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	SIX MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED MARCH 31, 2003

	HISTORICAL		PRO FORMA		
	PDF	IDS	ADJUSTMENTS		COMBINED
Revenues	$ 19,157	$ 2,976	$ -		$ 22,133
Costs and expenses:					
Cost of revenues					
Direct costs of revenues	6,958	239	-		7,197
Amortization of acquired core technology	165	-	2,100	(2)	2,265
Research and development	8,785	1,862	-		10,647
Selling, general and administrative	5,532	1,093	-		6,625
Stock-based compensation amortization	978	-	469	(6)	1,447
Amortization of other acquired intangible assets	-	-	820	(2)	820
Total costs and expenses	22,418	3,194	3,389		29,001
Loss from operations	(3,261)	(218)	(3,389)		(6,868)
Interest and other income, net	720	(14)	(172)	(7)	534
Loss before taxes	(2,541)	(232)	(3,561)		(6,334)
Tax benefit	(531)	(62)	(1,168)	(3)	(1,761)
Net Loss	$ (2,010)	$ (170)	$ (2,393)		$ (4,573)
Net loss per share:					
Basic and diluted	$ (0.09)				$ (0.19)
Weighted average common shares:					
Basic and diluted	22,551		2,000		24,551

See notes to unaudited pro forma condensed combined financial statements.

PDF SOLUTIONS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2002
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31, 2002	YEAR ENDED SEPTEMBER 30, 2002			
	HISTORICAL		PRO FORMA		
	PDF	IDS	ADJUSTMENTS		COMBINED
Revenues	$ 43,724	$ 8,687	$ -		$ 52,411
Costs and expenses:					
Cost of revenues					
Direct costs of revenues	14,986	336	-		15,322
Research and development	15,247	2,913	-		18,160
Amortization of acquired core technology	164	-	4,200	(2)	4,364
Selling, general and administrative	10,188	1,526	-		11,714
Stock-based compensation amortization	2,711	-	686	(6)	3,397
Amortization of other acquired intangible assets	-	-	1,640	(2)	1,640
Total costs and expenses	43,296	4,775	6,526		54,597
Income (loss) from operations	428	3,912	(6,526)		(2,186)
Interest and other income, net	1,549	(203)	(344)	(7)	1,002
Income (loss) before taxes	1,977	3,709	(6,870)		(1,184)
Tax provision (benefit)	1,453	250	(2,336)	(3)	(633)

Net income (loss)	$ 524	$ 3,459	$ (4,534)	$ (551)
	========	========	========	========
Net income (loss) per share:				
Basic	$ 0.02			$ (0.02)
	========			========
Diluted	$ 0.02			$ (0.02)
	========			========
Weighted average common shares:				
Basic	21,962		2,000	23,962
	========		========	========
Diluted	23,199		763	23,962
	========		========	========

See notes to unaudited pro forma condensed combined financial statements.

NOTE 1. BASIS OF PRESENTATION

The unaudited pro forma condensed combined financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and certain footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. However the Company believes that the disclosures are adequate to make the information not misleading.

NOTE 2. PURCHASE PRICE ALLOCATION

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, the merger is accounted for as a purchase of IDS by PDF. The purchase price has been allocated based upon the fair value of the assets acquired and liabilities assumed as determined through an independent valuation. The following table summarizes the components of the total purchase price and the allocation (in thousands):

ALLOCATION OF PURCHASE PRICE:	AMORTIZATION LIFE (YRS).	AMOUNT
Fair value of tangible assets acquired		$ 1,459
Brand name	4	2,000
Contract backlog	1	700
Backlog renewals	4	900
Customer relationships	4	800
Non-compete covenant	4	60
Core technology	4	16,800
In-process research and development*	N/A	800
Goodwill	N/A	38,894
Deferred tax liabilities		(8,708)
Liabilities assumed		(2,693)

NET PURCHASE PRICE		$ 51,012
		========

* In-process research and development of $800,000 was expensed in the period in which the acquisition was consummated. Accordingly the in-process research and development is reflected in the pro forma condensed combined balance sheet as an addition to accumulated deficit. The pro forma condensed combined statements of operations do not include the in-process research and development of $800,000 as it is considered a non-recurring charge.

NOTE 3. PRO FORMA ADJUSTMENTS

The following adjustments have been reflected in the unaudited pro forma condensed combined financial statements:

(1) To record cash paid, common stock issued, and applicable purchase accounting entries including intangible assets. Common stock issued and stock options assumed in connection with the acquisition is based on the number of shares

issued in the actual transaction which closed on September 24, 2003.

(2) Adjustment to record the amortization of identifiable intangible assets resulting from the allocation of the IDS purchase price. The pro forma adjustment assumes that the identifiable intangibles will be amortized on a straight-line basis over the following estimated lives (remaining intangibles including goodwill will be tested for impairment):

Brand name	4 years
Contract backlog	1 year
Backlog renewals	4 years
Customer relationships	4 years
Non-compete covenant	4 years
Core technology	4 years

(3) To record deferred tax liabilities resulting from the basis difference in acquired intangible assets and the related income tax effects.

(4) To adjust acquired assets and assumed liabilities to fair value.

(5) To record estimated transaction costs associated with the acquisition.

(6) Adjustment to record the estimated amortization of deferred stock-based compensation associated with stock options assumed in connection with the acquisition. The amortization of deferred stock-based compensation is based on the accelerated vesting method as prescribed under Financial Accounting Standards Board Interpretation No. 28.

(7) Adjustment to record reduction in estimated interest income earned on cash and cash equivalents as result of paying cash proceeds of $23.0 million in connection with the acquisition.