PDF SOLUTIONS INC
Form 10-Q/A
November 20, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended September 30, 2003
or

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

For the transition period from ______ to ______

000-31311
(Commission File Number)

PDF SOLUTIONS, INC.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**25-1701361** (I.R.S. Employer Identification No.)
333 West San Carlos Street, Suite 700 **San Jose, California** (Address of Registrant s principal executive offices)	**95110** (Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2)

Yes [X] No [ ]

The number of shares outstanding of the Registrant s Common Stock as of November 10, 2003 was 23,301,635.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION
  Item 1. Financial Statements
    UNAUDITED CONSOLIDATED BALANCE SHEETS
    UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
    UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
    NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
PART II OTHER INFORMATION
  Item 6. Exhibits and Reports on Form 8-K
SIGNATURES
INDEX TO EXHIBITS
EXHIBIT 31.1
EXHIBIT 31.2
EXHIBIT 32.1
EXHIBIT 32.2

Table of Contents

PART I FINANCIAL INFORMATION

This Amendment No. 1 to the Registrant s Quarterly Report on Form 10-Q for the period ended September 30, 2003 is being filed solely to amend Item 1. Form 10-Q, originally filed on November 14, 2003, contained an error in footnote 2, Acquisitions, under the heading IDS Software Systems, Inc. in the table containing unaudited pro forma consolidated financial data of the Registrant and IDS Software Systems, Inc. for the three months ended September 30, 2003 and the nine months ended September 30, 2003. The Registrant revised the unaudited pro forma consolidated financial data and the amended Item 1. reflects such amended unaudited pro forma consolidated financial data. No other revisions have been made to the Registrant s financial statements or any other disclosure contained in such Quarterly Report.

Item 1. Financial Statements

PDF SOLUTIONS, INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	September 30, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 46,567	$ 71,490
Accounts receivable, net of allowance of $504 in 2003 and 2002	9,701	7,924
Deferred tax asset	1,386	2,413
Prepaid expenses and other current assets	2,618	1,993
Total current assets	60,272	83,820
Property and equipment, net	4,024	3,533
Goodwill	40,721	662
Intangible assets, net	24,666	220
Deferred tax asset	3,875	1,053
Other assets	881	511
Total assets	$134,439	$ 89,799
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,429	$ 499
Accrued compensation and related benefits	2,238	1,143
Other accrued liabilities	2,433	1,669
Other acquisition obligations	7,646	
Taxes payable	2,990	1,838
Deferred revenues	2,256	4,496
Billings in excess of recognized revenue	333	606
Total current liabilities	19,325	10,251
Long-term liabilities	296	54
Deferred tax liabilities	8,985	752
Total liabilities	28,606	11,057

Stockholders equity:		
Preferred stock, $0.00015 par value, 5,000 shares authorized; no shares issued and outstanding; in 2003 and 2002		
Common stock, $0.00015 par value, 75,000 shares authorized; shares issued and outstanding: 25,281 in 2003 and 23,130 in 2002	4	3
Additional paid-in-capital	128,685	99,884
Deferred stock-based compensation	(1,098)	(1,340)
Notes receivable from stockholders	(3,755)	(4,998)
Accumulated deficit	(18,086)	(14,845)
Accumulated other comprehensive income	83	38
Total stockholders equity	105,833	78,742
Total liabilities and stockholders equity	$134,439	$ 89,799

See notes to unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
Revenue:				
Design-to-silicon-yield solutions	$ 9,033	$ 8,213	$ 25,175	$ 26,098
Gain share	2,267	2,824	5,282	8,632
Total revenue	11,300	11,037	30,457	34,730
Cost and expenses:				
Cost of design-to-silicon-yield solutions:				
Direct cost of design-to-silicon-yield solutions	3,768	3,650	10,726	11,624
Amortization of acquired core technology	652	41	818	123
Research and development	4,421	3,989	13,123	11,143
Selling, general and administrative	3,106	2,630	8,720	7,716
Stock-based compensation amortization*	366	640	1,344	2,198
Amortization of other acquired intangible assets	137		137	
Write-off of in-process research and development	800		800	
Total costs and expenses	13,250	10,950	35,668	32,804
Income (loss) from operations	(1,950)	87	(5,211)	1,926
Interest and other income	278	443	998	1,140
Income (loss) before taxes	(1,672)	530	(4,213)	3,066
Tax (benefit) provision	(441)	345	(972)	1,736
Net income (loss)	$ (1,231)	$ 185	$ (3,241)	$ 1,330
Net income (loss) per share:				
Basic	$ (0.05)	$ 0.01	$ (0.14)	$ 0.06
Diluted	$ (0.05)	$ 0.01	$ (0.14)	$ 0.06
Weighted average common shares:				
Basic	23,002	22,127	22,701	21,860
Diluted	23,002	23,133	22,701	23,172
* Stock-based compensation amortization:				
Cost of design-to-silicon yield solutions	$ 77	$ 186	$ 293	$ 672
Research and development	222	307	785	1,111
Selling, general and administrative	67	147	266	415
	$ 366	$ 640	$ 1,344	$ 2,198

See notes to unaudited consolidated financial statements

Table of Contents

PDF SOLUTIONS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended	
	September 30, 2003	September 30, 2002
Operating activities:		
Net income (loss)	$ (3,241)	$ 1,330
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,520	1,100
Stock-based compensation amortization	1,344	2,198
Amortization of acquired intangible assets	955	123
Write-off of in-process research and development	800	
Changes in assets and liabilities:		
Accounts receivable	(1,236)	(1,229)
Prepaid expenses and other assets	(902)	(1,522)
Accounts payable	632	(14)
Accrued compensation and related benefits	1,095	(2,202)
Other accrued liabilities	(573)	(355)
Taxes payable	447	1,611
Deferred revenues	(3,216)	1,708
Billings in excess of recognized revenue	(273)	(99)
Deferred taxes	(2,271)	(282)
Net cash (used in) provided by operating activities	(4,919)	2,367
Investing activities:		
Purchases of property and equipment	(1,698)	(1,843)
Businesses acquired in purchase transactions, net of cash acquired	(20,520)	
Net cash used in investing activities	(22,218)	(1,843)
Financing activities:		
Exercise of stock options	406	179
Proceeds from employee stock purchase plan	543	889
Collection of notes receivable from stockholders	1,232	807
Principal payments on long-term debt and capital lease obligations	(12)	(20)
Net cash provided by financing activities	2,169	1,855
Effect of exchange rate changes on cash	45	36
Net decrease in cash and cash equivalents	(24,923)	2,415
Cash and cash equivalents, beginning of period	71,490	70,835
Cash and cash equivalents, end of period	$ 46,567	$ 73,250
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Taxes	$ 720	$ 560

Interest	$ 2	$ 3

See notes to unaudited consolidated financial statements.

Table of Contents

PDF SOLUTIONS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The interim unaudited consolidated financial statements included herein have been prepared by PDF Solutions, Inc., (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) specifically instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The unaudited interim consolidated financial statements reflect, in the opinion of management, all adjustments necessary, (consisting only of normal recurring adjustments) to present a fair statement of results for the interim periods presented. The operating results for any interim period are not necessarily indicative of the results that may be expected for other interim periods or the full fiscal year. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2002.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. A significant portion of the Company s revenues require estimates in regards to total costs which may be incurred and revenues earned. Actual results could differ from these estimates.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after the elimination of all significant intercompany balances and transactions. Certain amounts from prior years have been reclassified to conform to current-year presentation. These reclassifications did not change previously reported total assets, liabilities, stockholders equity or net income.

Stock Based Compensation

The Company accounts for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25 *Accounting for Stock Issued to Employees* (APB No. 25), and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123) as amended by SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosures* . Deferred compensation recognized under APB No. 25 is amortized to expense using the graded vesting method. The Company accounts for stock options and warrants issued to non-employees in accordance with the provisions of SFAS No. 123 and its related interpretations under the fair value based method.

Table of Contents

The Company adopted the disclosure-only provisions of SFAS No. 123, and accordingly, no expense has been recognized for options granted to employees under the various stock plans. The Company amortizes deferred stock-based compensation on the graded vesting method over the vesting periods of the applicable stock purchase rights and stock options, generally four years. The graded vesting method provides for vesting of portions of the overall awards at interim dates and results in greater vesting in earlier years than the straight-line method. Had compensation expense been determined for employee awards based on the fair value at the grant date for the awards, consistent with the provisions of SFAS No. 123, the Company s pro forma net income (loss) and pro forma net income (loss) per share would be as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income (loss) as reported:	$(1,231)	$ 185	$ (3,241)	$ 1,330
Add: stock-based employee compensation expense included in reported net income (loss) under APB 25	366	640	1,117	2,198
Deduct: total employee stock-based compensation determined under fair value based method for all awards, net of related tax effects	(3,140)	(2,901)	(8,036)	(7,914)
Pro forma net loss	$(4,005)	$(2,076)	$(10,160)	$(4,386)
Basic and diluted net income (loss) per share:				
As reported:				
Basic	$ (0.05)	$ 0.01	$ (0.14)	$ 0.06
Diluted	$ (0.05)	$ 0.01	$ (0.14)	$ 0.06
Pro forma basic and diluted:				
Basic	$ (0.17)	$ (0.09)	$ (0.45)	$ (0.20)
Diluted	$ (0.17)	$ (0.09)	$ (0.45)	$ (0.20)

During the first quarter of 2003, the Company recorded $227,000 in compensation expense for the fair value of options granted to two non-employees. The 45,000 common shares under the 2001 Stock Plan were granted at an exercise price of $7.59 per share, the fair market value per share on the grant date were fully vested at the date of grant and contained restrictions on when shares could be sold.

2. ACQUISITIONS

IDS Software Systems

On September 24, 2003, the Company completed its acquisition of IDS Software Systems, Inc (IDS). IDS, a privately held company, 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. The aggregate purchase price was $51.0 million which included the issuance of cash of $23.0 million, the issuance of 2.0 million shares of PDF common stock valued at $25.0 million, the assumption of stock options valued at $1.7 million and acquisition costs of $1.3 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 values 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 in accordance with Statement of Financial Accounting Standards (SFAS) No 141, Business Combinations, and accordingly the Company s unaudited consolidated financial statements from September 24, 2003 include the impact of the acquisition.

Table of Contents

The allocation of the purchase price for this acquisition, as of the date of the acquisition, is as follows (in thousands, except amortization life):

Allocation of purchase price:	Amortization Life (Yrs).	Amount
Fair value of tangible assets		950
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	41,347
Total assets acquired		64,357
Deferred tax liability		(8,708)
Accrued liabilities		(3,032)
Deferred revenue		(976)
Accounts payable		(629)
Total liabilities assumed		(13,345)
Total consideration, net		51,012

The acquisition was accounted for as a purchase transaction, and accordingly, the assets and liabilities of IDS were recorded at their estimated fair values at the date of the acquisition. With the exception of the goodwill and acquired in-process research and development (IPR&D), the identified intangible assets will be amortized on a straight-line basis over their estimated useful lives, with a weighted average life of approximately four years. The acquired IPR&D technology was immediately expensed because technological feasibility had not been established and no future alternative use exists. In assessing IDS s IPR&D projects, the key characteristics of the products under development were considered as well as future prospects, the rate at which technology changes, product life cycles, and the projects stages of development. The IPR&D technology write-off is included as a component of operating expenses in the unaudited consolidated statement of operations. The fair value of IPR&D, as well as the fair value of the identifiable intangible assets, was determined, in part, by an independent third party appraiser through established valuation techniques.

The acquisition of IDS was structured as a tax-free acquisition. Therefore, the difference between the recognized fair values of the acquired net assets and their historical tax basis are not deductible for tax purposes. A deferred tax liability has been recognized for the difference between the assigned fair values of intangible assets for book purposes and the tax basis of such assets.

The following unaudited pro forma consolidated financial data represents the combined results of operations as if IDS had been combined with the Company at the beginning of the respective period. This pro forma financial data includes the straight line amortization of intangibles over their respective estimated useful lives and excludes the write-off of IPR&D (in thousands):

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(Restated)		(Restated)	
Revenue	$14,158	$15,833	$35,657	$42,481
Pro forma Net income (loss)	(591)	2,094	(5,370)	1,456
Pro forma Net income (loss) per share - basic	$ (0.02)	$ 0.09	$ (0.22)	$ 0.06
Pro forma Net income (loss) per share - diluted	$ (0.02)	$ 0.08	$ (0.22)	$ 0.06

These results do not purport to be indicative of what would have occurred had the acquisition been made as of the beginning of the respective periods or the result of operations which may occur in future periods. The unaudited pro forma consolidated financial information for the three and nine months ended September 30, 2003, have been restated to correct certain errors regarding the information used in such computations.

WaferYield

On May 31, 2003 the Company acquired certain assets and liabilities of WaferYield, Inc., (WaferYield) a privately held company, which primarily included WaferYield s proprietary shot map WAMA technology and related business. The WAMA product offering is designed to optimize semiconductor wafer shot maps to help semiconductor companies achieve greater yield and net die per wafer, higher stepper throughput and reduced probe test cost. This acquisition adds to the Company s product offering and its capabilities in enabling semiconductor companies to improve yield and performance of ICs. The aggregate purchase price was $4.1 million, which included cash payments of $2.6 million and the recognition of $1.5 million in other liabilities associated with future payments that are contingent upon the attainment of certain revenue performance objectives. There were no other assets or liabilities assumed in connection with the acquisition. The agreement also contains additional payments in the event the Company achieves further performance objectives as specified in the agreement, up to an additional payment of $3.5 million. Any additional payments made as a result of achieving such operating levels, which exceed amounts currently accrued, will be accounted for as goodwill in relation to the purchase. The entire purchase price has been allocated to core technology which is being amortized over an estimated useful life of 4 years. The acquisition has been accounted for using the purchase method of accounting and accordingly, the Company s consolidated financial statements from May 31, 2003 include the impact of the acquisition. Proforma results of operations have not been presented because the effect of the acquisition was not material to the Company.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2002, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) and must be applied beginning January 1, 2003. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than when the exit or disposal plan is approved. The Company adopted SFAS No. 146 on January 1, 2003. The adoption of this statement did not have an effect on the financial position and operating results of the Company.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others . FIN 45 requires companies to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Guarantees in existence at December 31, 2002 are grandfathered for the purposes of recognition and would only need to be disclosed. The Company adopted FIN 45 on January 1, 2003. The adoption of this statement did not have an effect on the Company s financial position and operating results.

The Company generally provides a warranty to its customers that its software will perform substantially in accordance with documentation typically for a period of 90 days following delivery of its products. The Company also indemnifies certain customers from third-party claims of intellectual property infringement relating to the use of its products. Historically, costs related to these guarantees have not been significant. The Company is unable to estimate the maximum potential impact of these guarantees on its future results of operations.

In December 2002, the EITF reached a consensus on EITF 00-21, Revenue Arrangements with Multiple Deliverables . This issue addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. In some arrangements, the different revenue-generating activities (deliverables) are sufficiently separable and there exists sufficient evidence of their fair values to separately account for some or all of the deliverables (that is, there are separate units of accounting). In other arrangements, some or all of the deliverables are not independently functional, or there is not sufficient evidence of

-7-

Table of Contents

their fair values to account for them separately. This issue addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. This issue does not change otherwise applicable revenue recognition criteria. The guidance in this issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have an effect on the Company s financial position and results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment to FASB Statement 123 . SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting of stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation , to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted the disclosure provisions of SFAS No. 148 effective December 31, 2002.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 amended ARB 51, Consolidated Financial Statements, and established standards for determining under what circumstances a variable interest entity (VIE) should be consolidated with its primary beneficiary. FIN 46 also requires disclosures about VIE s that the company is not required to consolidate, but in which it has a significant variable interest. We do not expect the adoption of FIN 46 will have a material effect on the Company s financial position and results of operations.

4. ACCOUNTS RECEIVABLE

Accounts receivable include amounts that are unbilled at the end of the period. Unbilled accounts receivable are determined on an individual contract basis and were approximately $1.3 million and $1.0 million at September 30, 2003 and December 31, 2002, respectively.

5. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average common shares outstanding for the period (excluding shares subject to repurchase). Diluted net income (loss) per share reflects the weighted-average common shares outstanding plus the potential effect of dilutive securities which are convertible into common shares (using the treasury stock method), except in cases where the effect would be anti-dilutive. The following is a reconciliation of the numerators and denominators used in computing basic and diluted net income (loss) per share (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Net income (loss)	$ (1,231)	$ 185	$ (3,241)	$ 1,330
Shares:				
Weighted average common shares outstanding	23,394	23,047	23,218	22,966
Weighted average common shares outstanding subject to repurchase	(392)	(920)	(517)	(1,106)
Shares used in computation - basic	23,002	22,127	22,701	21,860
Dilutive common equivalent shares:				
Weighted average common shares outstanding subject to repurchase		920		1,106
Weighted average stock options outstanding		86		206
Shares used in computation diluted	23,002	23,133	22,701	23,172
Net income (loss) per share basic	$ (0.05)	$ 0.01	$ (0.14)	$ 0.06
Net income (loss) per share - diluted	$ (0.05)	$ 0.01	$ (0.14)	$ 0.06

-8-

Table of Contents

For the three month period ended September 30, 2002, the calculation of diluted net income per share does not include 250,000 outstanding common stock options as the effect would be anti-dilutive for the period presented. For the three and nine month periods ended September 30, 2003, the calculation of diluted net loss per share does not include, respectively 1.0 million and 590,000 outstanding common stock options and 392,000 and 579,000 shares of common stock subject to repurchase as the effect would be anti-dilutive for the periods presented.

6. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income (loss)	$(1,231)	$185	$(3,241)	$1,330
Foreign currency translation adjustments	17	(1)	45	36
Comprehensive income (loss)	$(1,214)	$184	$(3,196)	$1,366

7. GOODWILL AND PURCHASED INTANGIBLE ASSETS

On January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). SFAS No. 142 requires goodwill to be tested for impairment under certain circumstances, written down when impaired, and requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite. Upon the adoption of SFAS No. 142 the Company ceased amortization of goodwill with a net book value totaling $662,000, which included $192,000 of acquired workforce intangibles, net of related deferred tax liabilities which were reclassified to goodwill pursuant to the requirements of SFAS No. 142.

The following table provides information relating to the intangible assets and goodwill contained within the Company s consolidated balance sheets as of September 30, 2003 and December 31, 2002 (in thousands):

	September 30, 2003			December 31, 2002		
	Cost	Accumulated Amortization	Net carrying Amount	Cost	Accumulated Amortization	Net carrying Amount
Goodwill	$41,283	$ (562)	$40,721	$1,224	$(562)	$ 662
Acquired identifiable intangibles:						
Acquired technology	$21,602	$(1,259)	$20,343	$ 662	$(442)	$ 220
Brand name	2,000	(42)	1,958			
Other acquired intangibles	2,460	(95)	2,365			
Total	$26,062	$(1,396)	$24,666	$ 662	$(442)	$ 220

As required by SFAS No. 142, the Company performed its transitional impairment test of goodwill as of January 1, 2002, at which time the Company determined that the carrying value of goodwill had not been impaired. SFAS No. 142 also requires that goodwill be tested for impairment on an annual basis and more frequently in certain circumstances. Accordingly, the Company has selected the three-month period ending December 31, to perform the annual testing requirements. During the three-month period ending December 31, 2002, the Company completed its annual testing requirements and determined that the carrying value of goodwill had not been impaired.

Table of Contents

The Company expects that annual amortization of acquired intangible assets to be as follows (in thousands):

December 31,:	
2003 (remaining three months)	$ 1,760
2004	6,701
2005	6,175
2006	6,175
2007	3,855
Total amortization expense	$24,666

8. CUSTOMER AND GEOGRAPHIC INFORMATION

The Company operates in one segment. The Company had revenues from individual customers in excess of 10% of total revenues as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Customer	2003	2002	2003	2002
A	26%	27%	25%	24%
C	9%	21%	13%	16%
G	12%	25%	14%	23%
H	1%	4%	11%	4%
I	18%		13%	

The Company had gross accounts receivable from the following individual customers in excess of 10% of gross accounts receivable as follows:

Customer	September 30, 2003	December 31, 2002
A	31%	31%
C	8%	11%
F	9%	19%
K		11%
M	15%	

Revenues from customers by geographic area are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Asia	$8,376	$8,167	$21,719	$24,352
United States	1,895	1,260	6,218	5,035
Europe	1,029	1,610	2,520	5,343

As of September 30, 2003 and December 31, 2002, long-lived assets related to PDF Solutions GmbH (formerly AISS), located in Germany, totaled $1.0 and $1.1 million, respectively, of which $759,000 and $882,000, respectively, relates to acquired intangibles and goodwill. The majority of the Company s remaining long-lived assets are in the United States.

Table of Contents

9. LITIGATION

In May 2001 the Company was named as a defendant in a lawsuit claiming, among other things, that it misappropriated trade secrets in connection with hiring an employee. This litigation was settled by all parties in the second quarter of 2002. All expenses related to the lawsuit have been reflected in the consolidated financial statements in 2002.

10. STOCK REPURCHASE PROGRAM

In February 2003, the Board of Directors approved a program to repurchase up to $10.0 million of the Company s common stock in the open market. As of September 30, 2003, no shares have been repurchased under this program.

Table of Contents

PART II OTHER INFORMATION

Table of Contents

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number	Description
2.1	Amended and Restated Agreement and Plan of Reorganization, dated September 2, 2003, by and among PDF Solutions, Inc., IDS Software Acquisition Corp., PDF Solutions, LLC and IDS Software Systems, Inc.****
3.1	Third Amended and Restated Certificate of Incorporation of PDF Solutions, Inc.**
3.2	Amended and Restated Bylaws of PDF Solutions, Inc.**
4.1	Specimen Stock Certificate**
4.2	Second Amended and Restated Rights Agreement dated July 6, 2001.*
10.24	Andre Hawit Employment Offer letter agreement dated September 24, 2003 by and between PDF Solutions, Inc. and Andre Hawit.+
31.1	Rule 13(a)-14(a)/15(d)-14(a) Certification of President and Chief Executive Officer.
31.2	Rule 13(a)-14(a)/15(d)-14(a) Certification of Chief Financial Officer and Vice President of Finance and Administration.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.***
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.***

* Incorporated by reference to PDF s Registration Statement on Form S-1, Amendment No. 7 filed July 9, 2001 (File No. 333-43192).

** Incorporated by reference to PDF s Report on Form 10-Q filed September 6, 2001 (File No. 000-31311).

*** As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Quarterly Report on Form 10-Q and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of PDF Solutions, Inc. under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

**** Incorporated by reference to Exhibit 2.1 to PDF Solutions, Inc. s Current Report on Form 8-K filed on September 25, 2003.

(b) Reports on Form 8-K:

1. On October 23, 2003, we filed a report on Form 8-K relating to our financial information for the quarter ended September 30, 2003 and forward-looking statements relating to our operational results.

2. On November 12, 2003, we filed a report on Form 8-K/A, filing certain financial information in connection with our acquisition of IDS Software Systems, Inc.

-13-

Table of Contents

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 thereunto duly authorized.

Date: November 20, 2003	By:	/s/ John K. Kibarian
		John K. Kibarian President and Chief Executive Officer
	By:	/s/ P. Steven Melman
		P. Steven Melman Chief Financial Officer and Vice President, Finance and Administration

-14-

Table of Contents

INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Amended and Restated Agreement and Plan of Reorganization, dated September 2, 2003, by and among PDF Solutions, Inc., IDS Software Acquisition Corp., PDF Solutions, LLC and IDS Software Systems, Inc.****
3.1	Third Amended and Restated Certificate of Incorporation of PDF Solutions, Inc.**
3.2	Amended and Restated Bylaws of PDF Solutions, Inc.**
4.1	Specimen Stock Certificate**
4.2	Second Amended and Restated Rights Agreement dated July 6, 2001.*
10.24	Andre Hawit Employment Offer letter agreement dated September 24, 2003 by and between PDF Solutions, Inc. and Andre Hawit.+
31.1	Rule 13(a)-14(a)/15(d)-14(a) Certification of President and Chief Executive Officer.
31.2	Rule 13(a)-14(a)/15(d)-14(a) Certification of Chief Financial Officer and Vice President of Finance and Administration.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.***
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.***

* Incorporated by reference to PDF s Registration Statement on Form S-1, Amendment No. 7 filed July 9, 2001 (File No. 333-43192).

** Incorporated by reference to PDF s Report on Form 10-Q filed September 6, 2001 (File No. 000-31311).

*** As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Quarterly Report on Form 10-Q and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of PDF Solutions, Inc. under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

**** Incorporated by reference to Exhibit 2.1 to PDF Solutions, Inc. s Current Report on Form 8-K filed on September 25, 2003.

-15-