

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): July 31, 2007

PDF SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

000-31311
(Commission File Number)

Delaware
(State or Other Jurisdiction of
Incorporation)

25-1701361
(I.R.S. Employer Identification No.)

333 West San Carlos Street, Suite 700
San Jose, CA 95110
(Address of principal executive offices, with zip code)

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

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 July 31, 2007, the Registrant issued a press release regarding its financial results and certain other information related to the second fiscal quarter of 2007 ended June 30, 2007. 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.

On July 31, 2007, the Registrant issued a press release regarding the financial outlook for the third fiscal quarter ending September 30, 2007 and the total fiscal year ending December 31, 2007. 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 July 31, 2007 regarding financial results and certain other information related to the second fiscal quarter of 2007 ended June 30, 2007.
99.2	Press Release dated July 31, 2007 regarding the financial outlook for the third fiscal quarter ending September 30, 2007 and the total fiscal year ending December 31, 2007.

SIGNATURES

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)

By: /s/ Keith A. Jones

Keith A. Jones
*Vice President, Finance and
Chief Financial Officer*

Dated: July 31, 2007

EXHIBIT INDEX

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99.2	Press Release dated July 31, 2007 regarding the financial outlook for the third fiscal quarter ending September 30, 2007 and the total fiscal year ending December 31, 2007.

News Release

Investor Relations Contact:
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**PDF Solutions® Reports Second Quarter
2007 Results**

Record Quarterly Gain Share A Strong Contribution to Overall Revenue Growth

SAN JOSE, Calif.—July 31, 2007—PDF Solutions, Inc. (NASDAQ: PDFS) the leading provider of process-design integration technologies to enhance IC manufacturability, today announced financial results for its second fiscal quarter ended June 30, 2007.

Revenue for the second fiscal quarter of 2007 totaled \$23.7 million, an increase of 32%, compared with revenue of \$18.0 million for the second fiscal quarter of 2006. Gain share revenue for the second fiscal quarter of 2007 totaled \$5.9 million, compared to \$5.7 million for the second fiscal quarter of 2006. On a GAAP basis, net loss for the second fiscal quarter of 2007 totaled approximately \$701,000, or \$0.02 per basic share, compared with a net loss of approximately \$847,000, or \$0.03 per basic share, for the second fiscal quarter of 2006.

In addition to using GAAP results in evaluating PDF Solutions' business, management also believes it is useful to measure results using a non-GAAP measure of net income, which excludes stock-based compensation expense, amortization of acquired intangible assets and their related income tax effects. Using this non-GAAP measure, net income for the second fiscal quarter of 2007 totaled approximately \$5.0 million, or \$0.17 per diluted share, compared with non-GAAP net income of approximately \$3.6 million, or \$0.13 per diluted share, for the second fiscal quarter of 2006.

As previously announced, PDF will discuss these results on a live conference call beginning at 3:00 p.m. Pacific Time/6:00 p.m. Eastern Time. The call will simultaneously web cast on PDF Solutions' website at <http://ir.pdf.com/medialist.cfm>. A replay of the web cast will be available at the same website address beginning approximately two hours

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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 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.

Information Regarding Use of Non-GAAP Financial Measures

In addition to providing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), PDF Solutions also provides certain non-GAAP financial measures that exclude the effects of stock-based compensation expense, amortization of acquired intangible assets, and their related income tax effects. PDF Solutions' management believes that the presentation of these measures provides useful supplemental information to investors regarding PDF's operating results. These non-GAAP financial measures are used by management internally to measure the company's profitability and performance. PDF's management believes that excluding the effects of stock-based compensation expense, amortization of acquired intangible assets, and their related income tax effects, provides a useful supplemental measure of the company's ongoing operations in light of the fact that neither category of expense has a current effect on the future uses of cash nor do they have use with regards to the generation of current or future revenues. These non-GAAP results should not be considered an alternative to, or a substitute for, GAAP financial information, and may be different from similarly titled non-GAAP measures used by other companies. In particular, these non-GAAP financial measures are not a substitute for GAAP measures of income as a measure of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity. Since management uses these non-GAAP financial measures internally to measure profitability and performance, PDF has included these non-GAAP measures to give investors an opportunity to see the company's financial results as viewed by management. A reconciliation of the non-GAAP financial measures to the comparable GAAP financial measure is provided at the end of the company's financial statements presented below.

About PDF Solutions

PDF Solutions, Inc. (NASDAQ: PDFS) is the leading provider of process-design integration technologies and services for manufacturing integrated circuits (ICs). PDF Solutions offers solutions that are designed to enable clients to lower costs, enhance time to market, and improve profitability by addressing design and manufacturing interactions from product design to initial process ramps to mature manufacturing operations. PDF Solutions' Characterization Vehicle[®] (CV[®]) test chips provide the core modeling capabilities, and are used by more leading manufacturers than any other test chips in the industry. PDF Solutions' industry leading yield management system software, *dataPOWER*[®], and fault detection and classification software, *Maestria*[®], enhance yield improvement and production control activities at leading fabs around the world. Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in China, Europe, Japan and Korea. For the company's latest news and information, visit <http://www.pdf.com/>.

Characterization Vehicle, CV, dataPOWER, Maestria, PDF Solutions, and the PDF Solutions logo are registered trademarks of PDF Solutions, Inc.

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

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,652	\$ 36,451
Short-term investments	18,300	16,402
Accounts receivable	32,323	27,575
Prepaid expenses and other current assets	2,936	2,796
Deferred tax assets	2,231	2,581
Total current assets	91,442	85,805
Property and equipment, net	4,005	3,916
Goodwill	63,386	60,034
Intangible assets, net	16,179	13,605
Deferred tax assets	5,155	4,994
Other assets	474	503
Total assets	<u>\$180,641</u>	<u>\$ 168,857</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 291	\$ 302
Accounts payable	2,395	3,182
Accrued compensation and related benefits	4,704	3,325
Other accrued liabilities	5,245	3,843
Taxes payable	1,404	4,767
Deferred revenue	5,237	3,705
Billings in excess of recognized revenue	367	95
Total current liabilities	19,643	19,219
Long-term debt	1,130	1,198
Long-term taxes payable	5,145	—
Other liabilities	127	221
Total liabilities	26,045	20,638
Stockholders' equity:		
Common stock	4	4
Additional paid-in-capital	175,895	167,323
Treasury stock at cost	(5,549)	(5,549)
Accumulated deficit	(17,483)	(13,890)
Accumulated other comprehensive income	1,729	331
Total stockholders' equity	154,596	148,219
Total liabilities and stockholders' equity	<u>\$180,641</u>	<u>\$ 168,857</u>

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>
Revenue:				
Design-to-silicon-yield solutions				
Integrated solutions	\$ 16,032	\$ 10,477	\$ 29,796	\$ 22,706
Software licenses	1,776	1,794	5,261	4,406
Gain share	5,890	5,739	10,783	10,755
Total revenue	<u>23,698</u>	<u>18,010</u>	<u>45,840</u>	<u>37,867</u>
Cost of design-to-silicon-yield solutions:				
Direct costs of design-to-silicon-yield solutions				
Integrated solutions	7,082	6,645	14,790	13,074
Software licenses	27	29	86	40
Amortization of acquired core technology	1,610	1,266	3,185	2,532
Total cost of design-to silicon-yield solutions	<u>8,719</u>	<u>7,940</u>	<u>18,061</u>	<u>15,646</u>
Gross margin	14,979	10,070	27,779	22,221
Operating expenses:				
Research and development	8,797	6,871	17,167	13,127
Selling, general and administrative	6,645	4,866	12,489	9,822
Amortization of other acquired intangible assets	1,031	235	2,044	470
Total operating expenses	<u>16,473</u>	<u>11,972</u>	<u>31,700</u>	<u>23,419</u>
Loss from operations	(1,494)	(1,902)	(3,921)	(1,198)
Interest and other income, net	529	811	1,025	1,446
Income (loss) before taxes	(965)	(1,091)	(2,896)	248
Tax provision (benefit)	(264)	(244)	160	827
Net loss	<u>\$ (701)</u>	<u>\$ (847)</u>	<u>\$ (3,056)</u>	<u>\$ (579)</u>
Net loss per share:				
Basic and Diluted	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.11)</u>	<u>\$ (0.02)</u>
Weighted average common shares:				
Basic and Diluted	<u>28,155</u>	<u>26,680</u>	<u>28,067</u>	<u>26,611</u>

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PDF SOLUTIONS, INC.
IMPACT OF NON-GAAP ADJUSTMENTS ON REPORTED NET INCOME (UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended June 30, 2007			Three Months Ended June 30, 2006		
	As reported	Adjustment	Non-GAAP	As reported	Adjustment	Non-GAAP
Revenue:						
Design-to-silicon-yield solutions						
Integrated solutions	\$ 16,032		\$ 16,032	\$ 10,477		\$ 10,477
Software licenses	1,776		1,776	1,794		1,794
Gain share	5,890		5,890	5,739		5,739
Total revenue	<u>23,698</u>		<u>23,698</u>	<u>18,010</u>	<u>—</u>	<u>18,010</u>
Cost of design-to-silicon-yield solutions:						
Direct costs of design-to-silicon-yield solutions						
Integrated solutions	7,082	(478)(a)	6,604	6,645	(455)(a)	6,190
Software licenses	27		27	29		29
Amortization of acquired core technology	1,610	(1,610)(b)		1,266	(1,266)(b)	
Total cost of design-to silicon-yield solutions	<u>8,719</u>	<u>(2,088)</u>	<u>6,631</u>	<u>7,940</u>	<u>(1,721)</u>	<u>6,219</u>
Gross margin	14,979	2,088	17,067	10,070	1,721	11,791
Operating expenses:						
Research and development	8,797	(615)(a)	8,182	6,871	(568)(a)	6,303
Selling, general and administrative	6,645	(852)(a)	5,793	4,866	(764)(a)	4,102
Amortization of other acquired intangible assets	1,031	(1,031)(b)		235	(235)(b)	
Total operating expenses	<u>16,473</u>	<u>(2,498)</u>	<u>13,975</u>	<u>11,972</u>	<u>(1,567)</u>	<u>10,405</u>
Income (loss) from operations	(1,494)	4,586	3,092	(1,902)	3,288	1,386
Interest and other income, net	529		529	811		811
Income (loss) before taxes	(965)	4,586	3,621	(1,091)	3,288	2,197
Tax provision (benefit)	(264)	(1,088)(c)	(1,352)	(244)	(1,201)(c)	(1,445)
Net income (loss)	<u>\$ (701)</u>	<u>\$ 5,674</u>	<u>\$ 4,973</u>	<u>\$ (847)</u>	<u>\$ 4,489</u>	<u>\$ 3,642</u>
Net income (loss) per share — diluted	<u>\$ (0.02)</u>	<u>\$ 0.19</u>	<u>\$ 0.17</u>	<u>\$ (0.03)</u>	<u>\$ 0.16</u>	<u>\$ 0.13</u>
Weighted average common shares — diluted	<u>28,155</u>	<u>28,698(d)</u>	<u>28,698</u>	<u>26,680</u>	<u>27,866(d)</u>	<u>27,866</u>

Notes:

(a) The non-GAAP adjustments represent the reversal of stock-based compensation.

(b) The non-GAAP adjustments represent the reversal of amortization of intangible assets.

(c) The non-GAAP adjustments represent the tax impact from the reversal of stock-based compensation and amortization of intangible assets.

(d) The shares used in computing non-GAAP net income for the three months ended June 30, 2007 and 2006 include the dilutive impact of common stock options.

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News Release

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**PDF Solutions® Provides Financial Outlook For
The Third Quarter and Total Year Fiscal 2007**

SAN JOSE, Calif.—July 31, 2007—PDF Solutions, Inc. (NASDAQ: PDFS), the leading provider of process-design integration technologies to enhance IC manufacturability, today provided its financial outlook for the third fiscal quarter ending September 30, 2007 and revised its outlook for the total fiscal year ending December 31, 2007.

PDF Solutions expects total revenue in the range of \$23.5 million to \$25.0 million for the third fiscal quarter ending September 30, 2007. Gain share revenue for the third quarter is expected to be in the range of \$5.0 million to \$5.5 million. On a GAAP basis, net loss for the third fiscal quarter of 2007 is projected in a range of \$1.6 million to \$1.0 million, or (\$0.06) to (\$0.04) per basic share.

For the total fiscal year ending December 31, 2007, PDF Solutions announced revised expectations for total revenue in the range of \$95.0 million to \$100.0 million and, on a GAAP basis, net loss to a range of \$2.1 million to \$220,000, or (\$0.07) to (\$0.01) per basic share.

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, which excludes stock-based compensation expense, amortization of acquired intangible assets and their

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related income tax effects. Non-GAAP net income for the third fiscal quarter ending September 30, 2007 is projected in a range of \$4.8 million to \$5.4 million, or \$0.17 to \$0.19 per diluted share. PDF Solutions revises its non-GAAP net income for the total fiscal year ending December 31, 2007 to a projection in a range of \$19.4 million to \$21.3 million, or \$0.67 to \$0.73 per diluted share.

“During the second quarter we continued to gain traction in our core business, executing on strategic objectives that include the roll-out of new products combining traditional PDF Solutions’ Characterization Vehicle® technology with the Fault, Detection and Classification software we added with the acquisition of Si Automation last fall. Additionally, our Gain share revenue was at record levels in the quarter and we generated cash flow from operations,” stated chief executive officer John Kibarian. “As customers closely scrutinize what they consider to be discretionary spending in a tighter market, our stand alone software sales have declined and will continue to be weak during the second half of the year. We also expect production volumes in customer fabs to drop during the second half of 2007 and, as a result, we expect Gain share to decline from recent record levels. The effect of these two recent trends requires us to revise our revenue expectations for fiscal year 2007. However, due to controlled spending and a favorable adjusted annual tax rate, we expect our non-GAAP earnings per share to decrease at a more modest rate.”

As previously announced, PDF will discuss its second quarter 2007 results and financial outlook for the third quarter and fiscal year 2007 on a live conference call beginning at 3:00 p.m. Pacific Time/6:00 p.m. Eastern Time today. The call will be simultaneously be web cast on PDF Solutions’ website at <http://ir.pdf.com/medialist.cfm>. A replay of the web cast 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 the company’s website at http://www.pdf.com/news_archive.phtml following the date of this release.

Effectiveness of Guidance:

The outlook set forth above represents PDF Solutions’ expectations only as of the date of this release, and should not be viewed as a statement about PDF Solutions’ expectations after this date. Although this release will remain available on PDF Solutions’ website, its continued availability does not indicate that PDF Solutions is reaffirming or confirming its continued validity. PDF Solutions does not intend to report on its progress, or provide comments to analysts or investors on, or otherwise update, such guidance until it releases its quarterly results.

Information Regarding Use of Non-GAAP Financial Measures:

In addition to providing guidance that is determined in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), PDF Solutions also provides certain non-GAAP financial measures that exclude the effects of stock-based compensation expense, amortization of acquired intangible assets, the write-off of in-process research and development and their related income tax effects. PDF Solutions’ management believes that the presentation of these measures provides useful supplemental information to investors regarding PDF’s operating results. These non-GAAP financial measures are used by management internally to measure the company’s profitability and performance. PDF’s management believes that excluding the effects of stock-based compensation expense, amortization of acquired intangible assets, the write-off of in-process research and development and their income tax effects, provides a useful supplemental measure of the company’s ongoing operations in light of the fact that neither category of expense has a current effect on the future uses of cash nor do they have use with regards to the generation of current or future revenues. This non-GAAP guidance should not be considered an alternative to, or a

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substitute for, GAAP financial information, and may be different from similarly titled non-GAAP measures used by other companies. In particular, these non-GAAP financial measures are not a substitute for GAAP measures of income as a measure of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity. Since management uses these non-GAAP financial measures internally to measure profitability and performance, PDF has included these non-GAAP measures to give investors an opportunity to see the company as viewed by management. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measure is provided at the end of this press release.

About PDF Solutions:

PDF Solutions, Inc. (NASDAQ: PDFS) is the leading provider of process-design integration technologies and services for manufacturing integrated circuits (ICs). PDF Solutions offers solutions that are designed to enable clients to lower costs, enhance time to market, and improve profitability by addressing design and manufacturing interactions from product design to initial process ramps to mature manufacturing operations. PDF Solutions' Characterization Vehicle® (CV®) test chips provide the core modeling capabilities, and are used by more leading manufacturers than any other test chips in the industry. PDF Solutions' industry leading yield management system software, *dataPOWER*®, and fault detection and classification software, *Maestria*®, enhance yield improvement and production control activities at leading fabs around the world. Headquartered in San Jose, Calif., PDF Solutions operates worldwide with additional offices in China, Europe, Japan and Korea. For the company's latest news and information, visit <http://www.pdf.com/>.

Characterization Vehicle, CV, dataPOWER, Maestria, PDF Solutions, and the PDF Solutions logo are registered trademarks of PDF Solutions, Inc.

Forward-Looking Statements:

The statements in this press release regarding PDF Solutions' outlook for its third fiscal quarter and fiscal year 2007, 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 such solutions, including the introduction of products or services competitive with PDF Solutions' products and services and other risks set forth in PDF Solutions' periodic public filings with the Securities and Exchange Commission, including, without limitation, its annual report on Form 10-K, most recently filed on March 16, 2007, and its quarterly reports on Form 10-Q, most recently filed on May 10, 2007. The forward-looking statements contained in this release are made as of the date hereof, and PDF Solutions 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 (LOSS) TO PROJECTED
NON-GAAP NET INCOME
(In thousands, except per share data)

PROJECTED RESULTS	Three Months Ending September 30, 2007		
GAAP net loss per share — basic	\$ (0.06)	to	\$ (0.04)
GAAP net loss	\$ (1,580)	to	\$ (1,010)
Amortization of stock-based compensation, net of taxes	2,500		2,500
Amortization of acquired intangible assets, net of taxes	3,910		3,910
Non-GAAP net income	<u>\$ 4,830</u>	to	<u>\$ 5,400</u>
Non-GAAP net income per share — diluted	<u>\$ 0.17</u>	to	<u>\$ 0.19</u>
Weighted average common shares — basic	<u>28,665</u>		<u>28,665</u>
Weighted average common shares — diluted	<u>29,180</u>		<u>29,180</u>

PROJECTED RESULTS	Twelve Months Ending December 31, 2007		
GAAP net loss per share — basic	\$ (0.07)	to	\$ (0.01)
GAAP net loss	\$ (2,120)	to	\$ (220)
Amortization of stock-based compensation, net of taxes	9,060		9,060
Amortization of acquired intangible assets, net of taxes	12,430		12,430
Non-GAAP net income	<u>\$ 19,370</u>	to	<u>\$ 21,270</u>
Non-GAAP net income per share — diluted	<u>\$ 0.67</u>	to	<u>\$ 0.73</u>
Weighted average common shares — basic	<u>28,485</u>		<u>28,485</u>
Weighted average common shares — diluted	<u>29,100</u>		<u>29,100</u>

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