

PDF SOLUTIONS INC  
Form DEF 14A  
April 15, 2004

**Table of Contents**

**SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant ☒ x

Filed by a Party other than the Registrant ☐ o

Check the appropriate box:

☐ o Preliminary Proxy Statement ☐ o Confidential, for Use of the Commission  
Only (as permitted by Rule 14a-6(e)(2))

☒ x Definitive Proxy Statement  
☐ o Definitive Additional Materials  
☐ o Soliciting Material Under  
Rule 14a-12

**PDF SOLUTIONS, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing proxy statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ x No fee required.
- ☐ o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

- ☐ o Fee paid previously with preliminary materials.
- ☐ o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

---

Edgar Filing: PDF SOLUTIONS INC - Form DEF 14A

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

---

---

**Table of Contents**

**PDF SOLUTIONS, INC.**

333 West San Carlos Street  
Suite 700  
San Jose, CA 95110

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held May 19, 2004**

On Wednesday, May 19, 2004, PDF Solutions, Inc., a Delaware corporation (the Company), will hold its Annual Meeting of Stockholders at The Fairmont San Jose, located at 170 South Market Street, San Jose, California 95113. The Meeting will begin at 1:30 p.m. local time.

Only record stockholders who owned stock at the close of business on April 2, 2004 can vote at this Meeting or any adjournment that may take place. At the Meeting we will:

Elect two Class III nominees to the Board of Directors to serve for a three-year term expiring on the first Annual Meeting of Stockholders that occurs after December 31, 2006, or until such directors' respective successors are duly elected and qualified.

Ratify the appointment by the Audit Committee of Deloitte & Touche LLP as our independent auditors for the fiscal year ending December 31, 2004.

Approve the amendment of the 2001 Stock Plan to increase the annual grant of options to non-employee directors from 10,000 shares per year to 15,000 shares per year.

Transact any other business properly brought before the Meeting.

You can find more information about each of these items, including the nominees for directors, in the attached Proxy Statement.

Our Board of Directors recommends that you vote in favor of each of the three proposals outlined in this Proxy Statement.

We cordially invite all stockholders of record at the record date or persons who hold a valid proxy for the Annual Meeting to attend the Annual Meeting in person. However, whether or not you expect to attend the Annual Meeting in person, please either mark, date, sign and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope provided or vote your shares by telephone or via Internet to ensure your representation and the presence of a quorum at the Annual Meeting. If you send in your proxy card or vote via telephone or Internet and then decide to attend the Annual Meeting to vote your shares in person, you may still do so. Your proxy is revocable in accordance with the procedures set forth in the Proxy Statement.

At the Meeting, we will also report on our business results and other matters of interest to stockholders.

By Order of the Board of Directors,

PETER COHN  
*Secretary*

San Jose, California  
April 15, 2004

---

**TABLE OF CONTENTS**

Edgar Filing: PDF SOLUTIONS INC - Form DEF 14A

<u>PROXY STATEMENT</u>	1
<u>PROPOSAL NO. 1 ELECTION OF DIRECTORS</u>	5
<u>THE BOARD OF DIRECTORS RECOMMEND A VOTE FOR THE</u>	
<u>ELECTION OF ALL NOMINEES NAMED ABOVE</u>	9
<u>PROPOSAL NO. 2 APPROVAL OF THE AMENDMENT OF THE 2001</u>	
<u>STOCK PLAN TO INCREASE THE ANNUAL GRANT OF OPTIONS TO</u>	
<u>NON-EMPLOYEE DIRECTORS FROM 10,000 SHARES PER YEAR TO</u>	
<u>15,000 SHARES PER YEAR</u>	9
<u>THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR</u>	
<u>PROPOSAL NO. 2</u>	14
<u>PROPOSAL NO. 3 RATIFICATION OF APPOINTMENT OF</u>	
<u>INDEPENDENT AUDITORS</u>	14
<u>THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR</u>	
<u>PROPOSAL NO. 3</u>	16
<u>CORPORATE GOVERNANCE</u>	16
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND</u>	
<u>MANAGEMENT</u>	17
<u>COMPENSATION OF EXECUTIVE OFFICERS AND OTHER</u>	
<u>MATTERS</u>	20
<u>OPTION GRANTS IN LAST FISCAL YEAR</u>	20
<u>AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND</u>	
<u>FISCAL YEAR-END OPTION VALUES</u>	21
<u>COMPENSATION COMMITTEE REPORT ON EXECUTIVE</u>	
<u>COMPENSATION</u>	22
<u>AUDIT COMMITTEE REPORT</u>	24
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	25
<u>STOCK PERFORMANCE GRAPH</u>	27
<u>APPENDIX A</u>	A-1
<u>APPENDIX B</u>	B-1

---

**Table of Contents**

**PDF SOLUTIONS, INC.**

**333 West San Carlos Street**

**Suite 700  
San Jose, CA 95110**

**PROXY STATEMENT**

**FOR THE  
2004 ANNUAL MEETING OF STOCKHOLDERS  
To Be Held May 19, 2004**

Our Board of Directors is soliciting proxies for the 2004 Annual Meeting of Stockholders. This Proxy Statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. Please read it carefully.

The Board set April 2, 2004 as the record date for the Meeting. Stockholders of record who owned our common stock on that date are entitled to vote at and attend the Meeting, with each share entitled to one vote. On the record date, there were 25,538,299 shares of our common stock outstanding.

Voting materials, which include this Proxy Statement, a proxy card and the 2003 Annual Report, will be mailed to stockholders on or about April 16, 2004.

In this Proxy Statement:

We, us, our and the Company refer to PDF Solutions, Inc.

Annual Meeting or Meeting means our 2004 Annual Meeting of Stockholders

Board of Directors or Board means our Board of Directors

SEC means the Securities and Exchange Commission

We have summarized below important information with respect to the Annual Meeting.

**Time and Place of the Annual Meeting**

The Annual Meeting is being held on Wednesday, May 19, 2004 at 1:30 p.m. local time at The Fairmont San Jose, located at 170 South Market Street, San Jose, California 95113.

All stockholders of record who owned shares of our stock as of April 2, 2004, the record date, may attend the Annual Meeting.

**Purpose of the Proxy Statement and Proxy Card**

You are receiving a Proxy Statement and proxy card from us because you owned shares of our common stock on April 2, 2004, the record date. This Proxy Statement describes issues on which we would like you, as a stockholder, to vote. It also gives you information on these issues so that you can make an informed decision.

When you sign the proxy card, you appoint John K. Kibarian and P. Steven Melman as your representatives at the Meeting. John K. Kibarian and P. Steven Melman will vote your shares, as you have instructed them on the proxy card, at the Meeting. This way, your shares will be voted whether or not you attend the Annual Meeting. Even if you plan to attend the Meeting it is a good idea to complete, sign and return your proxy card or vote your shares by telephone or via Internet in advance of the meeting just in case your plans change.



## **Table of Contents**

### **Proposals to be Voted on at This Year's Annual Meeting**

You are being asked to vote on:

The election of two Class III directors to serve on our Board of Directors.

The amendment of the 2001 Stock Plan to increase the annual grant of options to non-employee directors from 10,000 shares per year to 15,000 shares per year.

The ratification of the Audit Committee's appointment of Deloitte & Touche LLP as our independent auditors for the current fiscal year.

The Board of Directors recommends a vote FOR each proposal.

### **Voting Procedure**

#### ***You may vote by mail***

To vote by mail, please sign your proxy card and return it in the enclosed, prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.

#### ***You may vote in person at the Meeting***

We will pass out written ballots to anyone who wants to vote at the Meeting. Holding shares in "street name" means your shares of stock are held in an account by your stockbroker, bank or other nominee, and the stock certificates and record ownership are not in your name. If your shares are held in "street name" and you wish to attend the Annual Meeting, you must notify your broker, bank or other nominee and obtain the proper documentation to vote your shares at the Annual Meeting.

#### ***You may vote by telephone or electronically***

If you live in the United States or Canada, you may submit your proxy by following the Vote by Telephone instructions on the proxy card. If you have Internet access, you may submit your proxy from any location in the world by following the Vote by Internet instructions on the proxy card.

#### ***You may change your mind after you have returned your proxy card***

If you change your mind after you return your proxy card or submit your proxy by telephone or Internet, you may revoke your proxy at any time before the polls close at the Meeting. You may do this by:

signing another proxy card with a later date, or

voting in person at the Annual Meeting.

### **Multiple Proxy Cards**

If you received more than one proxy card, it means that you hold shares in more than one account. Please sign and return all proxy cards to ensure that all of your shares are voted.

### **Quorum Requirement**

Shares are counted as present at the Meeting if the stockholder either:

is present and votes in person at the Meeting, or



## Edgar Filing: PDF SOLUTIONS INC - Form DEF 14A

has properly submitted a proxy card or voted by telephone or Internet.

A majority of our outstanding shares as of the record date must be present at the Meeting (either in person or by proxy) in order to hold the Annual Meeting and conduct business. This is called a quorum.

## **Table of Contents**

### **Consequences of Not Returning Your Proxy Card; Broker Non-Votes**

If your shares are held in your name, you must return your proxy card or vote by telephone or Internet (or attend the Annual Meeting in person) in order to vote on the proposals. If your shares are held in street name and you do not return your proxy card or vote by telephone or Internet, your stockbroker may either:

vote your shares on routine matters, or

leave your shares unvoted.

Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients, brokers may vote such shares on behalf of their clients with respect to routine matters (such as the election of directors or the ratification of auditors), but not with respect to non-routine matters (such as a proposal submitted by a stockholder or a proposal related to a stock incentive plan). If the proposals to be acted upon at the Meeting include both routine and non-routine matters, the broker may turn in a proxy card for uninstructed shares that votes FOR the routine matters, but expressly states that the broker is not voting on non-routine matters. This is called a broker non-vote.

Broker non-votes will be counted for the purpose of determining the presence or absence of a quorum, but will not be counted for the purpose of determining the number of votes cast.

We encourage you to provide instructions to your stockbroker by returning your proxy card or voting by telephone or Internet. This ensures that your shares will be voted at the Meeting.

### **Effect of Abstentions**

Abstentions are counted as shares that are present and entitled to vote for the purposes of determining the presence of a quorum and as votes AGAINST a proposal for purposes of determining the approval of any matter submitted to the stockholders for a vote.

### **Required Vote**

Assuming a quorum is present, the two nominees receiving the highest number of affirmative votes will be elected as directors. The approval of the amendment to our 2001 Stock Plan and the ratification of the independent auditors will require the affirmative vote of a majority of shares present in person or represented by proxy at the Meeting.

### **Vote Solicitation; Use of Outside Solicitors**

PDF Solutions, Inc. is soliciting your proxy to vote your shares at the Annual Meeting. In addition to this solicitation by mail, our directors, officers and other employees may contact you by telephone, Internet, in person or otherwise to obtain your proxy. These persons will not receive any additional compensation for assisting in the solicitation. We will also request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners. We will reimburse these entities and our transfer agent for their reasonable out-of-pocket expenses in forwarding proxy materials.

### **Voting Procedures**

Votes cast by proxy or in person at the Annual Meeting will be tabulated by a representative of EquiServe, our transfer agent, and transmitted to P. Steven Melman, our Chief Financial Officer, who will act as the Inspector of Election. The Inspector will also determine whether a quorum is present at the Annual Meeting.

The shares represented by the proxy cards received, properly marked, dated, signed and represented by votes cast using the telephone or Internet and not revoked, will be voted at the Annual Meeting. If the proxy card specifies a choice with respect to any matter to be acted on, the shares will be voted in accordance with that specified choice. Any proxy card which is returned but not marked will be voted FOR each of the director nominees, FOR each of the other proposals discussed in this Proxy Statement, and as the proxy holders deem

## **Table of Contents**

desirable for any other matters that may come before the Meeting. Broker non-votes will not be considered as voting with respect to any matter for which the broker does not have voting authority.

We believe that the procedures to be used by the Inspector to count the votes are consistent with Delaware law concerning voting of shares and determination of a quorum.

### **Publication of Voting Results**

We will announce preliminary voting results at the Meeting. We will publish the final results in our quarterly report on Form 10-Q for the second quarter of fiscal 2004, which we will file with the SEC. You may obtain a copy free of charge from our Internet web site at [www.pdf.com](http://www.pdf.com), by contacting our Investor Relations Department at (408) 280-7900 or the SEC at (800) 732-0330 for the location of the nearest public reference room, or through the EDGAR system at [www.sec.gov](http://www.sec.gov).

### **Other Business**

We do not know of any business to be considered at the 2004 Annual Meeting other than the proposals described in this Proxy Statement. However, because we did not receive notice of any other proposals to be brought before the Meeting, if any other business is properly presented at the Annual Meeting, your signed proxy card gives authority to John K. Kibarian and P. Steven Melman to vote on such matters at their discretion.

### **Proposals for 2005 Annual Meeting**

To have your proposal included in our proxy statement for the 2005 Annual Meeting, pursuant to Rule 14a-8 under the Securities and Exchange Act of 1934, as amended, you must submit your proposal in writing by the date that is 120 calendar days before the anniversary of the date this year's proxy statement is released to stockholders (i.e., the mailing date) to the attention of our Secretary, PDF Solutions, Inc., 333 West San Carlos Street, Suite 700, San Jose, CA 95110.

In addition, our Bylaws provide that a proposal that the stockholder delivers or mails to our principal executive offices not less than 90 nor more than 120 days prior to the anniversary date of the prior year's meeting shall be timely received; provided, however, that if the date of the annual meeting is more than 30 days prior to or more than 60 days after such anniversary date and less than 60 days notice of the date of the meeting is given to stockholders, to be timely, the proposal must be received from the stockholder not later than the close of business on the 10th day following the date the notice of meeting was mailed.

If you submit a proposal for the 2005 Annual Meeting after the date that is less than 120 days prior to April 16, 2005, or the anniversary date of the mailing of this year's Proxy Statement, management may or may not, at their discretion, present the proposal at the meeting, and the proxies for the 2005 Annual Meeting will confer discretion on the management proxy holders to vote against your proposal.

**Table of Contents****PROPOSAL NO. 1****Election of Directors**

We have nominated two candidates for election to the Board this year. Detailed information on each of the nominees is provided below.

The Board is divided into three classes with each director serving a three-year term and one class being elected at each year's Annual Meeting of stockholders. If any director is unable to stand for re-election, the Board may reduce the size of the Board, designate a substitute or leave a vacancy unfilled. If a substitute is designated, proxies voting on the original director candidate will be cast for the substitute candidate. Each Class III nominee listed has consented to serve as a director.

**Vote Required**

If a quorum is present, the two nominees receiving the highest number of affirmative votes of shares entitled to be voted for them will be elected as Class III directors for the ensuing three-year term. Unless marked otherwise, proxies received will be voted FOR the election of each of the two nominees. If additional people are nominated for election as directors, the proxy holders intend to vote all proxies received by them in a way that will ensure that as many as possible of the nominees listed below are elected. If this happens, the specific nominees to be voted for will be determined by the proxy holders.

**Nominees for the Board of Directors**

The Company's Bylaws provide that the number of directors shall be established by the Board or the stockholders of the Company. The Company's Certificate of Incorporation provides that the directors shall be divided into three classes, with the classes serving for staggered, three-year terms. Pursuant to the Company's Bylaws, the Board has set the number of Directors at six, consisting of two Class I directors, two Class II directors and two Class III directors. Two Class III directors are to be elected at the Annual Meeting. These Class III directors will hold office until the Annual Meeting that occurs after the fiscal year ending December 31, 2006 or until their successors have been duly elected and qualified. The terms of the Class I and Class II directors will expire at the Annual Meeting of Stockholders next following the fiscal years ending December 31, 2004 and December 31, 2005, respectively.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company's nominees named below, each of whom currently is a director of the Company. In the event that a nominee of the Company becomes unable or declines to serve as a director at the time of the Annual Meeting, the proxy holders will vote the proxies for any substitute nominee who is designated by the current Board of Directors to fill such vacancy. It is not expected that the nominees listed below will be unable or will decline to serve as a director.

Set forth below are the names of, and certain information as of April 12, 2004 about the business experience of, the nominees for and current Class III directors and the current Class I and Class II directors with unexpired terms.

<b>Name</b>	<b>Age</b>	<b>Principal Occupation</b>
<i>Nominees for and Current Class III Directors</i>		
John K. Kibarian, Ph.D.	40	Chief Executive Officer, President and Director of PDF Solutions, Inc.
Susan Billat	53	Semiconductor Industry Consultant
<i>Continuing Class I Directors</i>		
B.J. Cassin	70	Private Venture Capital Investor
Donald L. Lucas	74	Private Venture Capital Investor

**Table of Contents**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation</b>
<i>Continuing Class II Directors</i>		
Lucio L. Lanza	59	Managing Director, Lanza techVentures
Kimon Michaels, Ph.D.	38	Co-Vice President, Client Services and Director of PDF Solutions, Inc.

**Business Experience of Nominees and Incumbent Directors**

Except as indicated below, each nominee or incumbent director has been engaged in the principal occupation set forth above during the past five years. There are no family relationships among any of the directors or executive officers of the Company.

*Lucio L. Lanza* has served as the Chairman of the Board since April 2004 and as a director since November 1995. Mr. Lanza is the managing director of Lanza techVentures, an early stage venture capital and investment firm, which he founded in January 2001. From 1990 to December 2000, Mr. Lanza served with U.S. Venture Partners, a venture capital firm, including as a general partner from 1996 through December 2000. Mr. Lanza has served as chairman of the board of directors of Artisan Components, Inc., a semiconductor intellectual property company, since November 1997 and as a director since March 1996.

*Kimon Michaels, Ph.D.*, one of our co-founders, has served in Vice Presidential capacities since March 1993 including currently as Vice President, Client Services, and as a director since November 1995. He also served as Chief Financial Officer from November 1995 to July 1998. Mr. Michaels received a B.S. in Electrical Engineering, a M.S. E.C.E. and a Ph.D. E.C.E. from Carnegie Mellon University.

*B.J. Cassin* has served as a director since November 1995. Mr. Cassin has been a private venture capital investor since 1979. Previously, he co-founded Xidex Corporation, a manufacturer of data storage media in 1969. Mr. Cassin is chairman of the board of directors of Cerus Corporation, a medical device company and several private companies. Mr. Cassin holds an A.B. in Economics from Holy Cross College.

*Donald L. Lucas* has served as a director since May 1999. He has been a venture capitalist since 1960. He also has served as Chairman of the Board of Cadence Design Systems, Inc., an electronic design automation company, since 1988, a director of Macromedia, Inc., a software company and Oracle Corporation, an information management software company. Mr. Lucas holds a B.A. in Economics and an M.B.A. from Stanford University.

*John K. Kibarian, Ph.D.*, one of our co-founders, has served as President since November 1991 and has served as our Chief Executive Officer since July 2000. Mr. Kibarian has served as a director since December 1992. Mr. Kibarian received a B.S. in Electrical Engineering, a M.S. E.C.E. and a Ph.D. E.C.E. from Carnegie Mellon University.

*Susan Billat* has served as a director since September 2003. Ms. Billat is a principal of Benchmark Strategies, a consulting firm providing independent analysis of the semiconductor equipment industry, which she founded in 1990. From 1996 to 2002, Ms. Billat served with Robertson Stephens, a former investment bank, most recently as a managing director and senior semiconductor equipment research analyst. Ms. Billat is a director of Ultra Clean Technology, a semiconductor equipment company.

**Meetings and Committees of the Board of Directors**

During the last fiscal year (the period from December 31, 2002 through December 31, 2003), the Board met ten times and took action by unanimous written consent seven times during the same period. Each director attended at least 75% of all Board and applicable committee meetings during this time except for Mr. Michaels, who attended 70% of the Board meetings. The Board has four standing committees: the Nominating and Corporate Governance Committee, the Compensation Committee, the Special Option Committee and the Audit Committee. Each of these committees has a written charter approved by the Board

**Table of Contents**

(except for the Special Option Committee). A copy of each charter can be found on our website at [www.pdf.com](http://www.pdf.com). The members of the committees are identified in the following table:

Director	Nominating and Corporate Governance Committee	Compensation Committee	Audit Committee	Special Option Committee
John K. Kibarian, Ph.D.				X
Lucio L. Lanza	X*	X		
Kimon Michaels, Ph.D.				
B.J. Cassin	X	X*	X	
Donald L. Lucas		X	X*	
Susan Billat	X		X	

\* Chair of Committee

The Compensation Committee held one meeting during the fiscal year ended December 31, 2003. The functions of the Compensation Committee are to establish and administer our policies regarding annual executive salaries and cash incentives and long-term equity incentives and to assist with the administration of our 2001 Stock Plan and 2001 Employee Stock Purchase Plan. Each of the members of the Compensation Committee is an independent director as defined in Rule 4200 of the Marketplace Rules of the National Association of Securities Dealers, Inc., and an outside director as defined in Section 162(m) of the Internal Revenue Code.

The Board approved the formation of a Special Option Committee in June of 2000 to assist the Compensation Committee by serving as administrator for our stock plans for the purposes of granting options to purchase up to 35,000 shares of common stock to new, non-executive employees. In January of 2002, the Board also authorized the Special Option Committee to approve merit stock increases to existing employees by granting them options to purchase up to 15,000 shares of common stock. Mr. Kibarian comprises the Special Option Committee, with Mr. Melman serving in a confirmatory role. The Special Option Committee took action by unanimous written consent six times during the fiscal year ended December 31, 2003.

The Audit Committee held seven meetings and took action by unanimous written consent once during the fiscal year ended December 31, 2003. The functions of the Audit Committee are to recommend the engagement of the independent public auditors, to monitor the effectiveness of our internal and external audit efforts, and to monitor our financial and accounting organization and our system of internal accounting controls. The Sarbanes-Oxley Act of 2002 and rules adopted by the SEC require us to disclose whether the Audit Committee includes at least one member who is an Audit Committee Financial Expert within the meaning of such Act and rules. The Board has determined that there is at least one such financial expert on the Audit Committee and has designated Donald L. Lucas as its Audit Committee Financial Expert. The Board believes that Mr. Lucas qualifies as such an expert in view of his extensive business background and experience, including service at Oracle Corporation as a director since 1980 and as Chairman of Oracle Corporation's Audit and Finance Committee since 1987; Cadence Design Systems, Inc. as Chairman of the Board since 1988 and as a member of Cadence's Audit Committee since 1988; and Macromedia, Inc. as a director since 1992 and as Chairman of Macromedia's Audit Committee since 2001 and a member since 1992. Additionally, Mr. Lucas received a bachelors degree in economics and a master of business administration from Stanford University, and has been a private investor and venture capitalist for more than 40 years. As a result of such background and experience, the Board believes that Mr. Lucas has acquired an understanding of generally accepted accounting principles and financial statements, the ability to assess the general application of such principles in connection with accounting estimates, accruals and reserves, experience analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Company, an understanding of internal control over financial reporting and an understanding of Audit Committee functions.

## **Table of Contents**

The Nominating and Corporate Governance Committee held one meeting during the fiscal year ended December 31, 2003. The functions of the Nominating and Corporate Governance Committee are to oversee all aspects of the Company's corporate governance functions on behalf of the Board and make recommendations on corporate governance issues, identify, review and evaluate candidates to serve as directors and to make other recommendations to the Board regarding affairs related to the directors of the Company. Each of the members of the Nominating and Corporate Governance Committee is an independent director as defined in Rule 4200 of the Marketplace Rules of the National Association of Securities Dealers, Inc. The Nominating and Corporate Governance Committee does not set specific criteria for directors but believes the Company is well served when the Board is appropriately sized, the members of the Board possess the requisite talents and experience with respect to technology, business, finance, administration, and public service, the members of the Board possess a variety of backgrounds and demonstrated personal integrity, character and acumen that complement the core components of the Board. The Nominating and Corporate Governance Committee does, however, believe it appropriate for at least one, and, preferably, several, members of the Board to meet the criteria for an audit committee financial expert as defined by SEC rules, and that a majority of the members of the Board meet the definition of independent director under Nasdaq rules. The Nominating and Corporate Governance Committee also believes it appropriate for certain key members of the Company's management to participate as members of the Board. The Nominating and Corporate Governance Committee considers suggestions from many sources, including stockholders, regarding possible candidates for director. The Nominating and Corporate Governance Committee considers properly submitted stockholder nominees for director in the same manner as nominees for director from other sources. The Nominating and Corporate Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to the Company's business and who are willing to continue in service are first considered for re-nomination. If any member of the Board does not wish to continue in service, the Board decides not to re-nominate a member for re-election or the Board decides to expand the size of the Board, the Nominating and Corporate Governance Committee identifies the desired skills and experience of a new nominee in light of the guidelines set forth above. Current members of the Nominating and Corporate Governance Committee are polled for suggestions as to individuals meeting the guidelines of the Nominating and Corporate Governance Committee. Research may also be performed to identify qualified individuals. To date, the Company has not engaged third parties to identify, evaluate or assist in identifying potential nominees, although the Company reserves the right in the future to retain a third party search firm, if necessary. Stockholders may send any recommendations for director nominees or other communications to the Board of Directors or any individual director at the following address. All director nominations received by the Secretary of the Company in a timely manner pursuant to the requirements set forth in Section 2.5 of the bylaws of the Company are reported to the Board or the individual directors:

Board of Directors (or Nominating and Corporate Governance  
Committee or name of individual director)  
c/o Corporate Secretary  
**PDF Solutions, Inc.**  
333 West San Carlos Street, Suite 700  
Santa Clara, California 95110

The Company strongly encourages all of the members of its Board of Directors to attend its Annual Meeting of Stockholders. Five members of the Board attended our Annual Meeting last year.

## **Director Compensation**

Our non-employee directors received the following cash compensation for serving on the Board of Directors during the fiscal year ended December 31, 2003, an annual cash retainer fee in the amount of \$11,000; per meeting fees of \$1,500 per board meeting (\$500 for telephone participation); and per meeting fees of \$1,000 per committee meeting (\$500 for telephone participation) for committee meetings held on days other than the same date as a board meeting (in which case there is no additional per meeting fee). Committee chairpersons received additional fees as follows: Audit Committee Chair \$10,000 plus an option to

**Table of Contents**

purchase 5,000 shares per year; Compensation Committee Chair \$3,000 plus an option to purchase 3,000 shares per year; and the Nominating and Corporate Governance Committee Chair \$3,000 plus an option to purchase 3,000 shares per year. Directors were reimbursed for reasonable travel expenses incurred in connection with attending Board of Directors and committee meetings. Our 2001 Stock Plan provides for the automatic grant of nonstatutory options to non-employee directors. Each new director subsequent to July 26, 2001, the effective date of our initial public offering, will be granted options to purchase 30,000 shares. In addition, each non-employee director is currently granted options to purchase 10,000 shares each year following the conclusion of the Annual Meeting of Stockholders for such year. However, subject to stockholder approval of Proposal Two below, this number will be increased to 15,000 shares per year. These grants each vest at the rate of 25% on the one-year anniversary of the date of grant, and at the rate of 1/48 of the total options granted in each month thereafter.

In March 2004, our Board of Directors approved a new director compensation plan pursuant to which each of our non-employee directors will be eligible to receive the following compensation in addition to the annual grant of options set forth above: an annual cash retainer fee in the amount of \$15,000; per meeting fees of \$1,500 per board meeting (\$500 for telephone participation); and per meeting fees of \$1,000 per committee meeting (\$500 for telephone participation) for committee meetings held on days other than the same date as a board meeting (in which case there is no additional per meeting fee). The Chairman of the Board will receive additional fees consisting of an annual cash retainer in the amount of \$30,000 plus an option to purchase 30,000 shares per year. Committee chairpersons will receive additional fees as follows: Audit Committee Chair \$10,000 plus an option to purchase 5,000 shares per year; Compensation Committee Chair \$5,000 plus an option to purchase 5,000 shares per year; and the Nominating and Corporate Governance Committee Chair \$5,000 annually plus an option to purchase 5,000 shares per year.

**Recommendation of the Board:**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR*  
THE ELECTION OF ALL NOMINEES NAMED ABOVE.**

**PROPOSAL NO. 2**

**Approval of the Amendment of the 2001 Stock Plan**

**to Increase the Annual Grant of Options to Non-Employee Directors  
from 10,000 Shares Per Year to 15,000 Shares Per Year.**

At the 2004 Annual Meeting, our stockholders are being asked to approve an amendment (the Amendment) to the 2001 Stock Plan (the 2001 Plan) to increase the annual grant of nonstatutory stock options to non-employee directors from 10,000 shares per year to 15,000 shares per year. A summary of the principal features of the 2001 Plan follows. The summary is not a complete description of all the provisions of the 2001 Plan. If you wish to obtain a copy of the plan document, please send a written request to the Chief Financial Officer at our principal offices at 333 West San Carlos Street, Suite 700, San Jose, California 95110.

The 2001 Plan was originally approved by the Board of Directors in June of 2001 and by our stockholders in July of 2001 and amended by the Board of Directors in February 2003 and by our stockholders in March 2003. The Board of Directors approved the Amendment on April 8, 2004, and stockholders are being requested to approve the Amendment at the Annual Meeting. The number of shares reserved for issuance under the 2001 Plan is increased on the first day of each of our fiscal years by the least of:

3,000,000 shares (subject to equitable adjustment in the event of a recapitalization, merger, spin-off or other similar event);

5% of our outstanding common stock on the last day of the immediately preceding fiscal year; or

the number of shares determined by the Board of Directors.



## **Table of Contents**

### **Vote Required**

The approval of the Amendment of the 2001 Plan requires the affirmative vote of the holders of a majority of the shares of common stock present at the Annual Meeting in person or by proxy and entitled to vote.

### **Plan Summary**

#### ***General***

The 2001 Plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, for the granting of stock purchase rights ( SPRs ) and nonstatutory stock options to employees, consultants and directors (collectively, Awards ). See U.S. Federal Income Tax Information below for information concerning the tax treatment of both incentive stock options and nonstatutory stock options.

As of March 31, 2004, 107,003 shares had been issued upon exercise of options granted under the 2001 Plan, options to purchase 3,914,450 shares were outstanding and 2,551,313 shares remained available for future grant.

The 2001 Plan is not a qualified deferred compensation plan under Section 401(a) of the Code, and is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended.

#### ***Administration***

If permitted by Rule 16b-3 of the Securities Exchange Act of 1934 (the Exchange Act ), Section 162(m) of the Internal Revenue Code of 1986 (the Code ), and by the legal requirements relating to the administration of incentive stock option plans, grants under the 2001 Plan may (but need not) be made by different administrative bodies with respect to employees or consultants who are also officers or directors and employees who are neither directors nor officers.

With respect to grants of options to employees or consultants who are also officers or directors, grants under the 2001 Plan shall be made by a committee designated by the Board to make grants under the 2001 Plan, constituted in such a manner as to permit grants under the 2001 Plan to comply with Rule 16b-3, to qualify grants of options to certain executive officers as performance-based compensation under Section 162(m) of the Code and otherwise so as to satisfy the applicable laws.

With respect to grants of options to employees or consultants who are neither directors nor officers, the 2001 Plan will be administered by (A) the Board or (B) a committee designated by the Board (the Administrator ). The 2001 Plan Administrator receives no additional compensation for its services in connection with the administration of the 2001 Plan.

#### ***Eligibility***

The 2001 Plan provides that options may be granted to our employees (including officers and directors who are also employees) and consultants (including non-employee directors). Incentive stock options may be granted only to employees. The Administrator selects the optionees and determines the number of shares and the exercise price to be associated with each option. In making such determination, the Administrator takes into account the duties and responsibilities of the optionee, the value of the optionee's services, the optionee's present and potential contribution to our success and other relevant factors. The actual number of Awards that will be granted to particular individuals under the 2001 Plan cannot be determined since participation is at the discretion of the Administrator. As of March 31, 2004, there were approximately 266 employees, officers, consultants and directors eligible to receive Awards under the 2001 Plan. The following table sets forth

**Table of Contents**

information concerning Awards made in the fiscal year ended December 31, 2003 under the 2001 Plan. This information may not be indicative of future Awards under the 2001 Plan.

**New Plan Benefits**

<b>Name and Position</b>	<b>Number of Shares</b>
John K. Kibarian, Chief Executive Officer and President	80,000
David A. Joseph, Chief Strategy Officer	40,000
P. Steven Melman, Chief Financial Officer and Vice President, Finance and Administration	40,000
James Jensen, Co-Vice President, Client Services	82,800
Michael Buehler-Garcia, Vice President, Marketing	100,000
All Executive Officers as a Group	572,800
All Non-Executive Officers as a Group	60,000
All Non-Executive Officer Employees as a Group	1,728,376

The 2001 Plan provides that the maximum number of shares of common stock that may be granted under options to any one employee under the 2001 Plan during any fiscal year is 1,000,000 (2,000,000 shares in the first year of an individual's employment with us). No individual shall receive stock purchase rights covering more than 500,000 shares in any fiscal year (1,000,000 shares in the first year of an individual's employment with us). These limits are subject to equitable adjustment in the event of a recapitalization, merger, spin-off or other similar event. There is also a limit on the aggregate market value of shares subject to all incentive stock options that may be granted to an optionee during any calendar year.

The 2001 Plan provides for the automatic grant of nonstatutory stock options to non-employee directors. Each non-employee director who first becomes a board member after July 26, 2001 will be granted options for 30,000 shares (subject to equitable adjustment in the event of a reorganization merger, spin-off or other similar event). In addition, subject to stockholder approval of the Amendment, following the Annual Meeting each non-employee director will be granted options to purchase 15,000 shares (subject to equitable adjustment in the event of a reorganization merger, spin-off or other similar event) annually. If the Amendment is not approved by the stockholders, each non-employee director will continue to receive an option to purchase 10,000 shares annually. These automatic grants shall vest in accordance with the vesting schedule set forth above; however, in the event of a change in control, these options shall become 100% vested.

***Terms of Options***

The terms of options granted under the 2001 Plan are determined by the Administrator. Each option is evidenced by a stock option agreement between us and the optionee and is subject to the following additional terms and conditions:

(a) *Exercise of the Option.* The optionee must earn the right to exercise the option by continuing to work for us. The Administrator determines when options are exercisable. An option is exercised by giving written notice of exercise to us specifying the number of shares of common stock to be purchased, and by paying the purchase price. The method of payment of the exercise price of the shares purchased upon exercise of an option is determined by the Administrator.

(b) *Exercise Price.* The exercise price of options granted under the 2001 Plan is determined by the Administrator, and must be at least equal to the fair market value of the shares on the date of grant in the case of incentive stock options, as determined by the Administrator, based upon the closing price on the Nasdaq National Market on the date of grant. Incentive stock options granted to stockholders owning more than 10% of the total combined voting power of all classes of our stock are subject to the additional restriction that the exercise price on such options must be at least 110% of the fair market value on the date of the grant. Nonstatutory stock options granted to certain executive officers are subject to the additional restriction that the exercise price on such options must be at least 100% of the fair market

## **Table of Contents**

value on the date of grant if such options are intended to qualify as performance-based compensation under Section 162(m) of the Code.

(c) *Option Termination Date.* Incentive stock options granted under the 2001 Plan expire ten years from the date of grant unless a shorter period is provided in the option agreement. Incentive stock options granted to 10% Stockholders may not have a term of more than five years.

(d) *Nontransferability of Options.* Incentive stock options are not transferable by the optionee, other than by will or the laws of descent and distribution, and are exercisable only by the optionee during his or her lifetime or, in the event of death, by a person who acquires the right to exercise the option by bequest or inheritance or by reason of the death of the optionee.

(e) *Other Provisions.* The option agreement may contain such other terms, provisions and conditions not inconsistent with 2001 Plan as may be determined by the Administrator.

### ***Adjustments Upon Changes in Capitalization***

In the event any change, such as a stock split, reverse stock split, stock dividend, combination or reclassification, is made in our capitalization that results in an increase or decrease in the number of outstanding shares of common stock without our receiving consideration, appropriate adjustment shall be made in the exercise price of each outstanding option, the number of shares subject to each option, and the annual limitation on grants to employees, as well as the number of shares available for issuance under the 2001 Plan. In the event we propose to dissolve or liquidate, each option will terminate unless otherwise provided by the Administrator.

### ***Merger/ Sale of Assets***

In the event we sell all or substantially all of our assets or merge with another corporation, each option and stock purchase right generally may be assumed or an equivalent option or right substituted by the successor corporation. However, if the successor corporation does not agree to this assumption or substitution, the option or stock purchase right generally will accelerate in full immediately prior to the closing of the transaction.

### ***Stock Purchase Rights***

In addition to stock options, the Administrator may issue SPRs under the 2001 Plan to employees, non-employee directors and consultants. The Administrator determines the number of shares, price, terms, conditions and restrictions related to a grant of SPRs. The purchase price of a SPR granted under the 2001 Plan will be determined by the Administrator. Unless the Administrator determines otherwise, the recipient of a SPR must execute a restricted stock purchase agreement granting us an option to repurchase unvested shares at cost upon termination of the recipient's relationship with us.

### ***Amendment and Termination***

The Board may amend the 2001 Plan at any time or may terminate it without approval of the stockholders, subject to the stockholder approval requirements of applicable laws. However, no action by the Board or the stockholders may alter or impair any option previously granted under the 2001 Plan, unless mutually agreed otherwise between the optionee and the Board. Unless it is otherwise extended, the 2001 Plan shall terminate in June 2011, provided that any options then outstanding under the 2001 Plan shall remain outstanding until they expire by their terms.

### ***U.S. Federal Income Tax Information***

The following is a brief summary of the U.S. federal income tax consequences of transactions under the 2001 Plan based on federal income tax laws in effect on the date of this Proxy Statement. This summary is not intended to be exhaustive and does not address all matters, which may be relevant to a particular optionee based on his or her specific circumstances. The summary addresses only current U.S. federal income tax law

## **Table of Contents**

and expressly does not discuss the income tax laws of any state, municipality, non-U.S. taxing jurisdiction or gift, estate or other tax laws other than federal income tax law. We advise all optionees to consult their own tax advisors concerning the tax implications of option grants and exercises, stock purchases and the disposition of stock acquired upon such exercises and purchases under the 2001 Plan.

### ***Stock Options***

Options granted under 2001 Plan may be either incentive stock options, which are intended to qualify for the special tax treatment provided by Section 422 of the Internal Revenue Code, or nonstatutory stock options, which will not qualify. If an option granted under 2001 Plan is an incentive stock option, the optionee will recognize no income upon grant of the incentive stock option and will incur no tax liability due to the exercise, except to the extent that such exercise causes the optionee to incur alternative minimum tax (see below). We will not be allowed a deduction for federal income tax purposes as a result of the exercise of an incentive stock option regardless of the applicability of the alternative minimum tax. Upon the sale or exchange of the shares more than two years after grant of the option and one year after exercise of the option by the optionee, any gain will be treated as a long-term capital gain. If both of these holding periods are not satisfied, the optionee will recognize ordinary income equal to the difference between the exercise price and the lower of the fair market value of the common stock on the date of the option exercise or the sale price of the common stock. In that event, the Company will be entitled to a deduction in the same amount as the ordinary income recognized by the optionee. Any gain or loss recognized on a disposition of the shares prior to completion of both of the above holding periods in excess of the amount treated as ordinary income will be characterized as long-term capital gain if the sale occurs more than one year after exercise of the option or as short-term capital gain if the sale is made earlier.

All other options that do not qualify as incentive stock options are referred to as nonstatutory stock options. An optionee will not recognize any taxable income at the time he or she is granted a nonstatutory stock option. However, upon its exercise, the optionee will recognize ordinary income for tax purposes measured by the excess of the fair market value of the shares on the date of exercise over the exercise price, provided that either the common stock is not subject to any Company repurchase right at the time of exercise or, if it is subject to such a repurchase right, the optionee makes a timely Section 83(b) election (see below). The income recognized by an optionee who is also an employee will be subject to income and employment tax withholding by payment in cash by the optionee or out of the optionee's current earnings. Upon the sale of such shares by the optionee, any difference between the sale price and the fair market value of the shares as of the date of exercise of the option will be treated as capital gain or loss, and will qualify for long-term capital gain or loss treatment if the shares have been held for more than one year from date of exercise.

### ***Alternative Minimum Tax***

The exercise of an incentive stock option may subject the optionee to the alternative minimum tax under Section 55 of the Internal Revenue Code. Alternative minimum taxable income is equal to (i) taxable income adjusted for certain items, plus (ii) items of tax preference less (iii) an exemption amount. Alternative minimum tax will be due if the tax determined under the foregoing formula exceeds the regular tax of the taxpayer for the year.

In computing alternative minimum taxable income, shares purchased upon exercise of an incentive stock option are treated as if they had been acquired by the optionee pursuant to exercise of a nonstatutory stock option. As a result, the optionee recognizes alternative minimum taxable income equal to the excess of the fair market value of the shares on the date of exercise over the exercise price. Because the alternative minimum tax calculation may be complex, optionees should consult their own tax advisors prior to exercising incentive stock options.

If an optionee pays alternative minimum tax, the amount of such tax may be carried forward as a credit against any subsequent year's regular tax in excess of the alternative minimum tax for such year.

**Table of Contents**

***Options Subject to Repurchase Rights***

If common stock issued upon exercise of an option is subject to a repurchase right entitling us to buy back the shares at the option exercise price upon termination of services prior to the applicable vesting period, then the income tax consequences of exercising an option will vary depending on whether the optionee makes a special tax election referred to as a Section 83(b) election within thirty days after exercise of an option. If the optionee makes a timely Section 83(b) election, then the income tax consequences of exercising an option will be as summarized above. If, however, the optionee does not make a Section 83(b) election, the optionee will be treated as exercising the option on the later of the actual exercise date and the date our repurchase right lapses with respect to such share of common stock on the applicable vesting date. As a result, the amount of alternative minimum taxable income (if the option is an incentive stock option) or regular taxable income (if this option is a nonstatutory stock option or common stock acquired upon exercise of an incentive stock option is disposed of prior to completion of both holding periods described previously) attributable to exercise of an option will be determined as follows: No alternative minimum or regular taxable income, as applicable, will be recognized at the time of exercise, but instead such income will be recognized by the optionee with respect to each share of common stock at the time our repurchase right lapses with respect to such share of common stock on the applicable vesting date. The amount of alternative minimum or regular taxable income, as applicable, recognized on each vesting date will equal the excess of the fair market value as of the vesting date of the shares then vesting over the exercise price paid for such common stock.

The purchase of shares of common stock pursuant to the exercise of a stock purchase right and the sale of such shares by a purchaser are generally taxed in the same manner as nonstatutory stock options, as described above.

Optionees should consult their own tax advisors regarding the advisability of making a Section 83(b) election under their particular circumstances and the procedural requirements for making such an election.

**Recommendation of the Board:**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* PROPOSAL NO. 2.**

**PROPOSAL NO. 3**

**Ratification of Appointment of Independent Auditors**

The Audit Committee has appointed Deloitte & Touche LLP as our independent auditors for the fiscal year ending December 31, 2004. Deloitte & Touche LLP has served as our independent auditors since September 18, 1998. In the event that ratification of this selection of auditors is not approved by a majority of the shares of common stock voting at the Annual Meeting in person or by proxy, the Audit Committee will review its future selection of auditors.

A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting. This representative will have an opportunity to make a statement and will be available to respond to appropriate questions.

**Table of Contents****Principal Accountant Fees and Services**

The following is a summary of the fees billed to the Company by Deloitte & Touche LLP for professional services rendered for the fiscal years ended December 31, 2003 and December 31, 2002:

<b>Fee Category</b>	<b>Fiscal 2003 Fees</b>	<b>Fiscal 2002 Fees</b>
Audit Fees	\$443,401	\$208,300
Audit-Related Fees	236,282	23,370
Tax Fees:		
Tax Compliance/ Preparation	44,688	49,100
Other Tax Fees	113,916	197,088
Total Tax Fees	158,604	246,188
All Other Fees		
Total Fees	\$838,287	\$477,858

*Audit Fees.* The aggregate fees billed or expected to be billed by Deloitte & Touche LLP for professional services rendered for the audit of the Company's annual consolidated financial statements for the fiscal years ended December 31, 2003 and December 31, 2002, and for the reviews of the condensed consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q for the fiscal years 2003 and 2002 totaled approximately \$443,401 and \$208,300, respectively.

*Audit-Related Fees.* The aggregate fees billed or expected to be billed by Deloitte & Touche LLP for assurance and related services for the fiscal years ended December 31, 2003 and December 31, 2002 totaled \$236,282 and \$23,370, respectively. The audit-related fees for the fiscal year ended December 31, 2003 included fees for merger and acquisition services in connection with the acquisition of IDS Software Systems, Inc. as well as fees for audit-readiness services for compliance with the Sarbanes-Oxley Act of 2002.

*Tax Fees.* The aggregate fees billed by Deloitte & Touche LLP for tax compliance/preparation services for the fiscal years ended December 31, 2003 and December 31, 2002 totaled \$44,688 and \$49,100, respectively. Tax compliance/preparation services consisted of fees billed for assistance in preparation of the Company's U.S. federal, state and local tax returns. The aggregate fees billed by Deloitte & Touche LLP for other tax services for the fiscal years ended December 31, 2003 and December 31, 2002 totaled \$113,916 and \$197,088, respectively. Other tax services consisted of fees billed for tax advice related to international and domestic tax consulting and planning.

*All Other Fees.* There were no fees billed or expected to be billed by Deloitte & Touche LLP for all other services rendered to the Company during the fiscal years ended December 31, 2003 and December 31, 2002, other than those disclosed above.

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by Deloitte & Touche LLP. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to an initial estimated budget. Deloitte & Touche LLP and management are required to periodically report to the Audit Committee regarding the extent

**Table of Contents**

of services provided by Deloitte & Touche LLP in accordance with this pre-approval, and the fees performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

**Recommendation of the Board:**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* PROPOSAL NO. 3.**

**CORPORATE GOVERNANCE**

The Company provides information on its website about its corporate governance policies, including the Company's Code of Ethics, and charters for the committees of the Board. The website can be found at [www.pdf.com](http://www.pdf.com).

The Company's policies and practices reflect corporate governance initiatives that are compliant with the listing requirements of Nasdaq and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

A majority of the board members are independent as defined in Rule 4200 of the Marketplace Rules of the National Association of Securities Dealers;

All members of the key board committees – the Audit Committee, the Compensation Committee and the Nomination and Corporate Governance Committee – are independent as the term is defined under the Nasdaq rules;

The independent members of the Board meet at least twice per year without the presence of management;

The Company has an ethics hotline available to all employees, and the Company's Audit Committee has procedures in place for the anonymous submission of employee complaints on accounting, internal controls, or auditing matters; and

The Company has adopted a Code of Ethics that applies to all of its employees, including its principal executive officer and all members of its finance department, including the principal financial officer and principal accounting officer, as well as the Board of Directors.

Our Board welcomes communications from our stockholders. Stockholders may send communications to the Board, or any director in particular, at the following address: Investor Relations, c/o PDF Solutions, Inc., 333 West Santa Clara Street, Suite 700, San Jose, California 95110. Any correspondence addressed to the Board or to any one of our directors care of our offices is reviewed by our Investor Relations department and presented from time to time to the Board at its regular meetings.

**Table of Contents**

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table shows how much common stock is owned by owners of more than 5% of our outstanding common stock and by the directors, the Named Executive Officers identified on page 11, and all executive officers and directors as a group, as of March