

PDF SOLUTIONS INC  
Form DEF 14A  
April 15, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(A) of the  
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement  
**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
Definitive Proxy Statement  
Definitive Additional Materials  
Soliciting Material Under Rule § 240.14a-12

**PDF SOLUTIONS, INC.**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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:

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

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(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):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Fee paid previously with preliminary materials.

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:

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

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(3) Filing Party:

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(4) Date Filed:

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**PDF SOLUTIONS, INC.**

**333 West San Carlos Street, Suite 1000**

**San Jose, California 95110**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on May 27, 2014**

Time and Date 10:00 a.m. local time, on Tuesday, May 27, 2014.

Place PDF Solutions, Inc. corporate headquarters located at 333 West San Carlos Street, Suite 1000, San Jose, California 95110.

Items of Business The election of three members of the Board of Directors to hold office until the first annual meeting (1) of stockholders that is held after December 31, 2016, or until each such director's respective successor is duly elected and qualified.

The ratification of the appointment by the Company's Audit and Corporate Governance Committee of (2) PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014.

(3) The advisory approval, by non-binding vote, of the compensation of our Named Executive Officers disclosed in this proxy statement.

(4) The approval of the Company's Second Amended and Restated 2011 Stock Incentive Plan to increase the number of authorized shares under such plan.

(5) To consider such other business as may properly come before the Annual Meeting.

Record Date You are entitled to vote only if you were a stockholder as of the close of business on April 4, 2014 (the "Record Date").

Meeting Admission You are entitled to attend the Annual Meeting only if you were a stockholder as of the close of business on the Record Date or hold a valid proxy for the Annual Meeting. You should be prepared to present photo identification for admittance. If you are not a stockholder of record but hold shares through a

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broker, bank, trustee, or nominee (i.e. in street name), you should provide proof of beneficial ownership as of the Record Date, such as your most recent account statement prior to the Record Date, a copy of the voting instruction card provided by your broker, bank, trustee, or nominee, or similar evidence of ownership.

Your vote is very important. Whether or not you expect to attend the Annual Meeting in person, please vote your shares by either (i) completing and returning the enclosed proxy card in the mail; (ii) using the toll-free Voting telephone number on your proxy card, if you are in Canada, Puerto Rico, or the United States; or (iii) using the Internet by following the instructions on your proxy card. If you vote by telephone or Internet, you do not need to return your proxy card.

Hosting of the materials      Our proxy statement, proxy card and annual report to stockholders for the year ended December 31, 2013, are available at <http://ir.pdf.com/sec.cfm>.

On behalf of our Board of Directors, thank you for your participation in this important annual process.

By Order of the Board of Directors,

/s/ Peter Cohn  
PETER COHN  
*Secretary*

San Jose, California

April 15, 2014

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† Appendix A has been filed with the SEC but has not been printed as part of the proxy solicitation materials. Any stockholder who wishes to obtain a copy of Appendix A may do so free of charge from our Internet website at *www.pdf.com*, by contacting our Investor Relations Department at (408) 283-5606, or through the online EDGAR system at *www.sec.gov*.



**PDF SOLUTIONS, INC.**

**333 West San Carlos Street, Suite 1000**

**San Jose, California 95110**

**PROXY STATEMENT**

**FOR THE**

**2014 ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on May 27, 2014**

Our Board is soliciting proxies for our 2014 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 Annual Meeting. Please read it carefully.

The Board set April 4, 2014, as the record date for the Annual Meeting (the “Record Date”). Stockholders of record who owned our common stock on that date are entitled to vote at and attend the Annual Meeting, with each outstanding share entitled to one vote. On the record date, there were 30,442,971 shares of our common stock, \$0.00015 par value, outstanding.

Voting materials, which include this proxy statement, a proxy card and the 2013 Annual Report, will be mailed to stockholders on or about April 21, 2014.

In this proxy statement:

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

“Annual Meeting” means our 2014 annual meeting of stockholders;

“Board” or “Board of Directors” means our Board of Directors; and

“SEC” means the Securities and Exchange Commission.

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

### **Time and Place of the Meeting**

The Annual Meeting is being held on Tuesday, May 27, 2014, at 10:00 a.m. local time, at the Company’s headquarters located at 333 West San Carlos Street, Suite 1000, San Jose, California 95110.

All stockholders of record who owned shares of our stock as of the Record Date may attend the Annual Meeting.

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

You are receiving a proxy statement and a proxy card from us because you owned shares of our common stock on the Record Date. This proxy statement describes matters on which we would like you, as a stockholder, to vote. It also gives you information on these matters so that you can make an informed decision.

If you sign the proxy card, you appoint Dr. John K. Kibarian, our Chief Executive Officer and President, and Gregory C. Walker, our Vice President, Finance and Chief Financial Officer, or either of them, proxies and attorneys-in-fact to represent you at the Annual Meeting. Dr. Kibarian and/or Mr. Walker will vote your shares at the Annual Meeting as you have instructed them on the proxy card that you return. Your shares will be voted whether or not you attend the Annual Meeting. Even if you plan to attend the Annual Meeting, it is a good idea to, in advance of the Annual Meeting, indicate your preferences on the enclosed proxy card, and then date, sign and return your proxy card, or vote your shares by telephone or via the Internet, just in case your plans change and you are unable to attend the Annual Meeting.

### **Proposals to be Voted on at the Annual Meeting**

You are being asked to vote on the following:

- (1) To elect three members of the Board of Directors to hold office until the first annual meeting of stockholders that is held after December 31, 2016, or until such each director's respective successor is duly elected and qualified.

- To ratify the appointment by the Company's Audit and Corporate Governance Committee of
- (2) PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014.

- (3) To approve, by non-binding vote, the compensation of our Named Executive Officers disclosed in this proxy statement.
- (4) To approve the Company's Second Amended and Restated 2011 Stock Incentive Plan to increase the number of authorized shares under the plan.
- (5) To take action on any other business as may properly come before the 2014 Annual Meeting or any adjournments or postponements thereof.

The Board recommends a vote **FOR** the director nominees and **FOR** Proposals 2, 3 and 4.

## **Voting Procedures**

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

To vote by mail, please indicate your preferences on the enclosed proxy card, date and sign your proxy card and return it in the enclosed, postage-prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you have instructed.

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

We will pass out written ballots to any stockholder who attends the Annual Meeting in person and requests to vote in person. If your shares are held in "street name" and you wish to vote at 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. 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.

### ***You may vote by telephone or via the Internet.***

If you live in the United States, Puerto Rico, or Canada, you may submit your votes on the 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 revoke your proxy.*

If you change your mind after you have returned your proxy card or submitted your proxy by telephone or via the Internet, you may revoke your proxy at any time before the polls close at the Annual Meeting. You may revoke your proxy by:

entering a new vote by telephone, via the Internet or by signing and returning another proxy card at a later date, but before the polls close at the Annual Meeting;

providing written notice of the revocation before the Annual Meeting to us at PDF Solutions, Inc., Attention: Corporate Secretary, 333 West San Carlos Street, Suite 1000, San Jose, California, 95110; or

voting in person at the Annual Meeting.

**Proxy Solicitation**

We will pay for the solicitation of proxies. Solicitation of proxies may be made by means of personal calls upon, or telephonic, facsimile or electronic communications with, stockholders or their personal representatives by our directors, officers and employees. Our directors, officers and employees will not receive additional remuneration. We will reimburse banks, brokers, custodians, nominees and fiduciaries for their reasonable charges and expenses to forward our proxy materials to the beneficial owners of our common stock.

**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 that you have received to ensure that all of your shares are voted.

## **Quorum Requirement**

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

votes in person at the Annual Meeting; or

has properly submitted a proxy card in the mail, or voted by telephone or via the Internet.

The presence (either in person or by proxy) of a majority of our outstanding shares constitutes the quorum required for holding the Annual Meeting and conducting business.

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

If your shares are held in your name, you must return your proxy card in the mail, vote by telephone or via the 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 in the mail, or vote by telephone or via the 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 ratification of auditors), but not with respect to non-routine matters (such as the election of directors or a proposal submitted by a stockholder). If the proposals to be acted upon at the Annual 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. Because the election of directors is done by a plurality of the votes, broker non-votes will not affect the election of directors.

We encourage you to provide specific instructions to your stockbroker by returning your proxy card or voting by telephone or Internet. This ensures that your shares will be properly voted at the Annual 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, but will not be counted either in favor of or against any of the proposals and will have the same effect as negative votes.

### **Required Vote For the Election of Directors**

Assuming a quorum of stockholders is represented either in person or by proxy at the Annual Meeting, the nominees receiving the most votes cast will be elected as the Class I directors.

### **Tabulation of the Votes**

Votes cast by proxy or in person at the Annual Meeting will be tabulated by a representative of Computershare, our transfer agent, and delivered to Rochelle Woodward, our General Counsel. Mrs. Woodward will act as the Inspector of Elections at the Annual Meeting. The Inspector of Elections also has the responsibility of determining whether a quorum is present at the Annual Meeting.

Those shares represented by the proxy cards received, marked, dated, and signed or represented by votes cast using the telephone or the 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 unmarked will be voted **FOR** the director nominees and **FOR** Proposals 2, 3 and 4, and in any manner that the proxy holders deem desirable for any other matters that come before the Annual Meeting. Broker non-votes will count as present for purposes of a quorum, but will not be considered as voting with respect to any matter for which the broker does not have voting authority, including the election of a director.

We believe that the procedures to be used by the Inspector of Elections 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 Annual Meeting. We will publish the preliminary, or if available, final, voting results in a Current Report on Form 8-K to be filed with the SEC on or before the fourth business day following the date of our Annual Meeting. If not published in an earlier Current Report on Form 8-K, we will publish the final voting results in a Current Report on Form 8-K to be filed with the SEC within four business days after the final voting results are known. You may obtain a copy free of charge from our Internet website at *www.pdf.com*, by contacting our Investor Relations Department at (408) 283-5606, or through the online EDGAR system at *www.sec.gov*.



## **Other Business**

We do not know of any business to be considered at the Annual Meeting other than the proposals described in this proxy statement. However, if any other business is properly presented at the Annual Meeting, your signed proxy card gives authority to Dr. Kibarian and Mr. Walker to vote on such matters at their discretion.

## **Proposals for Next Year's Annual Meeting**

To have your proposal included in the proxy statement for the 2014 annual meeting of stockholders, 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 that this year's proxy statement is "released to stockholders," or in other words the mailing date. Thus, assuming that this proxy statement is mailed on or about Monday, April 21, 2014, your proposal for the 2015 annual meeting of stockholders should arrive at the Company's office by Friday, December 19, 2014. Your proposal should be addressed to us at PDF Solutions, Inc., Attention: Secretary, 333 West San Carlos Street, Suite 1000, San Jose, California 95110.

In addition, our Bylaws provide that a proposal that a stockholder delivers or mails to our principal executive offices not less than 90 days and no more than 120 days prior to the one year anniversary date of this year's meeting, which will be May 27, 2015 (the "Anniversary Date"), shall be considered timely received, which means any such proposal would need to be delivered or mailed to us between January 27, 2015 and February 26, 2015. However, our Bylaws also provide that if the date of the annual meeting of stockholders is more than 30 days prior to, or more than 60 days after the Anniversary Date, and less than 60 days notice of the date of the meeting is given to stockholders, to be timely received the proposal must be received from the stockholder not later than the close of business on the 10<sup>th</sup> day following the date the meeting date was first publicly announced. If you submit a proposal for the 2015 annual meeting of stockholders after February 26, 2015, or, in the circumstances described above, later than the close of business on the 10<sup>th</sup> day following the date that 2014 annual meeting of stockholders was first publicly announced, then management has the sole discretion to present the proposal at the meeting, and the proxies for the 2015 annual meeting of stockholders will confer discretion on the management proxy holders to vote for or against your proposal at their discretion.

## **Important Notice of Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on May 27, 2014:**

Our proxy materials including our proxy statement, 2013 Annual Report on Form 10-K and proxy card are available

on the Internet and may be viewed and printed, free of charge, at <http://ir.pdf.com/sec.cfm>.

## **PROPOSAL NO. 1: ELECTION OF CLASS I DIRECTORS**

The Board of Directors, upon recommendation from the Nominating Committee of the Board of Directors, has nominated three candidates for election to the Board this year as Class I directors, Thomas Caulfield, DES, R. Stephen Heinrichs, and Joseph R. Bronson. Detailed information about the nominees is provided below.

### **Nominees for the Class I Directors**

The Company's amended and restated bylaws (our "Bylaws") provide that the number of directors shall be established by the Board or the stockholders of the Company. The Company's amended and restated certificate of incorporation provides that the directors shall be divided into three classes, with each class serving for staggered, three-year terms and one class being elected at each year's annual meeting of stockholders. The Board has set the number of Directors at six, consisting of three Class I directors, two Class II directors and one Class III director. Dr. Albert Y.C. Yu will retire from the Board at the completion of his Class I term at the Annual Meeting.

The Class I directors elected at the Annual Meeting will hold office until the first annual meeting that is held after the fiscal year ending December 31, 2016, or until such director's successor has been duly elected and qualified. The terms of the Class II and Class III directors will expire at the annual meeting of stockholders next following the fiscal years ending December 31, 2014, and December 31, 2015, respectively. 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.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company's nominee named below. In the event that the Company's nominee 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 to fill such vacancy. It is not expected that the nominees listed below will be unable or will decline to serve as directors. The Class I nominees listed below include Dr. Caulfield and Mr. Heinrichs, who presently serve as directors of the Company, and Mr. Bronson, a new nominee, all of whom have consented to serve a three-year term.

Certain individual experience, qualifications, attributes and skills of the below named directors that led the Board to conclude that each should be re-nominated or nominated, as the case may be, as a director are described in the biographies below. The information below was provided by the nominees and the continuing Class II and Class III directors with unexpired terms. There is no family relationship between the continuing directors, executive officers and the Class I nominees.

**Nominees for Class I Directors:**

**Thomas Caulfield, DES**

*Age* 55

*Director Since;  
Class* 2006; Class I

*Business  
Experience and  
Education* Dr. Caulfield is presently the COO at Soraa, Inc. Prior to Soraa, Dr. Caulfield was an Entrepreneur in Residence at Khosla Ventures from March 2012 through April 2012, and Chief Executive Officer of Caitin, Inc. from September 2010 through February 2012. Dr. Caulfield was Chief Operating Officer of Ausra, Inc from October 2009 through March 2010 and Executive Vice President of Sales, Marketing and Customer Satisfaction at Novellus Systems, Inc. from October 2005 through September 2009; and, prior to that, Vice President of Semiconductor Operations at International Business Machines Corporation for 16 years. Dr. Caulfield received a B.S. in Physics from St. Lawrence University and a B.S., M.S., and a DES in Materials Science/Metallurgy from Columbia University.

*Board  
Committee  
Memberships* Chairman of the Compensation Committee since May 2010. Member of the Audit and Corporate Governance Committee, the Nominating Committee and the Strategic Committee since October 2008.

*Qualifications  
&  
Attributes* Dr. Caulfield has many years of experience as an executive officer in the semiconductor industry. In addition to bringing industry experience, Dr. Caulfield brings key senior management, leadership, strategic planning and marketing experience to our Board.

**R. Stephen Heinrichs**

*Age* 67

*Director Since;  
Class* 2005; Class I

*Business  
Experience and  
Education*

Mr. Heinrichs is currently a private investor and President of New California Ventures, LLC, an early-stage private fund for companies and ideas related to California State University, Fresno and the San Joaquin Valley. Most recently, he served as a director of Avistar Communications Corporation from December 1997 through June 2013, and of Catapult Communications Corporation from September 2005 through June 2009, when the company was acquired by Ixia. Mr. Heinrichs also served as a director and was the audit committee chairman of Artisan Components, Inc. from January 2003 through 2005, when the company was acquired by ARM Holdings PLC. Prior to his retirement in 2001, Mr. Heinrichs served as Chief Financial Officer of Avistar Communications Corporation, a company he co-founded. Mr. Heinrichs received a B.S. in Accounting from California State University Fresno.

*Board  
Committee  
Memberships*

Chairman of the Audit and Corporate Governance Committee since August 2005. Member of the Compensation Committee and Nominating Committee since October 2008.

*Qualifications  
&  
Attributes*

Mr. Heinrichs received his Certified Public Accountant license in December 1971 and has over 40 years of experience in finance and operations through positions he has held with various companies in public accounting and as a corporate officer. The Board has determined that Mr. Heinrichs is the audit committee's "audit committee financial expert" based on his knowledge and understanding of generally accepted accounting principles and financial statements; experience analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues relevant to those of the Company; and an understanding of internal control over financial reporting. This financial experience is beneficial to the Company and to Mr. Heinrichs' role as the Chairman of the Audit and Corporate Governance Committee.

**Joseph R. Bronson**

*Age* 65

*Business  
Experience and  
Education* Mr. Bronson is currently Principal of The Bronson Group, LLC, which provides financial and operational consulting services, and is a Strategic Advisor to Cowen & Co., a New York City based investment bank. He also serves on the boards of directors of Maxim Integrated Products, Inc., Jacobs Engineering Group Inc., SDC Materials, and Ryan Herco Flow Solutions. Prior to his affiliation at Cowen & Co., from May 2011 to March 2014, he was affiliated with GCA Savvian, LLC, as an Advisory Director. From January 2009 to March 2010, Mr. Bronson served as the Chief Executive Officer of Silicon Valley Technology Corporation, a private company that provides technical services

to the semiconductor and solar industries. Prior to that, from August 2007 to October 2008, Mr. Bronson served as President and Chief Operating Officer of Sanmina-SCI, a worldwide contract manufacturer, and also served on Sanmina-SCI's board of directors from August 2007 to January 2009. Mr. Bronson holds a B.S. in accounting from Fairfield University and an M.B.A. in financial management from The University of Connecticut.

*Qualifications & Attributes* Mr. Bronson has extensive experience in finance and operations through positions he has held with various companies, including as President and Co-Chief Executive Officer of FormFactor, Inc., a manufacturer of advanced semiconductor wafer probe cards, between 2004 and 2007 and 21 years at Applied Materials in senior level operations management, concluding with the positions of Executive Vice President and Chief Financial Officer. Mr. Bronson is also a Certified Public Accountant in the State of New York, a member of the American Institute of Certified Public Accountants and a Series 7 and Series 63 Investment Advisor registered at FINRA. This financial experience is beneficial to the Company and, combined with Mr. Bronson's extensive knowledge of the industry and operations, enables him to provide valuable strategic input to the Company.

**Continuing Class II Directors:**

**Lucio Lanza**

*Age* 69

*Director Since; Class* 1995; Class II

*Business Experience and Education* Mr. Lanza is the Managing Director of Lanza techVentures, an early stage venture capital and investment firm, which he founded in January 2001. Since 2008, he has been a general partner and the chief technology strategist of Radnorwood Capital, LLC, and an investor in public technology companies. Mr. Lanza served as a non-executive director of ARM from December 2004 to May 2010, and serves on the board of directors of several private companies. In August 2010, he joined the board of Harris & Harris Group, a publicly traded venture capital company that invests in nanotechnology and microsystems. Mr. Lanza received a doctorate in electronic engineering from Politecnico of Milan.

*Board Committee Memberships* Chairman of the Board since April 2004. Member of the Audit and Corporate Governance Committee since September 2006, and the Strategic Committee since October 2008.

*Qualifications & Attributes* Mr. Lanza's extensive operating history in the industry and detailed knowledge of the Company, combined with his experience as a chairman and director of numerous publicly traded and private semiconductor companies, serves the Company well in his role as our Chairman and as a director.



**Kimon Michaels, Ph.D.**

*Age* 48

*Director Since; Class* 1995; Class II

*Business Experience and Education* Dr. Michaels, one of our founders, has served as our Vice President, Products and Solutions since July 2010. Dr. Michaels served as our Vice President, Design for Manufacturability from June 2007 through June 2010. Prior to that, Dr. Michaels served as our Vice President, Field Operations for Manufacturing Process Solutions from January 2006 through May 2007. From March 1993 through December 2005, he served in various vice presidential capacities at PDF. He also served as Chief Financial Officer from November 1995 to July 1998. Dr. Michaels received a B.S. in Electrical Engineering, an M.S. E.C.E. and a Ph.D. E.C.E. from Carnegie Mellon University.

*Committee Memberships* None

*Qualifications & Attributes* Dr. Michaels provides the Board with unique insight regarding Company-wide issues as an executive of the Company in various leadership capacities and levels of operations, and as a co-founder of the Company. This experience provides the Board with invaluable insight into Company operations.

**Continuing Class III Director:**

**John Kibarian, Ph.D.**

*Age* 50

*Director Since; Class* 1992; Class III

*Business Experience and Education* Dr. Kibarian is one of our founders and has served as our President since November 1991 and our Chief Executive Officer since July 2000. Dr. Kibarian received a B.S. in Electrical Engineering, an M.S. E.C.E. and a Ph.D. E.C.E. from Carnegie Mellon University.

*Board Committee Memberships* Member of the Strategic Committee since October 2008.



*Qualifications & Attributes* Being a leader of the Company since its founding, Dr. Kibarian brings to our Board an extraordinary understanding of our Company's business, history and organization. Dr. Kibarian's training and education as an engineer, together with his day-to-day leadership and intimate knowledge of our business and operations, helps the Board in developing and executing the Company's long-term strategy.

**Vote Required**

If a quorum is present at the Annual Meeting, the nominees receiving the highest number of affirmative votes will be elected as Class I directors for the three-year term following the Annual Meeting. Unless marked otherwise, proxies received will be voted **FOR** the election of the nominees.

**Recommendation of the Board**

**THE BOARD RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR THE ELECTION OF THE CLASS I DIRECTOR NOMINEES INDICATED ABOVE.**

**MEETINGS OF THE BOARD OF DIRECTORS AND ATTENDANCE**

Board Meetings in 2013 6

Board Committees Audit and Corporate Governance

Compensation

Nominating

Strategic

Total Committee Meetings in 2013 14 (the number of meetings held by each committee is set forth below)

Director Attendance in 2013 Each incumbent Board member attended 75% or more of the meetings of the Board and the committees on which he served, held during the period for which he was a director or committee member. At our 2013 annual meeting of stockholders, all directors were present either in person or by telephone and are expected to attend the 2014 Annual Meeting, unless an emergency or unavoidable conflict prevents them from doing so.

**BOARD COMMITTEES**

The following table provides additional information regarding the committees of our Board of Directors during fiscal 2013:

<b>Name of Committee and Members</b>	<b>Principal Functions of the Committee</b>	<b>Number of Meetings in Fiscal 2013</b>
<i>Audit and Corporate Governance Committee</i>	Recommends the engagement of the independent registered public accounting firm.	8
Mr. Heinrichs (Chair)	Monitors the effectiveness of our internal and external audit efforts.	
Mr. Lanza	Monitors and assesses the effectiveness of our financial and accounting organization and the quality of our system of internal accounting controls.	

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Dr. Caulfield Oversees all aspects of the Company's corporate governance functions on behalf of the Board and makes recommendations on corporate governance issues.

Committee charter posted at <http://www.pdf.com/ir-governance>.

*Compensation  
Committee*

Establishes and administers our policies regarding annual executive salaries and cash incentives and long-term equity incentives.

Dr. Caulfield (Chair) Assists with the administration of our stock incentive and purchase plans. 6

Mr. Heinrichs

Committee charter posted at <http://www.pdf.com/ir-governance>.

Dr. Yu

*Nominating  
Committee*

Identifies, reviews and evaluates candidates to serve as directors.

Dr. Yu (Chair) Makes other recommendations to the Board regarding affairs related to the directors of the Company. -

Dr. Caulfield

Committee charter posted at <http://www.pdf.com/ir-governance>.

Mr. Heinrichs

*Strategic Committee*

Dr. Kibarian Investigates and evaluates strategic alternatives with respect to the Company, including without limitation, possible strategic partnerships, partnering arrangements, joint ventures, licensing, merger, or other similar extraordinary transactions involving the Company and its subsidiaries. -

Mr. Lanza

Dr. Caulfield

In addition to the Board and committee meetings noted above, the Board and certain of the committees also acted by unanimous written consent in the conduct of its business.

## COMPENSATION COMMITTEE

As summarized above, and as more fully set forth in the charter to the Compensation Committee approved by the Company's Board of Directors, the Compensation Committee has the authority to determine the amount and form of compensation paid to the Company's executive officers, officers, employees, consultants and advisors and to review the performance of such persons in order to determine appropriate compensation, as well as to establish the Company's general compensation policies and practices and to administer plans and arrangements established pursuant to such policies and practices. The Committee will also periodically review and make recommendations to the Board as to compensation for the non-employee directors of the Board. We have included a more detailed discussion of the Company's executive compensation program, its objective and the process we undergo to set and review our compensation determinations starting on page 26 of this proxy statement. In addition, page 12 of this proxy statement includes the Compensation Committee's risk management review of the Company's compensation policies and practices in fiscal year 2013 under the heading "Risk Assessment of Compensation Policies". Each member of the Compensation Committee is an independent director under applicable NASDAQ listing standards, an "outside director" as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended, and a "non-employee director" as defined in Rule 16b-3 under the Securities Exchange Act of 1934 as amended (the "Exchange Act").

The Committee has exclusive authority to determine the amount and form of compensation paid to the Company's Chief Executive Officer, and to take such action, and to direct the Company to take such action, as is necessary and advisable to compensate the Chief Executive Officer in a manner consistent with its determinations. With respect to "executive officers" (as defined in Rule 3b-7 under the Exchange Act) and "officers" (as defined in Rule 16a-1(f) under the Exchange Act) of the Company, other than the Company's Chief Executive Officer ("Other Executive Officers"), the Committee has authority to determine the amount and form of compensation paid to the Other Executive Officers, and to take such action, and to direct the Company to take such action, as is necessary and advisable to compensate the Other Executive Officers in a manner consistent with its determinations. Except as set forth below, the Compensation Committee retains and does not delegate any of its power to determine matters of executive and director compensation, although it may from time to time delegate its authority on the matters with regards to non-officer employees and consultants of the Company to our Chief Executive Officer and other appropriate Company supervisory personnel.

The Compensation Committee also has authority to select, engage, compensate and terminate compensation consultants, legal counsel and such other advisors as it deems necessary and advisable to assist the Compensation Committee in carrying out its responsibilities and functions as set forth herein. For example, in fiscal year 2013, the Compensation Committee engaged the services of Compensia, Inc. as its independent consultant to advise on our Named Executive Officers' compensation. As further detailed on page 30 of this proxy statement, the independent consultant provided services by assisting the Compensation Committee in determining the amount and form of executive compensation, evaluating the reasonableness and effectiveness of NEO compensation levels and programs, and providing advice and recommendations on competitive market practices and specific compensation decisions for NEOs.

## NOMINATING COMMITTEE EVALUATION OF BOARD NOMINEES

The Nominating Committee identifies nominees by first evaluating the current members of the Board willing to continue in service. If any member of the Board does not wish to continue in service, if the Board decides not to re-nominate a member for re-election or if the Board decides to increase the size of the Board, the Nominating Committee identifies the desired skills and experience of a new nominee in light of the philosophy explained above. Current members of the Nominating Committee are polled for suggestions as to individuals meeting the philosophy of the Nominating Committee. To date, the Company has not engaged third parties to identify, evaluate or assist in identifying potential nominees, but the Company may in the future retain a third party search firm.

Once the Nominating Committee has identified a prospective nominee or if it has received a recommendation from a stockholder, the Nominating Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on the information provided to the Nominating Committee concerning the prospective candidate, as well as the Nominating Committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors described below. If the Nominating Committee determines, in consultation with other Board members as appropriate, that additional consideration is warranted, it may gather or request the third party search firm to gather additional information about the prospective nominee's background and experience. The Nominating Committee then evaluates the prospective nominee, taking into account the following:

the independence of the proposed director within the meaning of the listing standards of The Nasdaq Stock Market;

diversity of experience and background of the proposed director, including the need for financial, business, academic, public sector or other expertise on our Board of Directors or its committees; and

current composition of the Board, the balance of management and independent directors.

In connection with this evaluation, the Nominating Committee determines whether to interview the prospective nominee and, if warranted, one or more members of the Nominating Committee and others, as appropriate, conduct interviews in person or by telephone. After completing this process, the Nominating Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees.

Stockholders may send any recommendations for director nominees or other communications to the Board or any individual director in accordance with Section 2.5 of the Bylaws at the following address:

Board of Directors (or Nominating Committee, or name of individual director)

PDF Solutions, Inc.

Attention: Secretary

333 West San Carlos Street, Suite 1000

San Jose, California 95110

## **DIRECTOR INDEPENDENCE**

The Company has adopted standards for director independence in accordance with NASDAQ Listing Rules and SEC rules. An “independent director” means a person, other than an officer or employee of the Company or its subsidiaries, or any other individual having a relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. To be considered independent, the Board must affirmatively determine that neither the director nor an immediate family member has had any direct or indirect material relationship with the Company within the last three years.

The Board considered relationships, transactions or arrangements with each of the directors, including relationships and transactions discussed in “Certain Relationships and Related Transactions,” in this proxy statement and concluded

that none of the current non-employee directors has any relationships with the Company that would impair his independence. The Board has determined that each member of the Board, other than Dr. Kibarian and Dr. Michaels, is an independent director under applicable NASDAQ Listing Rules and SEC rules. Dr. Kibarian and Dr. Michaels did not meet the independence standards because they are employees of the Company.

The Board has determined that:

all directors who serve on the Audit and Corporate Governance, Compensation, and Nominating Committees are independent under the NASDAQ Listing Rules and SEC rules; and

all members of the Audit and Corporate Governance Committee meet the additional independence requirement and they do not directly or indirectly receive compensation from the Company other than their compensation as directors.

The independent directors meet regularly in executive sessions without the presence of the non-independent directors or members of the Company's management, and in any event, not less than twice per year during regularly scheduled Board meeting days and from time to time as they deem necessary or appropriate.

## **BOARD LEADERSHIP STRUCTURE AND ROLE IN RISK OVERSIGHT**

### **Board Leadership Structure**

The Board has determined that the positions of Chairman of the Board and Chief Executive Officer should be held by different persons. In addition, the Board believes that the Chairman should not be an employee. Since April 2004, our Chairman has been Lucio L. Lanza. The Chairman of the Board is responsible for coordinating the Board's activities, including the scheduling of meetings of the full Board, scheduling executive sessions of the non-employee directors and setting relevant items on the agenda (in consultation with the Chief Executive Officer as necessary or appropriate). The Board believes this leadership structure has enhanced the Board's oversight of, and independence from, Company management, the ability of the Board to carry out its roles and responsibilities on behalf of our stockholders, and our overall corporate governance compared to a combined Chairman/Chief Executive Officer leadership structure.



## **Board Role in Risk Oversight**

The Board of Directors plays a significant role in providing oversight of the Company's management of risk. Senior management has responsibility for the management of risk and reports to the Board regularly with respect to its ongoing enterprise risk management efforts. Because responsibility for the oversight of elements of the Company's enterprise risk management extends to various committees of the Board, the Board has determined that it, rather than any one of its committees, should retain the primary oversight role for risk management. In exercising its oversight of risk management, the Board has delegated to the Audit and Corporate Governance Committee primary responsibility for the oversight of risk related to the Company's financial statements and processes and responsibility for the oversight of risk related to the Company's corporate governance practices. The Board has also determined that the Company's internal audit function should report directly to the Audit and Corporate Governance Committee. The Board has delegated to the Compensation Committee primary responsibility for the oversight of risk related to (1) the Company's compensation policies and practices and (2) administering the Company's equity compensation plan(s). Each committee reports regularly to the Board with respect to such committee's particular risk oversight responsibilities.

## **RISK ASSESSMENT OF COMPENSATION POLICIES**

The Compensation Committee, with the assistance of management, conducted a risk assessment of the Company's compensation policies and practices in fiscal year 2013 and concluded that they do not motivate imprudent risk taking. In this regard, the Company notes that:

the Company's annual incentive compensation is based on balanced performance metrics that promote disciplined progress towards Company goals;

the Company does not offer significant short-term incentives that might drive high-risk investments at the expense of long-term Company value;

the Company's long-term incentives do not drive high-risk investments at the expense of long-term Company value;

the Company's compensation programs are weighted towards cash, and the equity component does not promote unnecessary risk taking; and

the Company's compensation is limited to reasonable and sustainable levels, as determined by a review of the Company's economic position and prospects, as well as the compensation offered by comparable companies.

The Company's compensation policies and practices were evaluated to ensure that they do not foster risk taking above the level of risk associated with the Company's business model. Based on this assessment, the Board concluded that it has a balanced pay and performance program that does not promote excessive risk taking.

## **CORPORATE GOVERNANCE POLICES**

The Company provides information on its website about its corporate governance policies, including the Company's Code of Ethics, which applies to all employees, officers and directors, including the Company's principal executive officer and principal financial officer, and charters for the three standing committees of the Board (Audit and Corporate Governance, Compensation, and Nominating). These materials can be found at [www.pdf.com](http://www.pdf.com) under the "Governance" link on the "Investor" tab. The Company's website address provided is not intended to function as a hyperlink, and the information on the Company's website is not, and should not be considered, part of this proxy statement and is not incorporated by reference herein.

Investors may also request free printed copies of the Code of Ethics and committee charters by sending inquiries to us at PDF Solutions, Inc., Attention: Investor Relations, 333 West San Carlos Street, Suite 1000, San Jose, California 95110.

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

a majority of the Board are independent as defined in the NASDAQ Listing Rule 5605(a)(2);

all members of the standing committees of the Board (the Audit and Corporate Governance Committee, the Compensation Committee and the Nominating Committee) are independent as the term is defined under the NASDAQ Listing Rules;

the independent members of the Board meet at least twice per year in execution sessions without the presence of management;

the Company has an ethics hotline available to all employees, and the Company's Audit and Corporate Governance Committee has procedures for the anonymous submission of employee complaints on accounting, internal controls, auditing or other related 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 to members of the Board.

### **Stockholders Communications**

Our Board welcomes all communications from our stockholders. Stockholders may send communications to the Board or any director of the Board in particular, at the following address: PDF Solutions, Inc., Attention: Investor Relations, 333 West San Carlos Street, Suite 1000, San Jose, California 95110. Any correspondence addressed to the Board or to any one of our directors of the Board sent in care of our corporate offices is reviewed by our Investor Relations department and presented to the Board at its regular meetings.

**PROPOSAL NO. 2: RATIFICATION OF APPOINTMENT OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit and Corporate Governance Committee has appointed PricewaterhouseCoopers LLP (“PwC”) as our independent registered public accounting firm for the fiscal year ending December 31, 2014. 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 and Corporate Governance Committee will have the responsibility of selecting the Company’s auditors.

Even if the selection is ratified, the Audit and Corporate Governance Committee in its discretion may select a different registered public accounting firm at any time to be the independent registered public accounting firm for the fiscal year ending December 31, 2014, if it determines that such a change would be in the best interests of the Company and our stockholders.

A representative of PwC 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 questions.

**Principal Accountant Fees and Services**

The table below shows the fees for professional services rendered by PricewaterhouseCoopers LLP for the audit of our financial statements for 2013 and 2012, and fees billed for other services rendered by PwC for those periods:

<b>Fee Category</b>	<b>Fiscal 2013 Fees</b>	<b>Fiscal 2012 Fees</b>
Audit Fees (1)	\$888,400	\$791,100
Audit-Related Fees (2)	\$-	\$10,000
Tax Fees	-	-
All Other Fees	-	-
<b>Total Fees</b>	<b>\$888,400</b>	<b>\$801,100</b>

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(1)

Represents the aggregate fees for professional services rendered in connection with the annual audit of financial statements, internal controls over financial reporting, and statutory audit.

(2) Fees related to technical accounting consultations.

**Policy on Audit and Corporate Governance Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm**

The Audit and Corporate Governance Committee's policy is to pre-approve all audit and permissible non-audit services provided by PwC. 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. PwC and Company management are required to periodically report to the Audit and Corporate Governance Committee regarding the extent of services provided by PwC in accordance with this pre-approval, and the fees performed to date. The Audit and Corporate Governance Committee may also pre-approve particular services on a case-by-case basis.

All services provided by PwC during the fiscal years ended December 31, 2012 and 2013 were approved by the Audit and Corporate Governance Committee in accordance with our pre-approval policy and applicable SEC regulations.

**Recommendation of the Board**

**THE BOARD RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR THE RATIFICATION OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2014.**

### **PROPOSAL NO. 3: ADVISORY APPROVAL OF OUR NAMED EXECUTIVE OFFICERS' COMPENSATION**

At our 2011 annual meeting, a majority of our stockholders recommended that an advisory resolution with respect to the Company's compensation program of our Named Executive Officers (a "say-on-pay") be presented to the Company's stockholders every year. Our Board of Directors adopted the stockholders' recommendation for the frequency of the "say-on-pay" vote, and accordingly, we are requesting your advisory approval of the compensation of our Named Executive Officers as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the narrative discussion set forth on pages 26 to 34 of this proxy statement.

As more fully described in this proxy statement under the heading "Compensation Discussion and Analysis," the Company's executive officer compensation program is designed to attract and retain the caliber of officers needed to ensure the Company's continued growth and profitability, to align incentives with the Company's fiscal performance, to reward officers' individual performance against objectives that achieve the Company's strategy and the creation of long-term value for stockholders and to provide a balanced approach to compensation that properly aligns incentives with Company performance and stockholder value and does not promote inappropriate risk taking. Accordingly, the compensation of our Named Executive Officers is based in large part upon the financial achievement of the Company.

We believe we utilize a well-proportioned mix of security-oriented compensation, retention benefits and at-risk compensation which produces both short-term and long-term performance incentives and rewards.

The Compensation Committee and the Board of Directors believe that the design of our executive compensation program, and hence the compensation awarded to our Named Executive Officers under the current program, fulfills the objectives set forth above.

We encourage you to carefully review the "Compensation Discussion and Analysis" of this proxy statement for additional details on our executive compensation, including PDF's compensation philosophy and objectives, as well as the processes our Compensation Committee used to determine the structure and amounts of the compensation of our Named Executive Officers in fiscal year 2013.

We are asking you to indicate your support for the compensation of our Named Executive Officers as described in this proxy statement. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the philosophy, policies and practices described in this proxy statement. Accordingly, we are asking our stockholders to vote **FOR** the following resolution at the Annual Meeting:

“**RESOLVED**, that the Company’s stockholders approve, on an advisory basis, the 2013 compensation of the Named Executive Officers, as disclosed in the Company’s proxy statement for the 2014 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure.”

The results of your approval are advisory, which means the outcome of this proposal is not binding on the Company, our Board of Directors or the Compensation Committee of the Board of Directors.

### **Required Vote**

So long as a quorum is present (in person or by proxy) at the Annual Meeting, a majority of the votes cast at the Annual Meeting is required to approve this proposal. Unless otherwise instructed, the proxy holders will vote the proxies they receive **FOR** the advisory approval of the Company’s compensation of our Named Executive Officers, as disclosed in this proxy statement.

### **Recommendation of the Board**

**THE BOARD RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR THE ADVISORY APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.**



#### **PROPOSAL NO. 4: APPROVAL OF THE SECOND AMENDED AND RESTATED 2011 STOCK INCENTIVE PLAN**

At our 2011 Annual Meeting of Stockholders, the stockholders approved the Company's 2011 Stock Incentive Plan. The number of shares initially reserved for future awards under the 2011 Plan was 3,200,000. At the 2013 Annual Meeting, our stockholders approved the First Amended and Restated 2011 Stock Incentive Plan (as amended, the "2011 Plan") to increase the number of shares reserved for awards under it to a total of 4,800,000 shares, which was an increase of an additional 1,600,000 shares. The First Amended 2011 Plan took effect on May 28, 2013 and will continue through May 27, 2023, if this proposal is not approved.

At the 2014 Annual Meeting, we are asking our stockholders to approve the Second Amended and Restated 2011 Stock Incentive Plan (the "Second Amended 2011 Plan") to increase the number of shares reserved for awards under it to a total of 6,550,000 shares, which is an increase of an additional 1,750,000 shares. As of April 1, 2014, there were 809,508 shares subject to outstanding grants and 2,786,636 shares remaining available for future grants under the 2011 Plan. The Second Amended 2011 Plan would result in 4,536,636 shares being available for future awards based on the shares available for future awards under the 2011 Plan as of April 1, 2014. If approved by our stockholders, the Second Amended 2011 Plan will take effect on May 27, 2014 and will continue through May 26, 2024.

On April 15, 2014, our Board of Directors adopted the Second Amended 2011 Plan, subject to the approval of the stockholders. The Board of Directors believes that the number of shares currently available for future awards is inadequate to achieve the purpose of the plan, which is to attract and retain the best possible individuals to promote our success. The Second Amended 2011 Plan is identical to the 2011 Plan other than with respect to the increase in reserved shares and the extension to the term. The Board of Directors believes that the ability to continue to distribute equity awards under the Second Amended 2011 Plan is important for our continued growth and success.

As of April 1, 2014 the fair market value of a share of Company common stock (based on the closing price of the Company's common stock) was \$18.17.

#### **Promotion of Good Corporate Governance Practices**

The Second Amended 2011 Plan was designed to include a number of best practice provisions that we believe reinforce the alignment between our stockholders' interests and equity compensation arrangements for employees, non-employee directors and contractors. These provisions include, but are not limited to the following:

**No Evergreen Provision.** There is no “evergreen” feature providing for the annual replenishment shares of reserved for issuance under the Second Amended 2011 Plan.

**No Repricing Without Stockholder Approval.** The Second Amended 2011 Plan does not authorize, without stockholder approval, the “repricing” of a stock option or stock appreciation right by reducing the exercise price of such award or exchanging such awards for cash, other awards or new stock option or stock appreciation rights at a reduced exercise price.

**No Automatic Single-Trigger Acceleration upon a Change of Control.** There is no provision for the automatic acceleration of unvested awards upon a change of control. The applicable merger agreement may provide for acceleration of awards and the administrator has discretion to provide for acceleration upon a change of control with a related termination of employment.

**No Transferability.** Awards generally may not be transferred, except by will or the laws of descent and distribution, unless approved by the Board.

**No Discounted Options or Stock Appreciation Rights.** Stock options and stock appreciation rights may not be granted with exercise prices lower than the fair market value of the underlying shares on the date of the grant.

**Performance-Based Grants.** We align a significant portion of our annual equity awards to employees and non-employee directors with Company performance.

**Fungible Share Reserve.** To manage dilution, the shares reserved for issuance under the Second Amended 2011 Plan will be reduced by 1.33 shares for every share issued as a stock grant or pursuant to a stock unit.

***Burn Rate Commitment.*** To continue to manage and control the amount of our common stock used for equity compensation, on April 15, 2014, our Board adopted a resolution committing to stay below a 3-year average maximum burn rate for fiscal years 2014 through 2016, subject to stockholder approval of this proposal. This burn rate commitment will require us to limit the number of shares that we grant subject to stock awards each year of the three-year period to no more than an annual average of 6.72% of our weighted average common stock outstanding, which is equal to the median burn rate plus one standard deviation for the Russell 3000 companies in our Global Industry Classification Standards Peer Group (Semiconductor Equipment), as updated by Institutional Shareholder Service, Inc. (ISS) on December 23, 2013. Our annual average burn rate will be calculated as the number of shares subject to stock awards (including stock options, stock appreciation rights, stock grants and stock units) granted during our fiscal year divided by our weighted average common stock outstanding for each fiscal year, both as reported in our periodic filings with the SEC. Awards that are settled in cash, awards that are granted pursuant to stockholder approved exchange programs, awards sold under our employee stock purchase plan and awards issued, assumed or substituted in acquisitions will be excluded from our burn rate calculation. For purposes of our calculation, each share subject to a full value award (i.e. stock grants, stock units, performance shares and any other award that does not have an exercise price per share equal to the per share fair market value of our common stock on the grant date) will be counted as more than one share on the following schedule: (a) 1.5 shares if our annual common stock price volatility is 54.6% or higher; (b) 2.0 shares if our annual common stock price volatility is between 36.1% and 54.6%; (c) 2.5 shares if our annual common stock price volatility is between 24.9% and 36.1%; (d) 3.0 shares if our annual common stock price volatility is between 16.5% and 24.9%; (e) 3.5 shares if our annual common stock price volatility is between 7.9% and 16.5%; and (f) 4.0 shares if our annual common stock price volatility is less than 7.9%.

## **Description of the Second Amended 2011 Plan**

The material features of the Second Amended 2011 Plan are outlined below. This summary does not purport to be a complete description of all of the provisions of the Second Amended 2011 Plan and is qualified in its entirety by reference to the complete text of the Second Amended 2011 Plan. Stockholders are urged to read the actual text of the Second Amended 2011 Plan in its entirety, a copy of which has been filed with the SEC as Appendix A to this proxy statement. Any stockholder who desires to obtain a copy of the Second Amended 2011 Plan may do so by written request to the Company's Secretary at PDF Solutions, Inc., Attention: Secretary, 333 West San Carlos Street, Suite 1000, San Jose, California, 95110.

### ***Eligibility and Types of Awards***

Only employees, non-employee directors and independent contractors shall be eligible to participate in the Second Amended 2011 Plan. Upon the adoption of the Second Amended 2011 Plan approximately 362 employees (including executive officers), 4 non-employee directors and 1 contractor will be eligible to participate in the Second Amended 2011 Plan.

The terms of the Second Amended 2011 Plan provide for discretionary incentive awards in the form of options (which may be incentive stock options or nonstatutory stock options), stock appreciation rights, stock grants and stock units (collectively, the "Awards").

### *Administration of the 2011 Plan*

The Board or a committee appointed by the Board shall administer the Second Amended 2011 Plan. Any such committee shall generally be composed of directors who qualify as non-employee directors under Rule 16-3 of the Exchange Act or outside directors for purpose of Section 162 (m) of the Internal Revenue Code of 1986, as amended (the "Code"). Subject to the provisions of the Second Amended 2011 Plan, the administrator of the Second Amended 2011 Plan shall have the full authority, in its sole discretion, to take any actions it deems necessary or advisable for the administration of the Second Amended 2011 Plan, including, not limited to determining the type, number, vesting requirements and other features and conditions of such Awards; amending any outstanding Awards; accelerating the vesting, or extending the post-termination exercise term, of Awards at any time and under such terms and conditions as it deems appropriate within the terms the Second Amended 2011 Plan allows; interpreting the Second Amended 2011 Plan and any Award agreement; correcting any defect, supplying any omission or reconciling any inconsistency in the Second Amended 2011 Plan or any Award agreement; adopting such rules or guidelines as it deems appropriate to implement the Second Amended 2011 Plan; making all other decisions relating to the operation of the Second Amended 2011 Plan; and adopting such plans or subplans as may be deemed necessary or appropriate to provide for the participation by employees of the Company, its parent, or its subsidiaries and affiliates who reside outside of the United States.

### *Share Reserve*

The stock issuable under the Second Amended 2011 Plan shall be authorized but unissued shares or treasury shares. The aggregate number of shares reserved for Awards under the Second Amended 2011 Plan is 6,550,000 shares. In addition, any shares subject to stock options or similar awards granted under the 2001 Plan that expire or otherwise terminate without having been exercised in full and shares issued pursuant to Awards granted under the 2001 Plan that are forfeited to or repurchased by the Company on or after November 16, 2011, when the 2011 Plan was approved by stockholders, shall be added to the Second Amended 2011 Plan share reserve and shall become available for issuance pursuant to the Second Amended 2011 Plan, with the maximum number of such shares to be added to the Second Amended 2011 Plan pursuant to such terminations, forfeitures and repurchases not to exceed 3,500,000 shares. As of December 31, 2013, there were 377,138 such shares added to the 2011 Plan. In the case of Awards other than stock options or stock appreciation rights, the aggregate number of shares reserved under the Second Amended 2011 Plan will be decreased at a rate of 1.33 per share issued pursuant to each such Award.

If Awards are forfeited or are terminated for any reason before vesting or being exercised, then the shares underlying such Awards will again become available for Awards under the Second Amended 2011 Plan (for purposes of clarity, if the share reserve is reduced by 1.33 shares per share subject to Awards granted under the Second Amended 2011 Plan other than options or stock appreciation rights, then the share reserve shall be increased by 1.33 times the number of shares subject to such Awards that are so forfeited or terminated). Further, if shares acquired pursuant to any such Award, are forfeited to or repurchased by the Company such shares shall return to the Second Amended 2011 Plan and again be available for issuance pursuant to the Second Amended 2011 Plan, provided that in the case of Awards, other than options or stock appreciation rights 1.33 times the number of shares so forfeited or repurchased will return to the Second Amended 2011 Plan and will again become available for issuance. Stock appreciation rights to be settled in shares shall be counted in full against the number of shares available for issuance under the Second Amended 2011 Plan, regardless of the number of shares issued upon settlement of the stock appreciation rights. Shares subject to a stock option or stock appreciation right that are retained by the Company to pay withholding taxes shall be deducted from the Second Amended 2011 Plan share reserve and shall not become available again for issuance under the Second Amended 2011 Plan. Shares subject to Awards other than a stock option or stock appreciation right that are retained by the Company to pay withholding taxes shall not be deducted from the Second Amended 2011 Plan share reserve and shall become available again for issuance under the Second Amended 2011 Plan. Shares subject to a stock option that are deducted by the Company to pay the exercise price of the stock option shall be deducted from the Second Amended 2011 Plan share reserve and shall not become available again for issuance under the Second Amended 2011 Plan. If Awards are settled in cash, the shares that would have been delivered had there been no cash settlement shall not be counted against the shares available for issuance under the Second Amended 2011 Plan.

In the event of a subdivision of the outstanding shares, a declaration of a dividend payable in shares, a declaration of a dividend payable in a form other than shares in an amount that has a material effect on the price of shares, a combination or consolidation of the outstanding shares (by reclassification or otherwise) into a lesser number of shares, a recapitalization, a spin-off or a similar occurrence, the Second Amended 2011 Plan administrator will make such adjustments as it, in its sole discretion, deems appropriate to the number of shares and kind of shares or securities issuable under the Second Amended 2011 Plan (on both an aggregate and per-participant basis) and under each outstanding Award, to the per-participant Award limits, and to the exercise price of outstanding stock options and stock appreciation rights.

### ***Share Limits***

No participant in the Second Amended 2011 Plan shall receive stock options and stock appreciation rights, stock grants and stock units during any fiscal year of the Company covering in excess of 1,000,000 shares per Award type. The aggregate maximum number of Shares that may be issued in connection with incentive stock options under the Second Amended 2011 Plan shall be 1,000,000 Shares.

### ***Terms and Condition of Awards***

In the case of stock options, each stock option granted under the Second Amended 2011 Plan shall be evidenced and governed by a stock option agreement between the grantee and the Company, which will generally be delivered online by the Company or its designated third-party broker and accepted online by the grantee. The stock option agreement or the online grant summary to which such agreement refers shall specify whether the option is an incentive stock option or a non-qualified stock option, the number of shares granted, the exercise price, the vesting schedule, exercisability and the term. Unless provided otherwise by the administrator, stock options granted under the Second Amended 2011 Plan (a) for newly-hired employees or independent contractors will generally vest at the rate of 1/4th of the total number of shares subject to the options on the Second anniversary of the date of grant and 1/48th of the total number of shares subject to the options each month thereafter; and, (b) for annual refresh Awards will generally vest at the rate of 1/48th of the total number of shares subject to the options each month after the date of grant; provided, in each case, that such optionee's service has not terminated prior to any vesting date. Under the Second Amended 2011 Plan, the stock option exercise price must be paid at the time the shares are purchased and may generally be made in cash (including by check, wire transfer or similar means), by cashless exercise, by surrendering or attesting to previously acquired shares of Company common stock, or by any other legal consideration.

In the case of stock appreciation right, each stock appreciation right granted under the Second Amended 2011 Plan shall be evidenced by an agreement between the participant and the Company, which will generally be delivered online by the Company or its designated third party broker and accepted online by the participant. Such stock appreciation right shall be subject to all applicable terms of the Second Amended 2011 Plan and may be subject to any other terms that are not inconsistent with the Second Amended 2011 Plan. A stock appreciation right agreement may provide for a maximum limit on the amount of any payout notwithstanding the fair market value on the date of exercise of the stock appreciation right. Each stock appreciation right agreement or the online grant summary to which such agreement refers shall specify the number of shares to which the stock appreciation right pertains, the exercise price, exercisability and the term. The Second Amended 2011 Plan administrator may determine vesting provisions, if any, in its sole discretion.

In the case of stock grants, a stock grant may be awarded in combination with non-qualified stock options, and such an Award may provide that the stock grant will be forfeited in the event that the related non-qualified stock options are exercised. Each stock grant awarded under the Second Amended 2011 Plan shall be evidenced and governed by a stock grant agreement between the participant and the Company, which will generally be delivered online by the Company or its designated third-party broker and accepted online by the participant. The holder of a stock grant awarded under the Second Amended 2011 Plan shall have the same voting, dividend and other rights as the Company's other stockholders. The stock grant agreement or the online grant summary to which such agreement refers shall specify the number of shares granted and the vesting conditions and schedule in the event any shares subject to the Award are restricted and subject to vesting. Unless provided otherwise by the administrator and except as set forth otherwise with respect to performance-based awards, stock grants awarded under the Second Amended 2011 Plan (a) for newly-hired employees or independent contractors will generally vest at the rate of 1/4th of the total number of shares subject to the Award on the first anniversary of the date of grant and 1/8th of the total number of shares subject to the Award every six months thereafter; and, (b) for annual refresh awards will generally vest at the rate of 1/8th of the total number of shares subject to the Award every six months after the date of grant; provided, in each case, that such participant's service has not terminated prior to any vesting date.

In case of stock units, each stock unit granted under the Second Amended 2011 Plan shall be evidenced by a stock unit agreement between the participant and the Company, which will generally be delivered online by the Company or its designated third-party broker and accepted online by the participant. Each stock unit agreement shall specify the number of shares to which the stock unit pertains, and the vesting conditions for Awards. The holders of stock units shall have no voting rights. A holder of stock units shall have no rights other than those of a general creditor of the Company. The Second Amended 2011 Plan administrator may determine vesting provisions in its sole discretion.

In all cases, except as otherwise provided in the applicable agreement and then only to the extent such transfer is otherwise permitted by applicable law and is not a transfer for value (unless such transfer for value is approved in advance by the Company's stockholders), no Awards shall be transferable by the grantee other than by will or by the laws of descent and distribution. No Awards or interest therein may be assigned, pledged or hypothecated by the grantee during his or her lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process. Unless otherwise provided by the Second Amended 2011 Plan administrator, Awards will generally expire 90 days (inclusive) following the termination of service for any reason other than cause, death or disability and 6 months following a termination of service for death or disability.

### ***Performance Goals***

Awards under the Second Amended 2011 Plan may be made subject to performance conditions as well as time-vesting conditions. Such performance conditions may be established and administered in accordance with the requirements of Code Section 162(m) for Awards intended to qualify as "performance-based compensation" thereunder. To the extent that performance conditions are applied to Awards under the Second Amended 2011 Plan intended to qualify as performance-based compensation under Code Section 162(m), such performance conditions shall be based on an objective formula or standard utilizing one or more of the following factors and any objectively verifiable

adjustment(s) thereto permitted and pre-established by the Second Amended 2011 Plan administrator in accordance with Code Section 162(m): (i) operating income; (ii) earnings before interest, taxes, depreciation and amortization; (iii) earnings; (iv) cash flow; (v) market share; (vi) sales or revenue; (vii) expenses; (viii) cost of goods sold; (ix) profit/loss or profit margin; (x) working capital; (xi) return on equity or assets; (xii) earnings per share; (xiii) economic value added; (xiv) price/earnings ratio; (xv) debt or debt-to-equity; (xvi) accounts receivable; (xvii) writeoffs; (xviii) cash; (xix) assets; (xx) liquidity; (xxi) operations; (xxii) intellectual property (e.g., patents); (xxiii) product development; (xxiv) regulatory activity; (xxv) manufacturing, production or inventory; (xxvi) mergers and acquisitions or divestitures; and/or (xxvii) financings, each with respect to the Company and/or one or more of its parent, subsidiaries, affiliates or operating units. Awards issued to persons who are not Code Section 162(m) covered employees may take into account other factors.

### *Effect of a Change in Control*

The Second Amended 2011 Plan provides that in the event of a change in control, outstanding Awards shall be subject to the applicable agreement of merger or reorganization and that such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting or for their cancellation with or without consideration, in all cases without the consent of the participant. Additionally, under the Second Amended 2011 Plan, the administrator may determine, at the time of grant of an Award or thereafter, that such Award shall become vested and exercisable, in full or in part, in the event that the Company is party to a change in control and a Second Amended 2011 Plan participant is terminated in connection with or within a set time following such change in control. To the extent not previously exercised or settled, options, stock appreciation rights and stock units shall terminate immediately prior to the dissolution or liquidation of the Company.

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

The following summary is intended only as a general guide as to federal income tax consequences under current U.S. tax law of participation in the Second Amended 2011 Plan and does not attempt to describe all potential tax consequences. This discussion is intended for the information of our stockholders considering how to vote at the Annual Meeting and not as tax guidance to individuals who participate in the Second Amended 2011 Plan. The following is not intended or written to be used, and cannot be used, for the purposes of avoiding taxpayer penalties. Tax consequences are subject to change and a taxpayer's particular situation may be such that some variation in application of the described rules is applicable. Accordingly, participants have been advised to consult their own tax advisors with respect to the tax consequences of participating in the Second Amended 2011 Plan.



A recipient of a stock option or stock appreciation right will not have taxable income upon the grant of the stock option or stock appreciation right. For non- statutory stock options and stock appreciation rights, the participant will recognize ordinary income upon exercise in an amount equal to the difference between the fair market value of the shares on the date of exercise and the exercise price. Any gain or loss recognized upon any later disposition of the shares generally will be a capital gain or loss.

The acquisition of shares upon exercise of an incentive stock option will not result in any taxable income to the participant, except, possibly, for purposes of the alternative minimum tax. The gain or loss recognized by the participant on a later sale or other disposition of such shares will either be long-term capital gain or loss or ordinary income, depending upon whether the participant holds the shares for the legally-required period (2-years from the date of grant and 1-year from the date of exercise). If the shares are not held for the legally-required period, the participant will generally recognize ordinary income equal to the lesser of (i) the difference between the fair market value of the shares on the date of exercise and the exercise price, or (ii) the difference between the sales price and the exercise price.

For stock Awards subject to vesting, or restricted stock, unless the participant elects to be taxed at the time of receipt of the restricted stock, the participant will not have taxable income upon the receipt of the Award, but upon vesting will recognize ordinary income equal to the fair market value of the shares at the time of vesting less the amount paid for such shares (if any).

For Awards of stock units, a participant is not deemed to receive any taxable income at the time an Award of stock units is granted. Instead, when the stock units vest and are settled, the participant will recognize ordinary income equal to the amount of cash and/or the fair market value of shares received.

At the discretion of the Second Amended 2011 Plan administrator, the Second Amended 2011 Plan allows a participant to satisfy his or her tax withholding requirements under federal and state tax laws in connection with the exercise or receipt of an Award by electing to have shares withheld, and/or by delivering to the Company already-owned shares.

If the participant is an employee or former employee, the amount a participant recognizes as ordinary income in connection with any Award is subject to withholding taxes (generally not applicable to incentive stock options) and the Company is allowed a tax deduction equal to the amount of ordinary income recognized by the participant, provided that, Code Section 162(m) contains special rules regarding the federal income tax deductibility of compensation paid to the Company's chief executive officer and to each of the Company's three most highly compensated executive officers (other than the Company's chief executive officer and chief financial officer). The general rule is that annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, the Company can preserve the deductibility of certain compensation in excess of \$1,000,000 if such compensation qualifies as "performance-based compensation" by complying with certain

conditions imposed by the Code Section 162(m) rules (including the establishment of a maximum number of shares with respect to which Awards may be granted to any one employee during one fiscal year) and if the material terms of such compensation are disclosed to and approved by the Company's stockholders (e.g., see Performance Goals above). Because of the fact-based nature of the performance-based compensation exception under Code Section 162(m) and the limited availability of binding guidance thereunder, the Company cannot guarantee that the Awards under the Second Amended 2011 Plan will qualify for exemption under Code Section 162(m). However, the Second Amended 2011 Plan is structured with the intention that the Second Amended 2011 Plan administrator will have the discretion to make Awards under the Second Amended 2011 Plan that would qualify as "performance-based compensation" and be fully deductible. Accordingly, the Company is seeking stockholder approval of the Second Amended 2011 Plan to comply with Code Section 162(m).

The number of awards (if any) that an eligible participant may receive under the Second Amended 2011 Plan is in the discretion of the administrator and therefore cannot be determined in advance. The following table sets forth (a) the aggregate number of shares subject to Awards of stock units granted under the 2011 Plan (as amended) during the last fiscal year, (b) the dollar value of such stock units based on the closing price of our common stock on the grant date, (c) the aggregate number of shares subject to Awards of stock options granted under the 2011 Plan (as amended) during the last fiscal year, and (d) the weighted average per share exercise price of such stock options.

<b>Name of Individual or Group</b>	<b>Number of Shares of Stock Units</b>	<b>Dollar Value of Stock Units</b>	<b>Number of Stock Options Granted</b>	<b>Average Per Share Exercise Price</b>
<i>John K. Kibarian</i>				
<i>Chief Executive Officer,</i>	-	-	-	-
<i>President and Director</i>				
<i>Gregory C. Walker</i>				
<i>Chief Financial Officer,</i>	13,915	\$258,680	-	-
<i>Vice President, Finance</i>				
<i>Cornelis (Cees) Hartgring</i>				
<i>Vice President, Client Services</i>	13,915	\$258,680	-	-
<i>and Sales</i>				
<i>Kimon W. Michaels</i>				
<i>Vice President, Products</i>				
<i>and Solutions</i>	-	-	-	-
<i>and Director</i>				
All current executive officers, as a group	27,830	\$517,360	-	-
All current directors who are not executive officers, as a group	39,330	\$731,200	-	-
All employees who are not executive officers, as a group	523,342	\$9,726,828	77,125	\$ 17.12

#### **Required Vote**

So long as a quorum is present (in person or by proxy) at the Annual Meeting, a majority of the shares votes cast at the Annual Meeting is required to approve this proposal. Unless otherwise instructed, the proxy holders will vote the proxies they receive **FOR** the approval of the Second Amended and Restated 2011 Stock Incentive Plan.

**Recommendation of the Board**

**THE BOARD RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR THE APPROVAL OF THE SECOND AMENDED AND RESTATED 2011 STOCK INCENTIVE PLAN.**

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

The following table sets forth the beneficial ownership as of April 4, 2014, of (i) each person known to us to be the beneficial holder of more than 5% of our outstanding common stock, (ii) each director and each director nominee, (iii) each Named Executive Officer identified in the Summary Compensation Table on page 36 of this proxy statement, and (iv) all executive officers and directors as a group. Except as otherwise indicated, the address for each person listed as a director or executive officer is c/o PDF Solutions, Inc., 333 West San Carlos Street, Suite 1000, San Jose, California 95110. The Company has relied upon information provided to the Company by its directors and Named Executive Officers and copies of documents sent to the Company that have been filed with the SEC by others for purposes of determining the number of shares each person beneficially owns. Beneficial ownership is determined in accordance with the rules and regulations of the SEC and generally includes those persons who have voting or investment power with respect to the securities. Except as otherwise indicated, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of the Company's common stock beneficially owned by them.

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership (1)</b>	<b>Percent of Class (1)(2)</b>
<b>5% Stockholders:</b>		
John K. Kibarian	2,512,474	8.3
T. Rowe Price Associates, Inc. (3) 100 E. Pratt Street Baltimore, Maryland 21202	1,836,271	6.0
FMR LLC (4) 245 Summer Street  Boston, MA 02210	1,789,661	5.9
Shannon River Partners (5) 850 Third Avenue 11th Floor New York, NY 10022	1,698,785	5.6
Concept Capital Markets, LLC (6) 1010 Franklin Avenue Garden City, NY 11530	1,678,475	5.5
Kimon W. Michaels (7)	1,534,523	5.0
<b>Directors, Nominees and Named Executive Officers:</b>		
John K. Kibarian	2,512,474	8.3

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Kimon W. Michaels (7)		1,534,523	5.0
Lucio L. Lanza (8)	704,113		2.3
Thomas Caulfield (9)	84,995		*
R. Stephen Heinrichs (10)	219,038		*
Gregory C. Walker (11)	109,928		*
Cornelis (Cees) Hartgring (12)	127,841		*
Albert Y.C. Yu (13)	20,706		*
Joseph R. Bronson	-		*
All directors and executive officers as a group (9 persons) (14)	5,313,618		17.5

\* Less than 1%.

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Beneficial ownership is determined in accordance with SEC rules. In computing the number of shares beneficially owned by a person, we have included shares for which the named person has sole or shared power (1) over voting or investment decisions. The number of shares beneficially owned also includes ownership of which the named person has the right to acquire, through conversion, option and warrant exercise or otherwise, within 60 days after April 4, 2014.

Percentage of beneficial ownership is based on 30,442,971 shares outstanding as of April 4, 2014. For each (2) named person, the percentage ownership includes beneficial ownership which the person has the right to acquire within 60 days after April 4, 2014, as described in Footnote 1. However, such beneficial ownership shall not be deemed outstanding with respect to the calculation of ownership percentage for any other person.

- (3) Based solely on the Schedule 13G Amendment No. 10 filed on February 11, 2014 (the "T. Rowe Price 13G Amendment"). These securities are owned by various individual and institutional investors including T. Rowe Price Associates, Inc. (which owns 1,836,271 shares, representing 6.0% of the shares outstanding as of filing of the T. Rowe Price 13G Amendment), of which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

- (4) Based solely on the Schedule 13G Amendment No. 2 filed on April 10, 2014 (the "FMR 13G Amendment"). The FMR 13G Amendment indicates (i) that FMR is a parent holding company for Fidelity Management & Research Company ("Fidelity"), who is the beneficial owner of 1,153,390 shares, which represents 3.8% of our outstanding common stock, and has sole dispositive control over such shares, and (ii) Pyramis Global Advisors, LLC, an indirect wholly-owned subsidiary of FMR LLC, is the beneficial owner of 30,040 shares, which represents 0.1% of our outstanding common stock; and (iii) Pyramis Global Advisors Trust Company, an indirect wholly-owned subsidiary FMR LLC, is the beneficial owner of 606,231 shares, which represents 2.0% of our outstanding common stock.
- (5)

Based solely on the Schedule 13G filed on April 11, 2014 (the "Shannon River Partners 13G"). The Shannon River Partners 13G indicates that Shannon River Partners LP, Shannon River Fund Management LLC, and Shannon River Capital Management LLC have shared voting and dispositive power over 72,545 shares, which represents 0.2% of our outstanding common stock; Shannon River Master Fund, L.P. and Shannon River Global Management, LLC have shared voting and dispositive power over 773,665 shares, which represents 2.5% of our outstanding common stock; Doonbeg Master Fund, L.P. and Doonbeg Global Management, LLC have shared voting and dispositive power over 852,575 shares, which represents 2.8% of our outstanding common stock; and Mr. Spencer Waxman, an individual and managing member or general partner of the above funds, has shared voting and dispositive power over 1,698,785 shares, which represents 5.6% of our outstanding common stock.

(6)

Based solely on the Form 13F-HR/A filed by Concept Capital Markets, LLC on February 13, 2014.

(7)

Includes 44,187 shares issuable to Dr. Michaels' spouse upon the exercise of stock options vested as of April 4, 2014, and 2,247 shares issuable upon the exercise of stock options and the vesting of restricted stock units that will vest within 60 days after April 4, 2014. Excludes 63,694 shares held by Dr. Michaels' spouse as separate property.

(8)

Includes 365,310 shares issuable upon the exercise of stock options vested as of April 4, 2014, and 10,554 shares issuable upon the exercise of stock options and the vesting of restricted stock units that will vest within 60 days after April 4, 2014. Includes 121,170 shares owned by Lanza techVentures, an early stage venture capital and investment firm of which Mr. Lanza is the managing director.

(9)

Includes 57,498 shares issuable upon the exercise of stock options vested as of April 4, 2014, and 4,658 shares issuable upon the exercise of stock options and the vesting of restricted stock units that will vest within 60 days after April 4, 2014.

(10)

Includes 197,839 shares issuable upon the exercise of stock options vested as of April 4, 2014, and 4,762 shares issuable upon the exercise of stock options and the vesting of restricted stock units that will vest within 60 days after April 4, 2014.

(11)

Includes 97,500 shares issuable to Mr. Walker upon the exercise of stock options vested as of April 4, 2014, and 10,109 shares issuable upon the exercise of stock options and the vesting of restricted stock units that will vest within 60 days after April 4, 2014.



(12)

Includes 109,968 shares issuable upon the exercise of stock options vested as of April 4, 2014, and 9,297 shares issuable upon the exercise of stock options and the vesting of restricted stock units that will vest within 60 days after April 4, 2014.

(13)

Includes 9,322 shares issuable upon the exercise of stock options vested as of April 4, 2014, and 4,554 shares issuable upon the exercise of stock options and the vesting of restricted stock units that will vest within 60 days after April 4, 2014.

(14)

Consists of 5,313,618 shares held by our directors and executive officers, as a group, of which 5,264,100 shares are issuable upon the exercise of stock options vested as of April 4, 2014, and 46,181 shares issuable upon the exercise of stock options and the vesting of restricted stock units that that will vest within 60 days after April 4, 2014.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **Limitation of Liability and Indemnification Matters**

As permitted by the Delaware General Corporation Law, we have included a provision in our amended and restated certificate of incorporation to eliminate the personal liability of our officers and directors for monetary damages for breach or alleged breach of their fiduciary duties as officers or directors, other than in cases of fraud or other willful misconduct.

In addition, our Bylaws provide that we are required to indemnify our officers and directors even when indemnification would otherwise be discretionary, and we are required to advance expenses to our officers and directors as incurred in connection with proceedings against them for which they may be indemnified. We have entered into indemnification agreements with our officers and directors containing provisions that are in some respects broader than the specific indemnification provisions contained in the Delaware general corporation law. The indemnification agreements require us to indemnify our officers and directors against liabilities that may arise by reason of their status or service as officers and directors other than for liabilities arising from willful misconduct of a culpable nature, to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified, and to obtain our directors' and officers' insurance if available on reasonable terms. We have filed our forms of indemnification agreement on the SEC's website at [www.sec.gov](http://www.sec.gov). We have obtained directors' and officers' liability insurance in amounts comparable to other companies of our size and in our industry.

### **Other Transactions**

We have granted options to some of our officers and directors. Please see "Executive Compensation" and "Director Compensation" in this proxy statement. We have also entered into acceleration agreements with certain of our officers and directors. Please see "Potential Payments Upon Termination or Change-in-Control" and "Director Compensation" in this proxy statement.

### **Review, Approval or Ratification of Transactions with Related Persons**

Related party transactions have the potential to create actual or perceived conflicts of interest between the Company and its directors, its officers, its employees, and members of their respective families. While we do not maintain a written policy with respect to the identification, review, approval or ratification of transactions with related persons, the Company's Code of Ethics prohibits conflicts of interest between an employee and the Company and requires an

employee to report any such potential conflict to our compliance officer. In addition, each officer and director is expected to identify to the Secretary, by means of an annual director questionnaire, any transactions between the Company and any person or entity with which the director may have a relationship that is engaged or about to be engaged in a transaction with the Company.

#### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors, our executive officers and persons who own more than 10% of the common stock (collectively, the "Reporting Persons") to file initial reports of ownership and changes in ownership of our common stock. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. Based on our review of copies of the reports on the Section 16(a) forms received or filed by us with the SEC with respect to the fiscal year ended December 31, 2013, and the written representations received from the reporting persons that no other reports were required, we believe that all Reporting Persons complied with all applicable filing requirements under Section 16(a) of the Exchange Act.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table provides information as of December 31, 2013, about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans.

<b>Plan Category</b>	<b>Number of Securities to be issued Upon Exercise of Outstanding Options, Warrants and Rights</b> (a)	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b> (b)	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Securities Reflected in Column (a))</b> (c)	
Equity Compensation Plans Approved by Stockholders (1)	2,846,716	\$ 7.32	4,042,274	(2)(3)
Equity Compensation Plans Not Approved by Stockholders	21,000	(4) \$ 8.92	-	
<b>Total</b>	<b>2,867,716</b>		<b>4,042,274</b>	

(1) In 2011, when the Company's 2001 Stock Plan expired in 2011 with respect to the future grant of awards under the plan, the Company adopted, and the stockholders approved, the 2011 Stock Incentive Plan. For a description of these plans, see Note 7 to our Consolidated Financial Statements in the Form 10-K filed with SEC on March 14, 2014.

(2) Includes 1,265,465 shares available for issuance under the 2001 Employee Stock Purchase Plan (as amended the "ESPP"). The ESPP, designed to comply with Internal Revenue Code Section 423, includes an "evergreen" feature which provides for an automatic annual increase in the number of shares available under the plan on the first day of each of our fiscal years, equal to the lesser of 675,000 shares, 2% of our outstanding common stock on the last day of the immediately preceding fiscal year, or such amount as is determined by our Board. At the annual meeting of stockholders on May 18, 2010, our stockholders approved an amendment to the ESPP to extend it through May 17, 2020.

- (3) Includes 2,776,809 shares available for issuance pursuant to stock options and restricted stock units under the 2011 Stock Plan.

Consists of the Stock Option/Stock Issuance Plan that was assumed by us upon the acquisition of IDS Software Systems, Inc. Stock options granted under the plan generally vest with respect to 25% of the shares subject to the (4) option one year after the date of grant and then 1/48 of the shares subject to the option each month thereafter. Options generally expire 10 years after the grant date. The vesting for certain options is accelerated upon a change in control.

## EXECUTIVE COMPENSATION

### Introduction

This Compensation Discussion and Analysis (the “CD&A”) describes and analyzes the compensation program during the fiscal year ended December 31, 2013, for: (a) our principal executive officer; (b) our principal financial officer; and, (c) our two other executive officers who were serving as executive officers on December 31, 2013. Collectively, these were our “Named Executive Officers” or “NEOs” for 2013:

John K. Kibarian, Ph.D., our Chief Executive Officer and President;

Gregory C. Walker, Vice President, Finance, and Chief Financial Officer;

Cornelis (Cees) Hartgring, Ph.D., our Vice President, Client Services and Sales; and

Kimon W. Michaels, Ph.D., our Vice President, Products and Solutions.

This CD&A contains forward-looking statements that are based on our current plans, considerations, expectations, and determinations regarding future compensation programs. The actual compensation programs that we adopt in the future may differ materially from currently planned programs as summarized in this discussion.

### Compensation Governance

We endeavor to maintain good governance standards in our executive compensation program, as reflected by the following policies and practices that were in effect in 2013:

***CEO Compensation.*** In part due to his request, which is based on a desire to conserve cash for other purposes, including funding the business and compensating other employees, Dr. Kibarian did not receive an increase to his base salary between 2002 and 2012 or an annual cash bonus between 2002 and 2013. The amount of his salary increases and cash bonus awards in 2012 and in 2013, as described below, were modest. Also in response to his request, which is based on a desire to conserve equity for other purposes, including granting awards to other employees, Dr. Kibarian has not received an equity award since 2003. As a significant stockholder, Dr. Kibarian’s

interests are already strongly aligned with the interests of our other stockholders.

**Independence.** The Compensation Committee of our Board of Directors develops, reviews and approves each element of executive compensation. The Compensation Committee is comprised solely of independent directors. Additionally, pursuant to its Charter, the Compensation Committee has the authority to engage a compensation consultant and other advisers as it deems appropriate or necessary to support it in fulfilling its responsibilities.

**No Perquisites.** We do not provide perquisites or other personal benefits to our executive officers.

**No Tax Gross-Ups.** We do not provide tax gross-ups or other tax reimbursement payments to our executive officers.

**Severance and Change in Control Agreements.** Except in the case of Mr. Walker, which contains a double-trigger acceleration provision, as described below, we have not entered into any agreement with our NEOs in connection with the commencement of, or during, their employment with us that provides for severance payments or other special benefits upon the future termination of their employment or any payments or other special benefits in the event of a termination of employment in connection with a change of control of the Company.

**Exclusive Decision-Making Power.** The Compensation Committee retains and does not delegate any of its exclusive power to determine all matters of executive compensation and benefits, although our Chief Executive Officer and the Company's Human Resources department periodically present compensation and benefit recommendations to the Compensation Committee. The Compensation Committee considers, but independently evaluates whether or not to accept, management's recommendations with respect to NEO compensation.

**Periodic Review.** The Compensation Committee, in connection with management, regularly reviews our executive compensation policies, practices and programs, including the mix of elements within our executive compensation program and the allocation between short-term and long-term compensation and cash and non-cash compensation, to ensure that our executive officers are compensated in a manner that is consistent with competitive market practice and sound corporate governance principles, and that rewards them for performance tied to the Company's primary business objective of delivering sustained high-performance to our customers and stockholders.

**Risk Mitigation.** The Compensation Committee regularly considers how the primary elements of our executive compensation program could encourage or mitigate excessive risk-taking, and has structured our program to mitigate risk by rewarding performance tied to several reasonable business objectives, and avoiding incentives that could encourage inappropriate risk-taking by our NEOs.

## **Executive Compensation Objectives**

The design and operation of our executive compensation program reflect the following objectives, established by our Compensation Committee, with a strong emphasis on tying NEO pay to Company performance:

- to emphasize performance-based compensation that is progressively weighted with seniority level;
- to align our NEOs' interest with long-term stockholder value;
- to attract and retain talented leadership; and
- to maintain an executive compensation program that encourages our NEOs to adhere to high ethical standards.

## **Executive Compensation Objectives**

### **Elements of Our Executive Compensation Program**

#### ***Performance-Based Compensation***

In April 2012, in connection with its annual assessment of the Company's compensation policies and practices, the Compensation Committee adopted the Pay for Performance Compensation Program as further described below, which we refer to as the "PPCP". The purpose of the PPCP is to provide a standard mechanism pursuant to which the Compensation Committee may implement and administer the annual pay-for-performance component of our executive compensation program, to drive performance of the Company and its affiliates and operating units, and to align, motivate and reward eligible employees by making a portion of their equity and cash compensation dependent on the achievement of certain performance goals related to such Company performance.

Equity awards and cash bonuses awarded pursuant to the PPCP are based on the attainment of performance goals, which may include corporate and strategic business objectives, a participant's individual performance and contribution to the Company, and/or any other factor deemed appropriate by the Compensation Committee. The Compensation Committee is authorized to establish performance period or periods pursuant to the PPCP (which are typically the Company's fiscal year, but may include, without limitation, multiple fiscal years or any other period longer than one



fiscal year or shorter than one fiscal year), performance goals for each performance period and, in the Compensation Committee's sole discretion, a target equity award and/or cash bonus amount for each participant. Performance goals and target amounts are established, and may be modified, by the Compensation Committee at any time, as determined appropriate in the Compensation Committee's sole discretion. Corporate objectives may include one or more objective measurable performance factors, including, but not limited to, the following: (i) operating income; (ii) earnings before income taxes, depreciation, amortization and restructuring ("EBITDAR"); (iii) earnings; (iv) cash flow; (v) market share; (vi) sales or revenue; (vii) expenses; (viii) cost of goods sold; (ix) profit/loss or profit margin; (x) working capital; (xi) return on equity or assets; (xii) debt or debt-to-equity; (xiii) accounts receivable; (xiv) writeoffs; (xv) cash; (xvi) assets; (xvii) liquidity; (xviii) operations; (xvix) product development; (xx) regulatory activity; (xxi) management; (xxii) human resources; (xxiii) corporate governance; (xxiv) information technology; (xxv) business development; (xxvi) strategic alliances, licensing and partnering; (xxvii) mergers and acquisitions or divestitures; and/or (xxviii) financings, each with respect to the Company and/or one or more of its affiliates or operating units. The Compensation Committee has reserved the right, in its sole discretion, to increase, reduce or eliminate the amount of an equity award or cash bonus otherwise payable to a participant with respect to any performance period. No equity award will be approved and no cash bonus will be payable with respect to any performance period until the applicable results have been verified by the Compensation Committee and the Compensation Committee otherwise determines that the underlying terms and conditions of the program have been satisfied.

Each year, the Compensation Committee intends to approve calendar year performance periods under the PPCP and to pay cash incentive bonuses earned for each such calendar year performance period, if any, to each NEO on or before March 15<sup>th</sup> of the following year and to grant annual equity awards earned for each such calendar year performance period, if any, in May of the following year, based on achievement of the applicable performance goals for the calendar year performance period. Any such equity award will be 25% vested upon issuance, with the remaining 75% of the equity award subject to service-based vesting such that it shall vest in equal installments on each annual anniversary of the grant date for the three years following the grant date.

*Other Elements of Executive Compensation*

The other elements of our executive compensation program, the specific philosophy behind each element, the basis for the Compensation Committee's decisions regarding each element, and the objectives of our program that each element fulfills, are described below.

Element	Philosophy Statement	Basis for Compensation Decisions; Pay-for- Performance Criteria	Objective			Adhere to High- Ethical Standards
			Reward Long-term Performance	Attract & Retain	Align to Stockholder Value	
Base Salary	We provide a base salary to our NEOs as a significant element of their overall compensation to recruit and retain experienced executives.	Base salary takes into account the NEO's qualifications, experience, prior salary, and competitive salary information based on competitive market data as described below.		X		X
Annual Discretionary Cash Incentive Bonus	We provide an annual incentive cash bonus, payable in the sole discretion of the Compensation Committee, to reward our NEOs for individual and Company performance.	After the end of each year, the Compensation Committee reviews the Company's performance and the individual NEO's performance for the preceding fiscal year taking into consideration such factors as leadership qualities, business responsibilities, career with the Company, current compensation arrangements, and long-term potential to enhance stockholder value.	X	X	X	X
Annual Discretionary Long-Term Equity Incentive	We provide annual discretionary long-term equity incentive awards, which may consist of a mix of	The Compensation Committee considers an NEO's relative job scope, the value of such NEO's outstanding long-term	X	X	X	X

Awards	stock options and restricted stock or restricted stock unit awards (“Restricted Stock”), with vesting based on continued service with the Company to align our NEOs’ interests with those of our stockholders.	equity incentive awards, individual and Company performance history, prior contributions to the Company, the size of prior awards, and competitive market data as described below.
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Element	Philosophy Statement	Basis for Compensation Decisions; Pay-for-Performance Criteria	Objective			
			Reward Long-term Performance	Attract & Retain	Align to Stockholder Value	Adhere to High-Ethical Standards
Stock Options	We grant stock options to our NEOs with exercise prices based on the fair market value of the Company's common stock on the date of grant, which ties the value of the stock option directly to our future financial performance, to provide further incentives to our NEOs to increase the value of our common stock and to create retention incentives.	The Compensation Committee considers the same general criteria as described above for long-term equity incentive awards.	X	X	X	X
Restricted Stock or Stock Unit Awards	We grant Restricted Stock to reduce potential dilution to our stockholders, and to provide strong equity-based retention incentives to our NEOs.	The Compensation Committee considers the same criteria as described above for long-term equity incentive awards.	X	X	X	X
Health and Welfare Benefits and Retirement Benefits	We provide industry-standard programs to provide for the health, welfare and retirement planning of our NEOs, including life insurance equal to the lesser of \$200,000 or twice base salary.	The Compensation Committee has determined that our NEOs may participate on the same terms in the same programs that are available to all employees.		X		

### 2013 Compensation Decision-Making Process and Results

*Process*

Generally, around the first quarter of each fiscal year, the Compensation Committee reviews the previous year's performance of each of our NEOs and the Company. Our Compensation Committee relies upon the judgment of its members in making compensation decisions, reviewing the performance of the Company and carefully evaluating each NEO's performance during the year against leadership qualities, operational performance, business responsibilities, career with the Company, current compensation arrangements, and long-term potential to enhance stockholder value. Also, while the Compensation Committee may consider competitive market compensation paid by peer companies, as further described below, in assessing the reasonableness of compensation, the Compensation Committee does not attempt to achieve and maintain a certain target percentile within a peer group or otherwise rely entirely on that data to determine NEO compensation. Instead, the Compensation Committee maintains the flexibility in its assessment and decision-making process to respond to and adjust for the evolving business environment. The Compensation Committee strives to achieve an appropriate mix between equity incentive awards and cash payments to meet the objectives of our executive compensation program and may consider such data in its compensation decisions, however no particular apportionment goal is set.

We believe the most important indicator of whether our compensation objectives are being met is our ability to motivate our NEOs to deliver superior performance (as well as their actual ability to do so) and to retain them to continue their careers with the Company on a cost-effective basis. The Compensation Committee discusses our Chief Executive Officer's compensation package with him, but makes decisions with respect to his compensation without him present. Our Compensation Committee reports to our Board of Directors on the major items covered at each Compensation Committee meeting.

The Compensation Committee believes our executive compensation programs are effectively designed and working well in alignment with the interests of our stockholders and are instrumental to achieving our business strategy. As has been the case in the past, the Compensation Committee will consider any stockholder concerns and feedback on its executive compensation programs that it receives. We have held advisory stockholder votes on executive compensation three times to date, beginning with the annual meeting on November 16, 2011. Each time, more than 90% of the shares that voted at our annual meetings of stockholders approved our NEOs' compensation as described in the proxy statements for each such meeting. The Compensation Committee has considered the overwhelming support from our stockholders at prior meetings when making executive compensation decisions the next year. Further, consistent with the results of our stockholder vote regarding the frequency of future advisory votes on executive compensation, which was also held on November 16, 2011, the Company intends to hold an advisory vote on the compensation of our NEOs every year until the next required vote on the frequency of advisory votes on the compensation of NEOs. However, when considering the frequency of future advisory votes on executive compensation, the Board of Director may decide that it is in the best interests of our stockholders and the Company to hold an advisory vote on executive compensation less frequently.

***Role of Compensation Committee Consultant***

The Compensation Committee is authorized to retain the services of compensation consultants and other advisors from time to time, as it sees fit, in connection with its oversight of, and decisions related to, the Company's executive compensation program. In 2013, the Compensation Committee retained the services of Compensia, Inc. as an independent compensation consultant and Compensia served the Company at the discretion of the Compensation Committee. The services provided by Compensia included:

Providing compensation survey data to benchmark NEO compensation;

Helping the Compensation Committee interpret benchmark compensation data; and

Advising on the reasonableness and effectiveness of our NEO compensation levels and programs.

In 2013, the Compensation Committee further engaged Compensia to provide survey data to benchmark non-employee director compensation and evaluate the reasonableness of the amount of additional shares sought to be added to the reserved shares under the First Amended and Restated 2011 Incentive Stock Plan at the Company's 2013 annual meeting of stockholders. Compensia provided no other services to the Company in 2013.

***Use of Competitive Data***

To assess the competitiveness of our executive compensation for 2013, the Compensation Committee took into account competitive market compensation paid by other companies based on publicly-available proxy data from peer companies. The peer group, which was selected in 2012, included 19 companies, each of which: (1) were business or labor market competitors in the semiconductor intellectual property or electronic design automation industries or were small fabless or semiconductor capital equipment manufacturers; and (2) generated 2011 revenues between \$50 million and \$250 million, except for Rambus which generated revenues between \$200 million and \$499 million. This peer group was comprised of the following companies:

Callidus Software	Ikanos Communications	Ramtron International Corporation
Cascade Microtech	Intermolecular	Renesas Electronics America
Epocrates	MaxLinear	Splunk
Exar	MIPS Technologies	Supertex
FormFactor	PLX Technology	Vitesse Semiconductor
Gracenote	QuickLogic	Volterra Semiconductor

Rambus, Inc.

Our Compensation Committee believes that peer group comparisons provide a useful framework to measure the competitiveness of our compensation practices. The Compensation Committee understands that no two companies are exactly alike, and it maintains the discretion to set levels of NEO compensation above or below levels paid by our peers based upon factors such as individual performance, an NEO's level of experience and responsibilities, individual discussions with the NEO, and our compensation budget. The Compensation Committee intends to review our peer group at least annually and make adjustments to its composition as necessary.

### ***Base Salaries***

Our NEOs' base salaries are reviewed annually and adjusted in the discretion of the Compensation Committee based on factors such as an NEO's promotion or other significant change in responsibilities, sustained individual and Company performance and competitive market data. In 2013, the Compensation Committee considered the competitive market data obtained from Compensia described above.

Due to their positive and sustained individual performance throughout the year and to more closely align them with the competitive market data discussed above, the Compensation Committee decided to increase the base salaries of Drs. Kibarian and Michaels, by \$50,000 and \$30,000, respectively, effective in May 2013. Despite Dr. Hartgring and Mr. Walker's positive and sustained individual performance throughout the year, the Compensation Committee decided that the base salaries of Dr. Hartgring and Mr. Walker were already in line with the competitive market data discussed above. The base salary paid to each NEO in 2013 is set forth in the "Summary Compensation Table" below.

***Pay for Performance Compensation Program***

In April 2012, the Compensation Committee set the pay-for-performance component of our executive compensation program as it applied to 2012 by establishing the 2012 calendar year as a performance period under the PPCP, establishing specific revenue, GAAP and Non-GAAP profitability goals for the 2012 calendar year period, and determining that 50% of each NEO's total annual equity awards and 50% of each NEO's annual cash incentive bonus (collectively, the "2012 Performance Compensation") would be subject to the achievement of those goals for the 2012 calendar year as follows:

**Revenue Measure.** Fifty percent (50%) of each NEO's 2012 Performance Compensation was tied to the Company's 2012 revenue equaling or exceeding the Company's 2012 internal revenue plan.

***GAAP and Non-GAAP Profitability Measures.***

Twenty five percent (25%) of each NEO's 2012 Performance Compensation was tied to the Company's 2012 EBITDAR equaling or exceeding its 2012 internal EBITDAR plans.

The other twenty five percent (25%) of each NEO's 2012 Performance Compensation was tied to the Company's 2012 GAAP earnings per share equaling or exceeding its 2012 internal GAAP earnings per share plans.

In the first quarter of 2013, the Compensation Committee reviewed the Company's 2012 performance against the specific goals described above. The Company's performance against these goals is set forth in the table below.

	<b>2012 Performance Period</b>	
	<b>Target</b>	<b>Actual</b>
Revenue Growth (year-over-year)	≥ 18%	34.2%
EBITDAR Profitability(1)	18% of revenue	29.7% of revenue
GAAP Profitability	\$0.18 per share	\$1.25 per diluted share

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EBITDAR means the Company's non-GAAP, pre-tax net income, excluding stock-based compensation, depreciation, amortization of acquired intangibles and restructuring charges. For fiscal year 2012, we reported revenues of \$89,540,000 and GAAP net income of \$37,211,000 and calculated EBITDAR of (1) \$26,612,000. EBITDAR is calculated as GAAP net income of \$37,211,000 adjusted by \$4,891,000 of stock-based compensation, \$435,000 of amortization of acquired intangibles, \$1,889,000 of restructuring charges, \$515,000 of depreciation expense and \$(18,329,000) of income tax benefit.



In March 2013, after the above described review and given that the Company achieved all of the targets for 2012 performance as set forth in the table above, the Compensation Committee awarded annual incentive bonuses under the PPCP related to 2012 performance to Drs. Kibarian, Michaels and Hartgring, and Mr. Walker in the amount of \$65,000, \$65,000, \$65,000 and \$110,250, respectively. Based again on the above described review and the Company results for 2012, in our annual refresh/merit equity award cycle in May 2013, the Compensation Committee granted equity awards under the PPCP for the 2012 performance period to Drs. Hartgring and Mr. Walker in the amount of 6,957 restricted stock units each. No equity, performance-based or otherwise, was granted to Drs. Kibarian or Michaels in 2013 due to each NEO's significant ownership in the Company from their history as a founder of the Company and their corresponding, existing alignment with stockholders in general, as well as a desire on the part of both NEOs to reserve the stock pool for other purposes, such as awards to other employees and consultants. The amount of cash incentive bonuses earned by, and the amount of equity awards and vesting schedules for such awards granted to, our NEOs in connection with performance under the PPCP for the 2012 performance period are set forth below in the "Summary Compensation Table" and in the "Grants of Plan-Based Awards for Fiscal Year 2013" table, respectively.

In February 2013, the Compensation Committee set the pay-for-performance component of our executive compensation program as it applied to 2013 by establishing the 2013 calendar year as a performance period under the PPCP and picking preliminary goals for the 2013 calendar period. In April 2013, the Committee finalized the specific revenue and Non-GAPP profitability goals, and determined that 50% of each NEO's total annual equity awards and 50% of each NEO's annual cash incentive bonus (collectively, the "2013 Performance Compensation") would be subject to the achievement of those goals for the 2013 calendar year as follows:

2013 Performance Compensation At Risk		2013 Company Goals		
		Threshold	Target	Maximum
	Measure	(30% payout)	(75% Payout)	(100% Payout)
25%	Revenue Growth (year-over-year)	≥ 12% (≥\$100M in 2013)	≥15% (≥\$103M in 2013)	≥18% (≥\$106M in 2013)
25%	EBITDAR Profitability <sup>(1)</sup>	>20% of revenue	>30% of revenue	>38% of revenue

EBITDAR means the Company's non-GAAP, pre-tax net income, excluding stock-based compensation, depreciation, amortization of acquired intangibles and restructuring charges. For fiscal year 2013, we reported revenues of \$101,453,000 and GAAP net income of \$20,929,000 and calculated EBITDAR of \$39,658,000. EBITDAR is calculated as GAAP net income of \$20,929,000 adjusted by \$6,693,000 of stock-based compensation, \$74,000 of amortization of acquired intangibles, \$197,000 of restructuring charges, \$1,385,000 of depreciation expense and 10,380,000 of income tax expense.

In the first quarter of 2014, the Compensation Committee reviewed the Company's 2013 performance against the specific goals described above. The Company's performance met the "threshold" revenue goal, with year-over-year revenue growth equal to 13.3%, and the "maximum" EBITDAR goal, with a 2013 EBITDAR of 39.1%.

In February 2014, after the above described review and given the Company's 2013 performance as described above, the Compensation Committee awarded annual incentive bonuses under the PPCP related to 2013 performance to Drs. Kibarian, Michaels and Hartgring, and Mr. Walker in the amount of \$85,313, \$70,688, \$84,500 and \$71,663, respectively. The Compensation Committee has not yet granted annual equity awards under the PPCP for the 2013 performance period, however, based again on the above described review and the Company results for 2013, in our annual refresh/merit equity award cycle in May 2014, the Compensation Committee expects to grant equity awards under the PPCP for the 2013 performance period to Drs. Hartgring and Mr. Walker in the amount of 4,750 restricted stock units each. The Compensation Committee does not intend to award any equity in general in 2014 to Drs. Kibarian or Michaels, for the reasons mentioned above and discussed in more detail below with respect to Dr. Kibarian, in particular. The amount of cash incentive bonuses earned by our NEOs in connection with performance under the PPCP for the 2013 performance period is set forth in the "Summary Compensation Table" below.

### *Annual Discretionary Incentive Bonuses*

The Compensation Committee reviewed the Company's performance and each NEO's performance for 2012 using factors such as leadership qualities, business responsibilities, career with the Company, current compensation arrangements, and long-term potential to enhance stockholder value when evaluating whether to pay discretionary incentive bonuses to any of the NEOs in 2013. No pre-established formula was followed by the Compensation Committee for determining whether and the extent to which any NEO would receive a discretionary incentive bonus for 2012 performance or otherwise in 2013. Specifically, with respect to 2012 performance, the Compensation Committee did not prospectively establish individual or Company-wide qualitative or quantitative performance measures or related target levels that were required to be achieved for the NEOs to receive a discretionary incentive bonus. When performing its review in 2013, the Compensation Committee considered the competitive market data provided by Compensia described above as one of the factors influencing the amount of any discretionary incentive bonus to be awarded to each NEO.

Given the Company's strong 2012 performance combined with positive individual performance by each NEO during 2012, including, in particular, Dr. Hartgring booking significant new business in the year, the Compensation Committee decided to award discretionary incentive bonuses in 2013 to Drs. Kibarian, Michaels and Hartgring and Mr. Walker in the amount of \$65,000, \$65,000 and \$195,000 and \$110,250, respectively. The amount of discretionary cash incentive bonuses paid to our NEOs in 2013 is set forth in the "Summary Compensation Table" below.

#### ***Annual Discretionary Long-Term Equity Incentive Awards***

In determining whether annual discretionary long-term equity incentive awards would be granted to our NEOs in 2013 and the size of any such equity incentive awards, the Compensation Committee considered a number of factors, including, but not limited to, the relative job scope of the executive officer, the value of his existing long-term equity incentive awards, the NEO's individual, and the Company's, performance history, prior contributions to the Company, the size of prior equity incentive awards, and the peer data as described above. Based on some or all of these factors, the Compensation Committee determines in its discretion the total annual discretionary long-term equity incentive awards that it considers appropriate to create a meaningful opportunity for reward predicated on the creation of long-term stockholder value.

Given the Company's strong 2012 performance and based on the positive individual performance of Dr. Hartgring and Mr. Walker, in particular in connection with their positive effect on long-term Company business and prospects, in our annual refresh/merit equity award cycle in May 2013, the Compensation Committee awarded Dr. Hartgring and Mr. Walker annual discretionary long-term equity incentive awards of 6,958 restricted stock units each. Despite positive individual performance in 2012, no discretionary long-term equity incentive awards were made in 2013 to either Dr. Kibarian or Dr. Michaels for the reasons mentioned above and discussed in more detail below with respect to Dr. Kibarian. The amount of equity awards, and the vesting schedules for such awards, granted to our NEOs in connection with 2012 individual performance are set forth below in the "Grants of Plan-Based Awards for Fiscal Year 2013" table below.



### *Compensation of Dr. Kibarian*

Our Chief Executive Officer and President, Dr. Kibarian, is also a co-founder of the Company. As of April 4, 2014, Dr. Kibarian owned 8.3% of the Company's common stock. Given his significant equity stake, Dr. Kibarian's interests are strongly aligned with our other stockholders and, accordingly, he has a powerful incentive to manage the Company from the perspective of an owner. As such, Dr. Kibarian has requested that, instead of using the limited shares available for issuance under the Company's stock plans to further increase his ownership interest, the Compensation Committee use such shares for awards to other employees of the Company, in the Compensation Committee's sole discretion and judgment, to further the Company's ability to provide appropriate incentives aimed at motivating and retaining such employees and the creation of further long-term stockholder value.

### **Severance and Change of Control Arrangements**

The Company's 2011 Plan (as amended to date) provides that in the event of a change in control, outstanding awards shall be subject to the applicable agreement of merger or reorganization and that such agreement may provide, without limitation, for the assumption of outstanding awards by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting or for their cancellation with or without consideration. Additionally, under the 2011 Plan (as amended to date), the administrator may determine, at the time of grant of an award or thereafter, that such award shall become vested and exercisable, in full or in part, in the event that the Company is party to a change in control and a 2011 Plan (as amended to date) participant is terminated within a set time following such change in control.

The employment agreement entered into between the Company and Mr. Walker effective November 1, 2011, contains certain provisions that would have been applicable if the Company had undergone a change of control during the first 12 months of Mr. Walker's employment. Mr. Walker completed 12 months of employment with the Company on November 9, 2012, therefore, such provisions are no longer applicable. If the Company undergoes a change of control after November 9, 2012 and, within the 12 months following the change of control, Mr. Walker's employment is terminated without "Cause" or if he resigns for "Good Reason" (as such terms are defined in the employment agreement) then Mr. Walker would be entitled to the following benefits: (i) accelerated stock vesting such that Mr. Walker's then outstanding stock options and restricted stock would immediately vest, and if applicable, become exercisable, as if Mr. Walker provided an additional 12 months of service to the Company; (ii) 12 months of his then current base salary; (iii) 100% of an amount equal to the annual target bonus paid to Mr. Walker for the year prior to the year in which his termination occurred; and, (iv) up to 12 months of COBRA premium payments.

In addition, pursuant to Mr. Walker's employment agreement, he is entitled to certain severance payments and benefits if the Company terminates his employment at any time without "Cause" or without being due to "Disability" (as such terms are defined in the employment agreement). In this case, Mr. Walker would be entitled to the following benefits: (i) accelerated stock vesting such that Mr. Walker's then outstanding stock options and restricted stock would

immediately vest, and if applicable, become exercisable, as if Mr. Walker provided an additional 6 months of service, (ii) 6 months of his then current base salary, (iii) 50% of an amount equal to the annual target bonus paid to Mr. Walker for the year prior to the year in which his termination occurred, and (iv) up to 6 months of COBRA premium payments.

Additional details regarding the severance payments and benefits that would have been payable to Mr. Walker had he been terminated under each of the scenarios set forth above on December 31, 2013, are discussed in the section of this proxy statement titled "Potential Payments Upon Termination or Change-in-Control" below.

### **Share Ownership Guidelines**

Each NEO is required to own shares of our common stock as follows:

Our CEO must own shares equal to six (6) times such executive's annual base salary.

All NEOs other than our CEO must own shares equal to two (2) times such executive's annual base salary.

NEOs appointed after October 6, 2011 (the date the guidelines were adopted by our Compensation Committee and Board) will have five years from the date of hire or appointment to attain such ownership levels. Our other NEOs will have five years from October 6, 2011, to attain such ownership levels. For purposes of these guidelines, a NEO's share ownership includes all shares of the Company's common stock owned by such NEO outright or held in trust for such executive and his or her immediate family, but not a NEO's unvested or unexercised equity (i.e. unvested restricted stock units or outstanding stock options). The value of the shares will be measured as the greater of the then current market price or the closing price of the Company's common stock on the acquisition date.

### **Prohibition against Certain Equity Transactions**

Our Insider Trading and Disclosure Policy prohibits our NEOs from engaging in “short” sales and hedging transactions which could reasonably cause them to have interests adverse to our stockholders. “Short” sales, which are sales of shares of common stock by a person that does not own the shares at the time of the sale, evidence an expectation that the value of the shares will decline. Our NEOs are also prohibited from entering into hedging transactions if our compliance officer determines that such transaction would violate our Insider Trading and Disclosure Policy.

### **Other Considerations**

In determining the NEOs’ compensation, the Compensation Committee also considers, among other factors, the possible income tax consequences to the Company and to the NEOs. However, to maintain maximum flexibility in designing an effective Named Executive Officers’ compensation program, the Compensation Committee retains the flexibility to design compensation plans and arrangements that may not be deductible for federal income tax purposes. For example, our Compensation Committee considers the provisions of Section 162(m) of the Code that restrict deductibility for federal income tax purposes of executive compensation paid to our chief executive officer and each of our three other most-highly-compensated executive officers holding office at the end of any year (other than our chief financial officer), to the extent such compensation exceeds \$1 million for any of such executive officers in any year and does not qualify for an exception to such limitation. The members of our Compensation Committee qualify as outside directors for purposes of exempting executive compensation from the limits on deductibility under Section 162(m) as “performance-based compensation”. However, the Compensation Committee believes that our interests are best served in certain circumstances by providing compensation that does not qualify as performance-based compensation under Section 162(m) and, accordingly, has granted such compensation which may be subject to the \$1 million annual limit on deductibility, including base salary, annual cash bonuses and stock options.

In addition to Section 162(m), Sections 280G and 4999 of the Code provide that executive officers, persons who hold significant equity interests and certain other highly-compensated service providers may be subject to an excise tax if they receive payments or benefits in connection with a change in control of the Company that exceeds certain prescribed limits, and that the Company (or a successor) may forfeit a deduction on the amounts subject to this additional tax. Further, Section 409A of the Code imposes certain additional taxes on service providers who enter into certain deferred compensation arrangements that do not comply with the requirements of Section 409A. We have not agreed to pay any NEO a “gross-up” or other reimbursement payment for any tax liability that he or she might owe as a result of the application of Sections 280G, 4999 or 409A.

We follow Financial Accounting Standard Board Accounting Standards Codification Topic 718 (“ASC Topic 718”) for our stock-based compensation awards. ASC Topic 718 ASC requires companies to measure the compensation expense for all share-based payment awards made to employees and directors, including stock options and restricted

stock awards, based on the grant date “fair value” of these awards. This calculation is performed for accounting purposes and reported in the compensation tables below, even though our executive officers may never realize any value from their awards. ASC Topic 718 also requires companies to recognize the compensation cost of their stock-based compensation awards in their income statements over the period that an executive officer is required to render service in exchange for the option or other award.

The Compensation Committee also considers the accounting consequences to the Company of different compensation decisions and the impact of certain arrangements on stockholder dilution. However, neither of these factors by themselves will compel a particular compensation decision.



## COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Company's Compensation Discussion and Analysis contained in this proxy statement, or the CD&A, with management. Based on this review and discussion, the Compensation Committee recommended to the Board that the CD&A be included in this proxy statement and incorporated by reference into the Company's Annual Report on Form 10-K for fiscal year ended December 31, 2013.

THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS OF PDF SOLUTIONS, INC.:

Thomas Caulfield, DES, Chair

Albert Y.C. Yu, Ph.D.

April 14,  
2014

R. Stephen Heinrichs

*The information contained in the Compensation Committee Report shall not be deemed to be "soliciting material," to be "filed" with the SEC, or to be subject to Regulation 14A or Regulation 14C (other than as provided in Item 407 of Regulation S-K) or to the liabilities of Section 18 of the Securities Exchange Act of 1934 and, notwithstanding anything to the contrary set forth in any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings, including this proxy statement, in whole or in part, the Compensation Committee Report shall not be deemed to be incorporated by reference into any such filings with the SEC except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.*

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of the Board of Directors currently consists of Thomas Caulfield, DES (Chair), Albert Y.C. Yu, Ph.D. and R. Stephen Heinrichs. No member of the Compensation Committee of the Company is, or has been, an officer of the Company, and no executive officer of the Company, has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.



**SUMMARY COMPENSATION TABLE**

The following table presents the compensation paid to and earned by our Named Executive Officers in the three years ended December 31, 2013.

Name & Principal Position	Year	Salary (\$)	Bonus (\$)	Stock	Option	Non Equity		All Other Compensation	Total (\$)
				Awards	Awards	Incentive Plan	Compensation		
				(\$)(1)	(\$)(1)		(4)	(\$)(2)	
John K. Kibarian <i>Chief Executive Officer, President and Director</i>	2013	333,333	65,000(3)	-	-	85,313	(4)	144	483,790
	2012	283,333	-	-	-	65,000	(5)	216	348,549
	2011	250,000	-	-	-	-		216	250,216
Gregory C. Walker <i>Chief Financial Officer, Vice President, Finance</i>	2013	315,000	110,250(3)	258,680	-	71,663	(4)	144	755,737
	2012	286,932	83,333(6)	-	-	110,250	(5)	216	480,731
	2011	44,020	16,667(7)	-	546,050	-		36	606,773
Cornelis (Cees) Hartgring <i>Vice President, Client Services and Sales</i>	2013	260,000	195,000(3)	258,680	-	84,500	(4)	144	798,324
	2012	253,333	50,000(8)	87,900	128,154	65,000	(5)	216	584,603
	2011	240,000	-	41,918	64,782	-		216	346,916
Kimon W. Michaels <i>Vice President, Products and Solutions and Director</i>	2013	280,000	65,000(3)	-	-	70,688	(4)	144	415,832
	2012	243,333	17,000(8)	-	-	65,000	(5)	216	325,549
	2011	210,000	-	-	-	-		216	210,216

(1) The amounts reported in these columns reflect the aggregate grant date fair value for financial statement reporting purposes for stock options and restricted stock unit awards granted in that fiscal year as determined in accordance with the Financial Accounting Standards Board Accounting Standards Codification Topic 718, or FASB ASC Topic 718. These amounts reflect our accounting expense for these awards and do not represent the actual economic value that may be realized by the Named Executive Officers. There can be no assurance that these amounts will ever be realized. For information on the assumptions used in valuing these awards, refer to the Note to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year in which the award was granted titled "Stockholder's Equity".

(2)

Unless indicated otherwise, the amounts reported represent the dollar value of premiums for term life insurance paid by us on behalf of each Named Executive Officer during the fiscal years ended December 31, 2011, 2012 and 2013. There is no cash surrender value under these life insurance policies.

- (3) This amount represents the discretionary bonus related to 2012 performance paid in March 2013.
- (4) This amount represents the annual incentive bonus related to 2013 performance awarded in February 2014.
- (5) This amount represents the annual incentive bonus related to 2012 performance awarded in March 2013.
- (6) This amount represents the guaranteed bonus paid to Mr. Walker in equal installments with regular payroll from January 15, 2012 through October 30, 2012, per the terms of his employment.
- (7) This amount represents the guaranteed bonus paid to Mr. Walker in equal installments with regular payroll during 2011 per the terms of his employment offer.
- (8) This amount represents the discretionary bonus related to 2011 performance paid in April 2012.

**GRANTS OF PLAN-BASED AWARDS FOR FISCAL YEAR 2013**

The following table presents information with respect to each award of plan-based compensation to each Named Executive Officer made during the fiscal year ended December 31, 2013, including (a) annual cash incentive awards under the PPCP, (b) awards of stock options to purchase Common Stock and (c) awards of restricted stock units.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stocks or	All Other Option Awards: Number of Securities Underlying	Exercise or Base Price of Option	Grant Date Fair Value of Stock and Option
		Threshold (\$)	Target (\$)(1)	Maximum (\$)(1)	Units (#)	Options (#)	Awards (\$/Sh)	Awards (2)
John K. Kibarian		39,376	98,400	131,250				
Gregory C. Walker								