

PDF SOLUTIONS INC
Form DEF 14A
October 07, 2011

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 R

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)

(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:

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

“ Fee paid previously with preliminary materials.

oCheck 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:

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

(3) Filing Party:

(4) Date Filed:

PDF SOLUTIONS, INC.

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on November 16, 2011

Time and Date 1:30 p.m. local time, on Wednesday, November 16, 2011.

Place PDF Solutions, Inc. corporate headquarters located at 333 West San Carlos Street, Suite 700, San Jose, California 95110.

Items of Business (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, 2013 or until each such director's respective successor is duly elected and qualified.

(2) To ratify the appointment by the Company's Audit and Corporate Governance Committee of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2011.

(3) To approve the Company's 2011 Stock Incentive Plan.

(4) To approve, by non-binding vote, the 2010 compensation awarded to Named Executive Officers.

(5) To recommend, by non-binding vote, the frequency of future advisory votes on Named Executive Officer compensation.

(6) 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 September 27, 2011 (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 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.

Voting 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 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, 2010 are available at <http://ir.pdf.com/sec.cfm>.

Edgar Filing: PDF SOLUTIONS INC - Form DEF 14A

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

By Order of the Board of Directors,

PETER COHN
Secretary

San Jose, California
October 7, 2011

TABLE OF CONTENTS

PROXY STATEMENT	2
PROPOSAL NO. 1: ELECTION OF CLASS I DIRECTORS TO THE BOARD	7
MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS	11
CORPORATE GOVERNANCE	14
PROPOSAL NO. 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	16
PROPOSAL NO.3: APPROVAL OF 2011 STOCK INCENTIVE PLAN	17
PROPOSAL NO. 4: ADVISORY VOTE ON NAMED EXECUTIVE OFFICERS' COMPENSATION	23
PROPOSAL NO. 5: ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON NAMED EXECUTIVE OFFICERS' COMPENSATION	24
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	25
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	27
EQUITY COMPENSATION PLAN INFORMATION	28
EXECUTIVE COMPENSATION	29
COMPENSATION COMMITTEE REPORT	37
SUMMARY COMPENSATION TABLE	38
GRANTS OF PLAN-BASED AWARDS FOR FISCAL YEAR 2010	39
OUTSTANDING EQUITY AWARDS AS OF DECEMBER 31, 2010	40
OPTION EXERCISES AND STOCK VESTED IN THE FISCAL YEAR 2010	41
AUDIT AND CORPORATE GOVERNANCE COMMITTEE REPORT	46
APPENDIX A: 2011 STOCK INCENTIVE PLAN	A-1

PDF SOLUTIONS, INC.

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

PROXY STATEMENT

FOR THE
2011 ANNUAL MEETING OF STOCKHOLDERS
To Be Held on November 16, 2011

Our Board is soliciting proxies for our 2011 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 September 27, 2011 as the record date for the Annual Meeting (the "Record Date"). Stockholders of record who owned our common or preferred 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 28,260,257 shares of our common stock, \$0.00015 par value, outstanding. No shares of our preferred stock were outstanding.

Voting materials, which include this proxy statement, a proxy card and the 2010 Annual Report, will be mailed to stockholders on or about October 14, 2011.

In this proxy statement:

- "We," "us," "our," "PDF," "PDF Solutions," and the "Company" refer to PDF Solutions, Inc.;
- "Annual Meeting" means our 2011 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 Wednesday, November 16, 2011 at 1:00 p.m. local time, at the Company's headquarters located at 333 West San Carlos Street, Suite 700, 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 Dr. Kimon Michaels, our Vice President, Products and Solutions, or either of them, proxies and attorneys-in-fact to

represent you at the Annual Meeting. Dr. Kibarian and/or Dr. Michaels 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, 2013 or until each such directors' respective successor is duly elected and qualified.
- (2) To ratify the appointment by the Company's Audit and Corporate Governance Committee of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2011.
- (3) To approve the Company's 2011 Stock Incentive Plan.
- (4) To approve, by non-binding vote, the 2010 compensation awarded to Named Executive Officers.
- (5) To recommend, by non-binding vote, the frequency of future advisory votes on Named Executive Officer compensation.

The Board recommends a vote FOR all nominees, FOR Proposals 2, 3 and 4 and every 1 YEAR for Proposal 5.

Voting Procedure

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. If your shares are held in "street name" and you wish to attend the Annual Meeting, you must notify your broker, bank or other nominee and obtain the proper documentation to vote your shares at the Annual Meeting. 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 change your mind after you have returned your proxy card.

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:

-

Edgar Filing: PDF SOLUTIONS INC - Form DEF 14A

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 to us at PDF Solutions, Inc., Attention: Corporate Secretary, 333 West San Carlos Street, Suite 700, San Jose, California, 95110; or
- voting in person at the Annual Meeting.

Multiple Proxy Cards

If you received more than one proxy card, it means that you hold shares in more than one account. Please sign and return all proxy cards 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 as votes AGAINST a proposal for purposes of determining the approval of any matter submitted to the stockholders for a vote.

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.

Vote Solicitation; Use of Outside Solicitors

PDF Solutions, Inc. is soliciting your proxy to vote your shares at the Annual Meeting. In addition to this solicitation by mail, our directors, officers and other employees or a third-party proxy solicitation firm may contact you by telephone, via the Internet or in person to obtain your proxy. PDF Solutions will bear this cost, but our directors, officers and employees that assist us in this solicitation will not receive any additional compensation for doing so. Our Compensation Committee engaged Georgeson, Inc. to provide proxy solicitation in connection with the Annual Meeting, the cost of which we estimate to be \$20,000. We will also request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners. We will reimburse these entities and our transfer agent for their reasonable out-of-pocket expenses in forwarding proxy materials.

Voting Procedures

Votes cast by proxy or in person at the Annual Meeting will be tabulated by a representative of Computershare, our transfer agent, and delivered to Rochelle Woodward, our General Counsel. Mrs. Woodward will act as the Inspector of Elections. 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, FOR Proposals 2, 3 and 4 and every 1 YEAR for Proposal 5, and in a 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 any directors.

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 the SEC at (800) 732-0330 for the location of the nearest public reference room, 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 Dr. Michaels 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 2012 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. Your proposal should be addressed to us at PDF Solutions, Inc., Attention: Corporate Secretary, 333 West San Carlos Street, Suite 700, San Jose, California 95110. Assuming that this proxy statement is mailed on or about Friday, October 14, 2011, your proposal for the 2012 annual meeting of stockholders should arrive by Saturday, July 16, 2012.

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 anniversary date of the prior year's meeting, which will be November 16, 2012 (the "Anniversary Date"), shall be considered timely received, which means any such proposal would need to be delivered or mailed to us between July 16, 2012 and August 18, 2012. 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 10th day following the date the meeting date was first publicly announced.

If you submit a proposal for the 2012 annual meeting of stockholders after August 18, 2012, or, in the circumstances described above, later than the close of business on the 10th day following the date the meeting date was first publicly announced, then management may or may not, at its discretion, present the proposal at the meeting, and the proxies for the 2012 annual meeting of stockholders will confer discretion on the management proxy holders to vote for or against your proposal at their discretion.

Important Additional Voting Information for the 2011 Annual Meeting

If you hold your shares through a broker, bank or other financial institution, the SEC approved a New York Stock Exchange rule that, effective as of January 1, 2010, changes the manner in which your vote in the election of directors will be handled at our upcoming Annual Meeting.

Stockholders who hold shares of PDF Solutions through a broker, bank or other financial institution receive proxy materials before each stockholder meeting. In the past, if you did not transmit your voting instructions before the stockholder meeting, your broker was allowed to vote on your behalf on the election of directors and other matters considered to be routine. Voting your shares is important to ensure that you have a say in the governance of your company and to fulfill the objectives of the majority voting standard that we apply in the election of directors. Please review the proxy materials and follow the instructions on the proxy card to vote your shares. We hope you will exercise your rights and fully participate as a stockholder in our future.

If you have any questions about this rule or the proxy voting process in general, please contact the broker, bank or other financial institution where you hold your shares. The SEC also has a website (www.sec.gov/spotlight/proxymatters.shtml) with more information about your rights as a stockholder. Additionally, you may contact our Investor Relations Department at <http://ir.pdf.com/contactus.cfm>.

PROPOSAL NO. 1: ELECTION OF CLASS I DIRECTORS

We have nominated three candidates for election to the Board this year as Class I directors, Thomas Caulfield, DES, R. Stephen Heinrichs and Albert Y.C. Yu, Ph.D. Detailed information about each nominee 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 (6), consisting of three Class I directors, two Class II directors and one Class III director.

The Class I directors elected at the Annual Meeting will hold their office until the first annual meeting that is held after the fiscal year ending December 31, 2013 or until each 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, 2011 and December 31, 2012, 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 nominees named below. In the event that a nominee of the Company becomes unable or declines to serve as a director at the time of the Annual Meeting, the proxy holders will vote the proxies for any substitute nominee who is designated by the current Board to fill such vacancy. It is not expected that any nominee listed below will be unable or will decline to serve as directors. The Class I nominees listed below presently serve as directors of the Company and have consented to serve a three-year term.

Certain individual experience, qualifications, attributes and skills of each of our directors that led the Board to conclude that such directors should be re-nominated as directors are described in each of the biographies below. The following information was provided by the nominees and the continuing Class II and Class III directors with unexpired terms:

Nominees for Class I Directors:

Thomas Caulfield, DES

Age	52
Director Since	2006

Recent Business Experience

and Education Dr. Caulfield has served as Chief Executive Officer of Caitin, Inc. since November 2008. Dr. Caulfield has held numerous executive positions in publicly traded and private companies including: Chief Operating Officer of Ausra, Inc.; Executive Vice President of Sales, Marketing and Customer Satisfaction at Novellus Systems, Inc. since 2005; 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

Committee Memberships Chairman of the Compensation Committee since May 18, 2010. Member of Audit and Corporate Governance and Nominating Committees since October 23, 2008.

Qualifications & Attributes Dr. Caulfield has many years of experience as an executive officer in the technology 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 64

Director Since 2005 (served as the Lead Independent Director from June 2007 to August 2009)

Recent Business Experience

and Mr. Heinrichs is currently a private investor, a director of Avistar Communications, and is also managing Education director of an early stage venture capital fund. Most recently, Mr. Heinrichs served as a director of Catapult Communications Corporation from September 2005 through June 2009, when the company was acquired by Ixia, and 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.

Committee Chairman of the Audit and Corporate Governance Committee since August 1, 2005. Member of Memberships Compensation and Nominating Committees since October 23, 2008.

Qualifications & Mr. Heinrichs received a B.S. in Accounting from California State University Fresno. Mr. Heinrichs Attributes received his Certified Public Accountant license in December 1971 and has over 30 years of experience in finance and operations through positions he held with various companies in public accounting and as a corporate officer. Mr. Heinrichs is designated as our “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.

Albert Y.C. Yu, Ph.D.

Age 70

Director Since 2005

Recent Business Experience

and Dr. Yu is active in private venture capital investing and serves on the board of directors of several high Education technology companies and on the board of directors of Preferred Bank, an independent commercial bank. Previously, Dr. Yu had been employed with Intel Corporation for almost 30 years until his retirement in 2002. At Intel, he held numerous technical and executive management positions, including Senior Vice President and a member of the Corporate Management Committee, with responsibilities for corporate strategy, microprocessors, chipsets, and software. Dr. Yu received a B.S. from the California Institute of Technology, and an M.S. and Ph.D. from Stanford University, all in electrical engineering.

Committee Chairman of the Nominating Committee since May 18, 2010. Member of Compensation Memberships Committee since August 1, 2005.

Qualifications & Dr. Yu has first-hand managerial experience in large, multinational corporations as well as private Attributes venture capital investment companies. Dr. Yu's extensive experience in high technology

companies enables him to provide invaluable insight regarding the industry in which the Company operates.

Continuing Class II Directors:

Lucio Lanza
Chairman of the Board

Age 67
Director Since 1995

Recent Business Experience

and 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.

Committee Memberships Chairman of the Board since April 2004. Member of Audit and Corporate Governance Committee since September 15, 2006.

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 companies, serves the Company well in his role as our Chairman and as a director.

Kimon Michaels, Ph.D.

Age 45
Director Since 1995

Recent Business Experience

and Dr. Michaels, one of our founders, has served as Vice President, Products and Solutions since July 2010. Education Dr. Michaels served as Vice President, Design for Manufacturability from June 2007 through June 2010. Prior to that, Dr. Michaels served as 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. 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 and a co-founder. This experience provides the Board with invaluable insight into Company operations.

Continuing Class III Director:

John Kibarian, Ph.D.

Age 47

Director Since 1992

Recent Business Experience

and Dr. Kibarian is one of our founders and has served as President since November 1991 and 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.

Committee Memberships Special Option and Strategic Committees since June 30, 2000.

Qualifications & Attributes Having served as our President and Chief Executive Officer for 19 years, 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 each of the three nominees. If additional people are nominated for election as directors after the date of this proxy statement, the proxy holders intend to vote all proxies received by them in a way that will ensure that the nominees listed above are elected.

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 2010

8

Board Committees

Audit and Corporate Governance
 Compensation
 Nominating
 Special Option
 Strategic

Total Committee Meetings in 2010 15 (the number of meetings held by each committee is set forth below)

Director Each current Board member attended 75% or more of the meetings of the Board and the Attendance in 2010 committees on which he served, held during the period for which he was a director or committee member.

BOARD COMMITTEES

The following table provides additional information regarding the committees of our Board of Directors during fiscal 2010:

Name of Committee and Members	Principal Functions of the Committee	Number of Meetings in Fiscal 2010	Number of Actions by Unanimous Consent in Fiscal 2010
Audit and Corporate Governance Committee Mr. Heinrichs (Chair) Mr. Lanza Dr. Caulfield	<ul style="list-style-type: none"> · Recommends the engagement of the independent registered public accounting firm. · Monitors the effectiveness of our internal and external audit efforts. · Monitors and assesses the effectiveness of our financial and accounting organization and the quality of our system of internal accounting controls. · Oversees all aspects of the Company's corporate governance functions on behalf of the Board and makes recommendations on corporate governance issues. 	12	-
Compensation Committee Dr. Caulfield (Chair) Mr. Heinrichs Dr. Yu	<ul style="list-style-type: none"> · Establishes and administers our policies regarding annual executive salaries and cash incentives and long-term equity incentives; and · Assists with the administration of our stock incentive and purchase plans. 	2	-
Nominating Committee Dr. Yu (Chair) Dr. Caulfield Mr. Heinrichs	<ul style="list-style-type: none"> · Identifies, reviews and evaluates candidates to serve as directors. · Makes other recommendations to the Board regarding affairs related to the 	1	-

	directors of the Company.		
Special Option Committee	Assists the Compensation Committee by serving as administrator for our stock plans for the purposes of granting options to purchase up to 35,000 shares of common stock to new, non-executive employees and granting options to purchase up to 15,000 shares of common stock as merit increases for persons who are not executive officers.	-	14
Dr. Kibarian			
Ms. Leo (Confirming Role)			
Strategic Committee	· 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.	1	-
Dr. Kibarian			
Mr. Lanza			
Mr. Heinrichs			

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. Current members of the Board with skills and experience that are relevant to the Company's business and who are willing to continue in service are first considered for re-nomination. If any member of the Board does not wish to continue in service, 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, 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.

1 As initially reported in a Current Report on Form 8-K filed by us on May 31, 2011 and updated in a Current Report on Form 8-K filed by us on June 20, 2011, Ms. Joy Leo resigned as our Executive Vice President, Chief Administration Officer and Acting Chief Financial Officer effective June 17, 2011.

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 for 2010 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;
- we do 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;
- our compensation programs are weighted towards cash, and the equity component does not promote unnecessary risk taking; and
- the Company's compensation awards are capped at 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.

Our 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 (our President and Chief Executive Officer) and principal financial officer (our Chief Financial Officer, including any interim Chief Financial Officer), and charters for the committees of the Board. These materials can be found at 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 700, 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 primary 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.

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 700, 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, 2011. 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 during fiscal 2011 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 billed to us for the last two fiscal years by PwC, the Company’s independent registered accounting firm since November 10, 2009. PwC is the accounting firm that delivered an opinion for the audit of the Company’s financial statements for the two most recently completed fiscal years.

Fee Category	Fiscal 2010 Fees	Fiscal 2009 Fees
Audit Fees (1)	\$804,000	\$574,500
Audit-Related Fees (2)	6,000	10,000
Tax Fees	-	-
All Other Fees (3)	55,000	-
Total Fees	\$865,000	\$584,500

(1) Represents the aggregate fees billed for professional services rendered in connection with the annual audit of financial statements and internal controls over financial reporting.

(2) Represents aggregate fees billed in 2010 for professional services rendered in connection with delivering consent for the Company’s S-8 filing and in 2009 for services rendered in connection with the Company’s response to an SEC comment letter.

(3) Represents aggregate fees billed in such year for consulting services rendered in connection with our early adoption of EITF08-1.

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, 2009 and 2010 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, 2011.**

PROPOSAL NO. 3: APPROVAL OF THE 2011 STOCK INCENTIVE PLAN

Subject to stockholder approval, the Board of Directors of the Company adopted the 2011 Stock Incentive Plan (the “2011 Plan”) on October 6, 2011. If this Proposal 3 is approved, the total number of shares of our common stock reserved for issuance under the 2011 Plan will be 3,200,000 shares, plus up to 3,500,000 shares to be added to the 2011 Plan upon the termination of awards issued under the Company’s 2001 Stock Option Plan (the “2001 Plan”) or upon the forfeiture or repurchase of shares previously granted under the 2001 Plan.

The purpose of the 2011 Plan is to attract and retain highly qualified officers, directors, key employees and other persons and to motivate these individuals to serve the Company and its affiliates and to expend maximum effort to improve the business results and earnings of the Company by providing these individuals an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company. The Board believes that grants of awards under the 2011 Plan provide a valuable incentive and serve the ultimate benefit of stockholders by aligning more closely the interests of plan participants with those of our stockholders.

The adoption of the 2011 Plan is designed to ensure that the Company can continue to grant equity awards to our officers, employees, non-employee directors and other eligible award recipients. We believe that equity awards are a critical part of the compensation package offered to new, existing and key employees and are an important tool in our ability to attract and retain talented personnel.

If the 2011 Plan is approved by the Company’s stockholders, the 2011 Plan will become effective on November 16, 2011.

Promotion of Good Corporate Governance Practices

We designed the 2011 Plan 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 2011 Plan.
- **No Repricing Without Stockholder Approval.** No authorization, without stockholder approval, to “reprice” a stock option or stock appreciation right by reducing the exercise price of such award or exchanging such award for cash, other awards or a new stock option or stock appreciation right 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 intend to align 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 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 October 6, 2011, our Board adopted a resolution committing to stay below a 3-year average maximum burn rate for fiscal years 2011 through 2013, subject to stockholders 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 6.64% of our outstanding common stock, 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 and Semiconductor Equipment), as published by Institutional Shareholder Service, Inc. (ISS) in 2010. 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 (although for purposes of this analysis the number of shares subject to performance units and performance shares will be counted in the fiscal year that they are earned instead of the fiscal year in which they are granted) divided by our weighted average common stock 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%.

All awards under the 2011 Plan will be made at the discretion of the 2011 Plan administrator. Therefore, the benefits and amounts that will be received or allocated under the 2011 Plan are not determinable.

As of October 6, 2011, the fair market value of a share of Company common stock was \$4.10.

Description of the 2011 Plan

The material features of the 2011 Plan are outlined below. This summary does not purport to be a complete description of all of the provisions of the 2011 Plan and is qualified in its entirety by reference to the complete text of the 2011 Plan. Stockholders are urged to read the actual text of the 2011 Plan in its entirety, which is appended to this proxy statement as Appendix A.

Eligibility and Types of Awards

Only employees, non-employee directors and independent contractors shall be eligible to participate in the 2011 Plan. Upon the adoption of the 2011 Plan approximately 321 employees (including executive officers), 4 non-employee directors and 8 contractors will be eligible to participate in the 2011 Plan.

The terms of the 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 2011 Plan. Any such committee shall generally be composed of directors who qualify as non-employee directors under Rule 16b-3 of the Securities Exchange Act of 1934, as amended (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 2011 Plan, the administrator of the 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 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 2011 Plan allows; interpreting the 2011 Plan and any award agreement; correcting any defect, supplying any omission or reconciling any inconsistency in the 2011 Plan or any award agreement; adopting such rules or guidelines as it deems appropriate to implement the 2011 Plan; making all other decisions relating to the operation of the 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 2011 Plan shall be authorized but unissued shares or treasury shares. The aggregate number of shares initially reserved for awards under the 2011 Plan is 3,200,000 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, shall be added to the 2011 Plan share reserve and shall become available for issuance pursuant to the 2011 Plan, with the maximum number of such shares to be added to the 2011 Plan pursuant to such terminations, forfeitures and repurchases not to exceed 3,500,000 shares. In the case of awards other than stock options or stock appreciation rights, the aggregate number of shares reserved under the 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 2011 Plan (for purposes of clarity, if the share reserve is reduced by 1.33 shares per share subject to awards granted under the 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 2011 Plan and again be available for issuance pursuant to the 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 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 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 2011 Plan share reserve and shall not become available again for issuance under the 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 2011 Plan share reserve and shall become available again for issuance under the 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 2011 Plan share reserve and shall not become available again for issuance under the 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 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 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 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 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 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 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 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 first 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 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 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 2011 Plan and may be subject to any other terms that are not inconsistent with the 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 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 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 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 awards granted under the 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 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 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 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 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 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 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 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 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 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 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 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 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- 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 and the exercise price on the date of exercise. 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 2011 Plan administrator, the 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 2011 Plan will qualify for exemption under Code Section 162(m). However, the 2011 Plan is structured with the intention that the 2011 Plan administrator will have the discretion to make awards under the 2011 Plan that would qualify as "performance-based compensation" and be fully deductible. Accordingly, the Company is seeking stockholder approval of the 2011 Plan to comply with Code Section 162(m).

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 2011 Plan.

Recommendation of the Board

THE BOARD RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR THE APPROVAL OF THE 2011 STOCK INCENTIVE PLAN.

PROPOSAL NO. 4: ADVISORY VOTE ON NAMED EXECUTIVE OFFICERS' COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act added Section 14A to the Securities Exchange Act of 1934, which requires that we provide our stockholders with the opportunity to vote to approve, on a non-binding, advisory basis, the 2010 compensation of our Named Executive Officers as disclosed in this proxy statement.

As described in greater detail under the heading "Executive Compensation" in our Compensation Discussion and Analysis, we seek to closely align the interests of our Named Executive Officers with the interests of our stockholders. Our compensation programs are designed based on the Company's philosophy of pay for performance. Accordingly, the compensation of our Named Executive Officers is based in large part upon the financial achievement of the Company.

This vote is advisory, which means that the vote on executive compensation is not binding on the Company, our Board of Directors or the Compensation Committee of the Board of Directors. The vote on this proposal is not intended to address any specific element of compensation, but rather relates to the overall compensation of our Named Executive Officers in 2010, as described in this proxy statement. To the extent there is a significant vote against our Named Executive Officers' 2010 compensation, the Compensation Committee will evaluate whether any actions are necessary to address our stockholders' concerns.

Accordingly, we ask our stockholders to vote on the following resolution at the Annual Meeting:

"RESOLVED, that the Company's stockholders approve, on an advisory basis, the 2010 compensation of the Named Executive Officers, as disclosed in the Company's Proxy Statement for the 2011 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."

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 approval of the 2010 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 APPROVAL, ON AN ADVISORY BASIS, OF THE 2010 COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCUSSED IN THIS PROXY STATEMENT.

PROPOSAL NO. 5: ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act added Section 14A to the Securities Exchange Act of 1934, which requires that we provide stockholders with the opportunity to vote, on a non-binding, advisory basis, for their preference as to how frequently to vote on future advisory votes on the compensation of our Named Executive Officers as disclosed in accordance with the compensation disclosure rules of the SEC.

In accordance with Section 14A of the Exchange Act, we are requesting your non-binding vote to determine whether a vote on the type of resolution described above will occur every 1 year, 2 years, or 3 years.

The Company believes that the stockholder non-binding vote to approve the compensation of our Named Executive Officers should occur each year. An annual vote allows our stockholders to provide us with regular and comprehensive input on important issues such as our executive compensation programs and practices as disclosed in the Company's proxy statement each year. The Company values and considers stockholder input on corporate governance matters and on our Named Executive Officer compensation. This vote is advisory, which means that the vote is not binding on the Company, our Board of Directors or the Compensation Committee of the Board of Directors. The Company recognizes that the stockholders may have different views as to the best approach for the Company, and therefore we look forward to hearing from our stockholders as to their preference on the frequency of an advisory vote on Named Executive Officer compensation. The Board of Directors and the Compensation Committee will take into account the outcome of the vote; however, when considering the frequency of future advisory votes on executive compensation, the Board of Directors may decide that it is in the best interests of our stockholders and the Company to hold an advisory vote on executive compensation more or less frequently than the frequency receiving the most votes cast by our stockholders.

Vote Required

So long as a quorum is present (in person or by proxy) at the Annual Meeting, the frequency receiving the highest number of votes cast at the Annual Meeting will be the frequency selected by our stockholders. Stockholders are not voting to approve or disapprove the Board of Directors' recommendation. Unless otherwise instructed, the proxy holders will vote the proxies they receive for every 1 YEAR for the frequency of an advisory vote on Named Executive Officer compensation.

Recommendation of the Board

THE BOARD RECOMMENDS A VOTE FOR EVERY "1 YEAR" FOR THE FREQUENCY OF AN ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership, as of September 30, 2011, 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 25 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 700, San Jose, California 95110. Unless otherwise indicated in the footnotes, each person or entity has sole voting and investment power, or shares such powers with his spouse, with respect to the shares shown as beneficially owned.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (1)(2)
5% Stockholders:		
Burnham Asset Management Corporation 1325 Avenue of the Americas New York, NY 10019 (3)	2,886,971	10.22
T. Rowe Price Associates, Inc 100 E. Pratt Street Baltimore, Maryland 21202 (4)	2,700,201	9.55
Samjo Capital LLC 1325 Avenue of the Americas, 26th Floor New York, New York 10019 (5)	2,007,700	7.10
John K. Kibarian (6)	2,567,474	9.09
Kimon W. Michaels (7)	1,513,477	5.36
Directors and Named Executive Officers:		
John K. Kibarian (6)	2,567,474	9.09
Keith A. Jones	35,166	*
Joy E. Leo (8)	18,991	*
Michael Shahbazian (9)	9,000	*
Kimon W. Michaels (7)	1,513,477	5.36
Cornelis (Cees) Hartgring (10)	290,436	1.03
David A. Joseph	276,703	*
Lucio L. Lanza (11)	529,274	1.87
R. Stephen Heinrichs (12)	149,504	*
Albert Y.C. Yu (13)	31,034	*
Thomas Caulfield (14)	51,292	*
All directors and executive officers as a group (11 persons) (15)	5,472,351	19.36

* Less than 1%.

(1) 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 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 September 30, 2011.

(2) Percentage of beneficial ownership is based on 28,260,257 shares outstanding as of September 30, 2011. For each named person, the percentage ownership includes stock which the person has the right to acquire within 60 days after September 30, 2011, as described in Footnote 1. However, such shares 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. 1 filed on February 11, 2011 (the “Burnham 13G Amendment”). These securities are owned by various individual and institutional investors including Burnham Securities Inc. (which owns 305,500 shares, representing 1.1% of the shares outstanding as of filing of the Burnham 13G Amendment), of which Burnham Asset Management Corporation serves as the investment manager with the shared dispositive power over 2,886,971 shares.
- (4)Based solely on the Schedule 13G Amendment No. 7 filed on February 11, 2011 (the “T. Rowe Price 13G Amendment”). These securities are owned by various individual and institutional investors including T. Rowe Price Small Cap Stock Fund, Inc. (which owns 1,350,000 shares, representing 4.9% 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 Securities Exchange Act of 1934, 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.
- (5)Based solely on the Schedule 13G that was jointly filed on January 10, 2011 by Samjo Capital LLC (“Samjo Capital”), Samjo Management LLC (“Samjo Management”) and Andrew Wiener. The Schedule 13G indicates that: (i) Samjo Capital, Samjo Management and Mr. Wiener share voting power and dispositive power over 2,005,000 shares; and, (ii) Mr. Weiner has sole voting power and dispositive power over 2,700 shares.
- (6) Includes 80,000 shares issuable upon the exercise of stock options vested as of September 30, 2011.
- (7)Includes 15,957 shares issuable upon the exercise of vested stock options by Mr. Michael’s spouse vested as of September 30, 2011 and 1,646 stock options that will vest within 60 days after September 30, 2011. Excludes 89,318 shares held by Mr. Michaels' spouse as separate property.
- (8)Excludes the exercise and sale of 326,040 shares of stock options which accelerated and fully vested upon Ms. Leo’s resignation effective on June 17, 2011 and shares Ms. Leo sold prior to September 30, 2011. Excludes 23,960 stock options that expired on September 15, 2011.
- (9)Consists of 9,000 shares issued upon the vesting of restricted stock units granted at the time of the Company entering into an offer letter with Mr. Shahbazian for his services as the Vice President, Interim Chief Financial Officer. The restricted stock units fully vested on August 12, 2011.
- (10)Includes 230,061 shares issuable upon the exercise of stock options vested as of September 30, 2011 and 5,637 shares issuable upon the exercise of stock options that will vest within 60 days after September 15, 2011.
- (11)Includes 290,621 shares issuable upon the exercise of stock options vested as of September 30, 2011 and 5,312 shares issuable upon the exercise of stock options that will vest within 60 days after September 30, 2011. Includes 121,720 shares owned by Lanza techVentures, an early stage venture capital and investment firm of which Mr. Lanza is the managing director.
- (12)Includes 145,339 shares issuable upon the exercise of stock options vested as of September 30, 2011 and 3,697 shares issuable upon the exercise of stock options that will vest within 60 days after September 30, 2011.
- (13)Includes 14,789 shares issuable upon the exercise of stock options vested as of September 30, 2011 and 1,771 shares issuable upon the exercise of stock options that will vest within 60 days after September 30, 2011.
- (14)

Edgar Filing: PDF SOLUTIONS INC - Form DEF 14A

Includes 19,269 shares issuable upon the exercise of stock options vested as of September 30, 2011 and 1,823 shares issuable upon the exercise of stock options that will vest within 60 days after September 30, 2011.

(15) Consists of 5,472,351 shares held by our directors and executive officers, of which 716,036 shares are issuable upon the exercise of stock options vested as of September 30, 2011 and 19,886 shares are issuable upon the exercise of stock options that will vest within 60 days after September 30, 2011.

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. 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. To our knowledge, based solely on our review of the copies of such reports received or written representations from certain Reporting Persons that no other reports were required, we believe that during the fiscal year ended December 31, 2010 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, 2010 about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans.

Plan Category	Number of Securities to be issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Stockholders (1)	3,243,429	\$ 5.43	7,339,953 (2)(3)
Equity Compensation Plans Not Approved by Stockholders	209,695 (4)	\$ 8.13	388,919 (4)
Total	3,453,124		7,728,872

(1) In 2001, the Company terminated its 1996 Stock Option Plan and 1997 Stock Plan with respect to future option grants, and adopted its 2001 Stock Plan. As of September 30, 2011, no option rights were outstanding under the 1996 Stock Option and 1997 Stock Plans. The 2001 Stock Plan expired on June 12, 2011. For a description of these plans, see Note 8 to our Consolidated Financial Statements in the Form 10-K filed with SEC on March 23, 2011.

(2) Includes 5,840,714 shares available for issuance pursuant to options and stock purchase rights granted under the 2001 Stock Plan, prior to its expiration on June 12, 2011. Other than in connection with outstanding awards, no shares remain available for issuance pursuant to 2001 Stock Plan.

(3) Includes 1,499,239 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.

(4) 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 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 for: (a) the person who served as our Chief Executive Officer during the fiscal year ended December 31, 2010; (b) the people who served as our Chief Financial Officer during the fiscal year ended December 31, 2010; (c) our two other executive officers who were serving as executive officers on December 31, 2010; and, (d) one other individual that would have been one of our three most highly compensated executive officers (other than our Chief Executive Officer and our Chief Financial Officer) but was not serving as an executive officer as of December 31, 2010. Collectively, these were our “Named Executive Officers” or “NEOs” for 2010:

- John K. Kibarian, Ph.D., our Chief Executive Officer and President;
- Keith A. Jones, our former Vice President, Finance and Chief Financial Officer;
- Joy E. Leo, our former Executive Vice President, Chief Administration Officer and Acting Chief Financial Officer;
- Cornelis (Cees) Hartgring, our Vice President, Client Services and Sales;
- Kimon Michaels, Ph.D., our Vice President, Products and Solutions; and,
- David A. Joseph, our former Chief Strategy Officer.

Mr. Jones resigned as our Vice President of Finance and Chief Financial Officer on March 1, 2010, effective on March 18, 2010, following the filing with the SEC of the Company’s Amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2009, as initially reported in a Current Report on Form 8-K filed by us on March 5, 2010 and updated in a Current Report on Form 8-K filed by us on March 23, 2010. Mr. Jones continued to provide consulting services to the Company for a transition period after the effective date of his resignation.

Mr. Joseph resigned as our Chief Strategy Officer on June 29, 2010, effective on June 30, 2010, as reported in a Current report on Form 8-K filed by us on July 2, 2010. Mr. Joseph continued to provide consulting services to the Company for a transition period after the effective date of his resignation.

Ms. Leo resigned as our Executive Vice President, Chief Administration Officer and Acting Chief Financial Officer effective on June 17, 2011 as initially reported in a Current Report on Form 8-K filed by us on May 31, 2011 and updated in a Current Report on Form 8-K filed by us on June 20, 2011.

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 2010:

- **CEO Compensation.** In response to his request, as well as a desire to conserve equity for other purposes, including to grant equity to other employees, Dr. Kibarian, our Chief Executive Officer, has not received an increase to his \$250,000 base salary or an annual discretionary cash bonus since 2002, and 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 executives 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 Ms. Leo, 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 their 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 regularly reviews our executive compensation policies and practices and program, 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.

Elements of Our Executive Compensation Program

The 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.

In response to feedback from certain of our stockholders, in 2011 the Compensation Committee engaged an external compensation consultant, Compensia, Inc., and a proxy advisory firm, Georgeson, Inc., to provide advice and recommendations on our executive compensation program and related corporate governance initiatives. Following this advice and follow-up feedback from certain stockholders, the Compensation Committee has adopted changes to our 2011 executive compensation program and related corporate governance initiatives as follows:

- Performance-Based Awards. Fifty percent (50%) of each NEO's total target annual equity awards will be subject to the achievement of the following revenue and performance profitability metric triggers as follows:
- Fifty percent (50%) of total target annual equity awards will be granted to an NEO only if the Company's revenue growth rate (year-over-year) for the fiscal year equals or exceeds the annual revenue growth rate of worldwide electronic design automation (EDA) industry, as reported by EDAC.
- Fifty percent (50%) of total target annual equity awards will be granted to an NEO only if the Company's annual profitability for the fiscal year exceeds 7%. Profitability means the Company's non-GAAP, pre-tax net income, which excludes stock based compensation, amortization of acquired intangibles, restructuring charges and tax provisions. This non-GAAP measure is reported by the Company in its filings on Form 8-K regarding the Company's financial results each quarter.

The Compensation Committee will seek to grant only restricted stock or stock units as the award related to achieving these performance criteria. The awards are intended to be made in May of each year, based on achievement of the criteria for the prior fiscal year. As the awards are associated for the prior year's performance, they will be twenty five percent (25%) vested upon issuance, with the remaining shares vesting in equal installments on each annual anniversary of the grant date thereafter.

- Share Ownership Guidelines. Each NEO will be 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 will have five years from the date of hire or appointment to attain such ownership levels, or for the current NEOs from October 6, 2011 (the date the change was adopted by our Compensation Committee and Board). 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.

Element	Philosophy Statement	Basis for Compensation Decisions	Objective Reward Long-term Performance	Attract & Retain	Align to Stockholder Value	Adhere to High-Ethical Standards
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 salaries are initially established through arms-length negotiation at the time an NEO is hired, taking into account the NEO's qualifications, experience, prior salary, and competitive salary information based on market data obtained from both Radford High-Tech Executive Surveys and publicly-available proxy data from peer companies.		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 NEO 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 Awards	We provide annual discretionary long-term equity incentive awards, which may consist of a mix of stock options and restricted stock or stock unit awards ("Restricted Stock"), with vesting based on continued service with the Company to align our NEOs' interests	In making individual award decisions in 2010, the Compensation Committee considered an NEO's relative job scope, the value of such NEO's outstanding long-term equity incentive awards, individual and Company performance history, prior contributions to the Company, the size of prior awards, and competitive market data based on publicly-available proxy	X	X	X	X

with those of our stockholders. data from peer companies. For awards in 2012, the Compensation Committee will also consider whether the above-described performance criteria for 2011 were met.

Element	Philosophy Statement	Basis for Compensation Decisions	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.	In making decisions on individual stock option grants, 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.	In making decisions on individual Restricted Stock awards in 2010, if any, the Compensation Committee considered the same criteria as described above for long-term equity incentives awards.	X	X	X	X
Health and Welfare Benefits, Retirement Benefits	We provide industry-standard programs to provide for the health, welfare and retirement planning of our NEOs.	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		
Supplemental Life Insurance	We provide supplemental life insurance to our NEOs to provide income protection to their beneficiaries in the event of an NEO's death.	The Compensation Committee has determined to provide our NEOs with supplemental life insurance equal to the lesser of \$200,000 or twice an NEO's base salary.		X		

2010 Compensation Decision-Making Process and Results

Process

Generally, in the first quarter of each fiscal year, the Compensation Committee reviews the previous year's performance of each of our NEOs and the Company's performance. 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 competitive market compensation paid by other companies based on market data obtained from both Radford High-Tech Executive Surveys and publicly-available proxy data from peer companies have historically been one of the many factors that the Compensation Committee considers 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.

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 or sustained individual and Company performance. In the past, decisions regarding base salary increases have taken into account the amounts paid to the NEOs' peers outside the Company, which has been based on market data obtained from both Radford High-Tech Executive Surveys and proxy data from peer companies, and to other members of the management team of the Company. However, in connection with its review and decision for 2010, the Compensation Committee did not review any survey or peer-based market data.

As a result of the reductions in force undertaken by the Company beginning in 2008 and continuing into 2010, as well as normal attrition and the resignation of our Chief Financial Officer in March 2010, the roles and responsibilities of certain of the NEOs increased significantly during 2010. Nonetheless, due to market conditions, including ongoing Company losses throughout much of the fiscal year, the Compensation Committee decided not to increase the base salary of any NEO for 2010. The base salary paid to each NEO for 2010 is set forth in the “Summary Compensation Table” below.

Annual Discretionary Incentive Bonuses

After the end of 2009, the Compensation Committee reviewed the Company's performance and each NEO's performance for 2009 using factors such as leadership qualities, business responsibilities, career with the Company, current compensation arrangements, and long-term potential to enhance stockholder value. No pre-established formula is followed by the Compensation Committee for determining whether and the extent to which any NEO may receive a bonus for any fiscal year or any other period. Specifically, the Compensation Committee does not prospectively establish individual or Company-wide qualitative or quantitative performance measures or related target levels that must be achieved for the NEOs to receive a bonus.

Despite positive results in certain of these factors, including strong leadership qualities and increased business responsibilities during the year for certain of the NEOs, as further explained above, due to market conditions, including ongoing Company losses throughout much of the fiscal year, the Compensation Committee decided not to award any annual discretionary incentive bonuses in 2010 for 2009 performance.

Annual Discretionary Long-Term Equity Incentive Awards

In determining whether annual equity incentive awards will be granted to our NEOs and the size of any such equity incentive awards, the Compensation Committee considers a number of factors, including, but not limited to, the relative job scope of the executive officer, the value of his or her existing long-term equity incentive awards, his or her individual, and the Company's, performance history, prior contributions to the Company, the size of prior equity incentive awards, and competitive market data based on market data obtained from both Radford High-Tech Executive Surveys and publicly-available proxy data from peer companies. Based upon some or all of these factors, the Compensation Committee determines the size of the long-term equity incentives at levels it considers appropriate to create a meaningful opportunity for reward predicated on the creation of long-term stockholder value. However, in connection with its review and decision for 2010, the Compensation Committee did not review any survey or peer-based market data.

Despite some positive factors, including Company performance of increasing total revenues, the Compensation Committee decided not to grant any long-term equity incentive awards to our NEOs in 2010 primarily due to general market conditions, including the proximity of recent reductions in force, and a desire to reward sustained earnings per share.

Dr. Kibarian

Our Chief Executive Officer and President, Dr. Kibarian, is also a co-founder of the Company. The “Stock Ownership of Certain Beneficial Owners and Management” table above sets forth his total percentage ownership of the Company's common stock as of September 30, 2011. 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. Also, for similar reasons, Dr. Kibarian has in the past declined to receive an annual discretionary cash bonus.

Severance and Change of Control Arrangements

The Company's 2001 Stock Plan provides that, except as otherwise provided in the applicable equity award agreement, if a successor entity that results from a change of control of the Company does not assume or continue outstanding equity awards, including stock options and restricted stock units, all such equity awards will become fully vested and, if applicable, exercisable immediately upon such event.

The 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. Additionally, under the 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 2011 Plan participant is terminated within a set time following such change in control.

Pursuant to the separation and release agreement entered into between the Company and Mr. Joseph on June 29, 2010, a stock option award that was previously issued to him was modified so that it would continue vesting, on the original vesting schedule, following termination of his employment during a transition period in which he provided consulting services to the Company. On Mr. Joseph's separation date on June 29, 2010, all unvested restricted stock units vested and settled in accordance with the terms of the applicable stock agreements.

The employment agreement entered into between the Company and Ms. Leo effective July 9, 2008 provided that any outstanding stock options and restricted stock units held by Ms. Leo at the time of a change of control of the Company would immediately become fully vested and, if applicable, exercisable upon such event. In addition, pursuant to Ms. Leo's employment agreement, she was entitled to certain severance payments and benefits if the Company terminated her employment at any time without cause or "Disability" or if when she resigned for "Good Reason" (as such terms are defined in the employment agreement). Additional details regarding the severance payments and benefits that would have been payable to Ms. Leo had she terminated without "Cause" or "Disability", as well as the amounts of the payments and benefits paid to her at the time of her resignation for "Good Cause" on June 17, 2011, are discussed in the section of this proxy statement titled "Potential Payments Upon Termination or Change-in-Control."

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 Named Executive Officers 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 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.

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

Thomas Caulfield, DES, Chair
Albert Y.C. Yu, Ph.D.
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 or executive officer of the Company has a relationship that would constitute an interlocking relationship with executive officers or directors of

another entity.

37

SUMMARY COMPENSATION TABLE

The following table presents the compensation paid to and earned by our Named Executive Officers in the year ended December 31, 2010.

Name & Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Option Awards		All Other Compensation (\$)(2)	Total (\$)
				(\$)(1)	(\$)(1)		
John K. Kibarian	2010	250,000	-	-	-	200	250,200
Chief Executive Officer,	2009	250,000	-	-	-	200	250,200
President and Director	2008	250,000	-	56,800	-	200	307,000
Keith Jones	2010	44,000	-	-	-	23,100 (5)	67,100
Former Vice President of				107,800	45,300	200	353,300
Finance	2009	200,000					
and Chief Financial				272,600	-	200	482,800
Officer (3)	2008	200,000	10,000				
Joy E. Leo	2010	270,000	-	-	-	200	270,200
Former Executive Vice	2009	270,000	89,400(6)	-	98,600	200	458,200
President,	2008	125,800	75,600(6)	-	825,000	100	1,026,500
Chief Administration Officer and Acting Chief Financial Officer (4)							
Cornelis (Cees) Hartgring	2010	240,000	-	-	-	200	240,200
Vice President, Client	2009	240,000	-	-	51,700	200	291,900
Services and Sales	2008	237,200	17,000	266,700	-	200	521,100
Kimon W. Michaels	2010	210,000	-	-	-	200	210,200
Vice President, Products	2009	210,000	-	135,600	-	200	345,800
and Solutions and Director	2008	210,000	10,000	277,700	-	200	497,900
David A. Joseph					11,800		
	2010	123,000	-	-	(8)122,300 (3)(9)		257,100
Former Chief Strategy							
Officer (7)	2009	246,000	-	142,600	-	200	388,800
	2008	246,000	12,000	273,400	-	200	531,600

(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 and/or Form 10-K/A 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, 2008, 2009 and 2010. There is no cash surrender value under these life insurance policies.
- (3) Mr. Jones resigned as our Vice President of Finance and Chief Financial Officer effective March 18, 2010.
- (4) Ms. Leo resigned as our Executive Vice President, Chief Administration Officer and Acting Chief Financial Officer effective June 17, 2011.
- (5) This amount includes amounts received by the executive officer for accrued paid time off paid at the time of termination of employment.
- (6) This amount represents a retention bonus agreed to through arms-length negotiation at the time Ms. Leo was hired and set forth in the offer letter between Ms. Leo and the Company effective as of July 9, 2008. In agreeing to pay this retention bonus, the Company took into account Ms. Leo's qualifications, experience, prior salary, and competitive salary information for companies that are comparable to ours.

(7) Mr. Joseph resigned as our Chief Strategy Officer effective June 30, 2010.

(8) In connection with Mr. Joseph's departure from the Company, a stock option award that was previously issued to him was modified so that it would continue vesting, on the original vesting schedule, following termination of his employment during a period in which he provided consulting services to the Company through February 28, 2011. The amount shown represents the incremental fair value of the modified award.

(9) This amount includes consulting fees paid to Mr. Joseph following the termination of his employment during a transition period that continued through February 28, 2011.

GRANTS OF PLAN-BASED AWARDS FOR FISCAL YEAR 2010

We did not grant any restricted stock rights or stock option awards to our Named Executive Officers during the fiscal year ended December 31, 2010. The following table shows the value attributable to the modification of a stock option awards held by one of our Named Executive Officers that was modified during the fiscal year ended December 31, 2010.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$) (1)
David A. Joseph	-	-	-	-	\$11,800

(1) In connection with Mr. Joseph's departure from the Company, a stock option award that was previously issued to him was modified so that it would continue vesting, on the original vesting schedule, following termination of his employment during a transition period in which he provided consulting services to the Company. The amount shown represents the incremental fair value of the modified award on the date it is considered to have been modified.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

Mr. Jones resigned as our Vice President of Finance and Chief Financial Officer on March 1, 2010, effective on March 18, 2010. Mr. Jones continued to provide consulting services to the Company for a transition period after the effective date of his resignation through April 30, 2010. Pursuant to the Professional Services Agreement entered into with him, an RSU award that was previously issued to him was modified so that it would vest as to 2,926 shares on March 17, 2010 and 2,926 shares on April 30, 2010.

Mr. Joseph resigned as our Chief Strategy Officer on June 29, 2010, effective on June 30, 2010. Pursuant to the Separation Agreement and Release entered into with him, the total of 29,675 unvested restricted stock units held by Mr. Joseph were accelerated effective as of July 8, 2010.

OUTSTANDING EQUITY AWARDS AS OF DECEMBER 31, 2010

The following table shows the outstanding equity awards of each of our Named Executive Officers as of December 31, 2010.

Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
John K. Kibarian	4/21/2003	6,668	-	6.39	04/20/2013	-	-
	4/21/2003	73,332	-	6.39	04/20/2013	-	-
Keith Jones	-	-	-	-	-	-	-
Joy E. Leo	07/18/2008	181,248	118,752(2)	4.88	07/18/2018	-	-
	10/29/2009	14,583	35,417(2)	3.62	10/29/2019	-	--
Cornelis (Cees) Hartgring	09/03/2002	74,072	-	5.40	09/03/2012	-	-
	09/03/2002	60,867	-	5.40	09/03/2012	-	-
	11/07/2007	61,665	18,335	8.92	11/07/2017	-	-
	10/29/2009	10,208	24,792	3.62	10/29/2019	-	-
	08/18/2008	-	-	-	-	2,777(3)	13,400
	08/18/2008	-	-	-	-	5,953(4)	28,700
Kimon Michaels	12/15/2009	-	-	-	-	18,334 (5)	88,400
	08/18/2008	-	-	-	-	1,905(3)	9,200
	08/18/2008	-	-	-	-	4,762(4)	23,000
David A. Joseph	10/29/2009	10,208	1,458	3.62	10/29/2019	-	-

(1) 12/48th of the total share subject to the original option vested on the first anniversary of the grant and 1/48 th of the total shares subject to the original option vested and will vest on the grant date day of each month thereafter until fully vested.

(2) Upon Ms. Leo's resignation on June 17, 2011, all of Ms. Leo's unvested options were accelerated for an additional twelve (12) months after the effective date of her resignation, as set forth under her employment agreement.

(3) 16.66% of the total original award vested on May 15, 2009 and vested or will vest every six months thereafter until fully vested.

(4) 12.5 % of the total original award vested on May 15, 2009 and vested or will vest every six months thereafter until fully vested.

(5) These restricted stock units fully vested on September 15, 2011.

OPTION EXERCISES AND STOCK VESTED IN THE FISCAL YEAR 2010

The following table presents the restricted stock units held by our Named Executive Officers that vested in 2010. There were no stock options exercised by our Named Executive Officers in 2010.

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
John K. Kibarian	-	-
Keith Jones	9,059	43,200
Joy E. Leo	-	-
Cornelis (Cees) Hartgring	5,753	25,300
Kimon W. Michaels	22,618	95,900
David A. Joseph	38,673	183,500

(1) The values of the vested awards were determined based on the number of shares that vested multiplied by the per share closing sale price on the NASDAQ Global Market reported for the applicable vesting date.

Pension Benefits

We did not sponsor any defined benefit pension or other actuarial plan for the Named Executive Officers during 2010.

Non-qualified Deferred Compensation

We did not maintain any non-qualified defined contribution or other deferred compensation plans or arrangements for the Named Executive Officers during 2010.

Potential Payments Upon Termination or Change-in-Control

Potential Payments Upon Termination of Employment

Except as described below for Ms. Leo, we have not entered into agreements with our NEOs in connection with the commencement of, or during their employment with us that provide for severance or other special benefits upon their future termination of any of our NEOs' employment or special benefits in the event of a termination.

Pursuant to the employment agreement with Ms. Leo effective July 9, 2008, if the Company terminated her employment at any time without "Cause" or "Disability" or if she resigned for "Good Reason" (as such terms are defined in the employment agreement, which was filed with the Company's Form 10-Q for the fiscal quarter ended June 30, 2008), and provided that Ms. Leo's termination or resignation was a "separation from service" within the meaning of Internal Revenue Code Section 409A, Ms. Leo would have been entitled to all of the following:

- vesting acceleration with respect to her outstanding and unvested stock options and/or restricted stock units, as if Ms. Leo provided service to the Company for an additional twelve (12) months after the effective date of her termination;
- twelve (12) months of her then-current annual base salary, paid in accordance with the Company's standard payroll procedures over a twelve-month period following the termination date, subject to her execution of a mutual release;

- a percentage of her annual incentive target bonus, which would have been determined by pro rating the percentage of the target bonus that the Company determined was earned as of the effective date of her separation, had such target bonus been payable at such time, subject to Ms. Leo's execution of a mutual release; and

- the Company’s payment of the premiums for Ms. Leo’s COBRA coverage from the last date on which she received health care coverage as a Company employee until the earlier of: (1) the date that is twelve (12) months following the effective date of her separation; or (2) the date Ms. Leo becomes covered under another employer’s health coverage plan.

The following table presents the estimated value and payments that (1) Ms. Leo would have received in the hypothetical event the Company terminated her employment without “Cause” or “Disability,” or she resigned for “Good Reason” (as such terms are defined in her employment agreement), as of the last business day of fiscal year 2010 (i.e. December 31, 2010), and the hypothetical termination was a “separation from service” within the meaning of Internal Revenue Code Section 409A, and what (2) Ms. Leo received at the time of her resignation from the Company with Good Reason, as defined under Ms. Leo’s employment agreement, which resignation was effective on June 17, 2011.

Executive Benefits and Payments Upon Termination of Employment	Value of the Hypothetical Benefit and Payment Amount (\$)	Value of the Benefit and Payment Amount Received at the Time of Resignation (\$)
Vesting acceleration of outstanding and unvested stock options	402,400	(1) 85,400
Vesting acceleration of outstanding and unvested restricted stock units	-	(3) -
Twelve months of annual base salary	270,000	270,000
A percentage of target bonus	216,000	(4) -
Premiums for COBRA coverage	7,200	6,800
Total	895,600	362,200

(1)The value of outstanding stock options were calculated based on Black-Scholes methodology using the closing price on 12/31/2010 (\$4.82), volatility 61.7%, risk free rate of return 1.87%, no dividends and expected term of 5 years.

(2)The value of outstanding stock options were calculated based on Black-Scholes methodology using the closing price on 6/17/2010 (\$5.55), volatility 37.97%, risk free rate of return 0.03%, no dividends and expected term of 0.25 years.

(3) Ms. Leo did not have any restricted stock units as of December 31, 2010 or at the time of her resignation

(4)Amount is calculated based on the maximum potential annual incentive target bonus, which was 80% of Ms. Leo's base salary.

Potential Payments Upon Change-in-Control

The Company's 2001 Stock Plan provides that, except as otherwise provided in the applicable equity award agreement, if a successor entity that results from a change in control of the Company does not assume or continue outstanding equity awards, including options and restricted stock units, all such equity awards will become fully vested and, if applicable, exercisable immediately upon such event.

The 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. Additionally, under the 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 2011 Plan participant is terminated in connection with or within a set time following such change in control.

The employment agreement entered into between the Company and Ms. Leo, effective July 9, 2008 provided that any outstanding stock options and restricted stock units held by Ms. Leo at the time of a change of control of the Company would immediately become fully vested and, if applicable, exercisable upon such event.

The following table presents the estimated value that our Named Executive Officers would have realized in the hypothetical event a change in control of the Company had occurred on the last business day of 2010 (i.e. December 31, 2010) and outstanding stock options and restricted stock units held by them were not assumed or continued by the acquiring company.

Name	Value of Accelerated Rights (\$)
John K. Kibarian	-
Keith Jones	-
Joy E. Leo	402,400 (1)
Cornelis (Cees) Hartgring	42,100 (2)
Kimon W. Michaels	\$ 120,500 (2)
David A. Joseph	-

(1) Consists of options. The value of outstanding stock options were calculated based on Black-Scholes methodology using the closing price on 12/31/2010 (\$4.82), volatility 61.7%, risk free rate of return 1.87%, no dividends and expected term of 5 years. Ms. Leo resigned from the Company on June 17, 2011.

(2) Consists of restricted stock units. The value was determined by multiplying the number of unvested shares subject to the restricted stock unit award as of December 31, 2010 by the closing market price of the Company's common stock on December 31, 2010 (\$4.82 per share).

DIRECTOR COMPENSATION

Directors who are also employees of the Company are not compensated for serving on our Board of Directors. Information regarding the compensation otherwise received by our directors, who are also executive officers, is provided above.

The Compensation Committee of the Board reviews director compensation periodically and recommends changes to the Board, when it deems them appropriate. In 2011, the Compensation Committee engaged an external compensation consultant, Compensia, Inc., and a proxy advisory firm, Georgeson, Inc., to review the existing director compensation program and provide recommendations on the director compensation program in line with market practice. As a result of that review, the Compensation Committee recommended to the Board, and the full Board approved, a new compensation program and related corporate governance initiatives for directors, as described in this proxy statement.

The following table describes the cash and equity components of director compensation in effect during 2010 and under the new compensation program for 2011:

Compensation Element	2010 Program	2011 Program
Annual cash retainer	\$25,000 for each non-employee director	\$36,000 for each non-employee director (1)
Annual equity award	Option to purchase 15,000 shares (2)(3)	Option to purchase 11,250 shares and 3,750 shares of Restricted Stock (4) (5)
Cash fees for Board meetings	\$1,500 per in-person meeting and \$500 for telephone	None

	participation	
Cash fees for committee meetings	\$1,000 per in-person meeting and \$500 for telephone participation	Strategic Committee Only: \$1,000 per committee meeting in-person and \$500 for telephone participation
Annual cash retainer and equity award for Chairman of the Board	\$30,000 plus an option to purchase 30,000 shares (2)(3)	\$30,000 plus an option to purchase 15,000 shares and 5,000 shares of Restricted Stock (1)(4)(5)

Compensation Element	2010 Program	2011 Program
Annual cash retainer and equity award for Audit and Corporate Governance Committee	\$10,000 plus an option to purchase 10,000 shares for chair; none for members (2)(3)	\$12,000 (chair), \$6,000 (member). No equity awards (1)
Annual cash retainer and equity award for Compensation Committee	\$5,000 plus an option to purchase 7,500 shares for chair; none for members (2)(3)	\$10,000 (chair), \$4,000 (member). No equity awards (1)
Annual cash retainer and equity award for Nominating Committee	\$5,000 plus an option to purchase 5,000 shares for chair; none for members (2)(3)	\$5,000 (chair), \$2,000 (member). No equity awards (1)
Annual cash retainer and equity award for Strategic Committee	\$0	\$0
New Director equity award (one-time)	Option to purchase 30,000 shares (3)(6)	Option to purchase 17,650 shares and 5,750 shares of Restricted Stock (6)(7)

-
- (1) All cash retainers under the 2011 compensation program are paid in four equal quarterly installments at the beginning of each calendar quarter.
- (2) Under the 2010 compensation program, these stock option grants were awarded each year following the conclusion of the annual meeting of stockholders for such year.
- (3) Under the 2010 compensation program, these stock options vested with respect to 1/4th of the total shares subject to the option on the first anniversary of the date of grant, and the remainder vest each month until fully vested within 3 years from the date of the grant.
- (4) Under the 2011 compensation program, these stock options and Restricted Stock grants are awarded on May 15th of each year.
- (5) Under the 2011 compensation program, (a) options (I) granted in 2011 vest 1/48th monthly after the grant date until fully vested, and (II) granted in 2012 and thereafter will vest with respect to 1/4th of the total shares subject to the option on the grant date and 1/48th of the total shares monthly after the grant date until fully vested; and, (b) Restricted Stock awards (I) granted in 2011 were not subject to the performance criteria for fiscal year 2010 and vest 1/8th every six months after the grant date until fully vested; and, (II) granted in 2012 will be subject to the performance criteria for fiscal year 2011 and thereafter and will vest with respect to 1/4th of the total shares on the grant date and 1/4th of the total shares subject to such award every anniversary of the grant date thereafter until fully vested.
- (6) These stock option grants are awarded at the time a new director is appointed or elected to the Board.
- (7) Under the 2011 compensation program, these stock options will vest with respect to 1/48th of the total shares subject to the option on the grant date and each month thereafter until fully vested, and Restricted Stock awards will vest with respect to 1/8th of the total shares subject to such award every six (6) months after the grant date until fully vested.

Performance-Based Awards

As part of the 2011 compensation program, annual equity awards of Restricted Stock described in the above table made to non-employee directors in 2012 and thereafter will be subject to the achievement of the following revenue and performance profitability metric triggers for the Company:

- Fifty percent (50%) of each non-employee director's annual Restricted Stock awards will be granted to such director only if the Company's revenue growth rate (year-over-year) for the prior fiscal year equals or exceeds the annual revenue growth rate (for the same period) of worldwide electronic design automation (EDA) industry, as reported by EDAC.
- Fifty percent (50%) of each director's annual Restricted Stock awards will be granted to such director only if the Company's annual profitability for the prior fiscal year exceeds 7%. Profitability means the Company's non-GAAP, pre-tax net income, which excludes stock based compensation, amortization of acquired intangibles, restructuring charges and tax provisions. This non-GAAP measure is reported by the Company in its filings on Form 8-K regarding the Company's financial results each quarter.

As the awards are associated for the prior year's performance, they shall be Twenty Five percent (25%) vested upon issuance, with the remaining shares vesting in equal installments each anniversary of the grant date thereafter.

Share Ownership Guidelines

Under the new program each non-employee director is required to own shares of our common stock having value equal to at least three times the non-employee director's regular cash Board retainer. Non-employee directors will have five years from the date of election or appointment to attain such ownership levels (or from May 27, 2011 (the date of adoption of the program) for the current non-employee directors). For purposes of these guidelines, a non-employee director's share ownership includes all shares of the Company's common stock owned by such non-employee director outright or held in trust for the non-employee director and his or her immediate family, but not a non-employee director's unvested or unexercised equity (i.e. unvested restricted stock or stock unit awards or outstanding stock options). The value of share shall 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.

Starting in 2012, total options and restricted stock or stock unit awards grants to non-employee directors shall not exceed 8% of total annual option and restricted stock or stock unit awards annual grants to employees and consultants (including grants to executives). If the above grants to the non-employee directors set forth in the new 2011 compensation program above, would otherwise exceed such limit, then all non-employee director grants shall automatically be adjusted down by an equal percentage to comply with this limitation.

Our non-employee directors received the following compensation during the fiscal year ended December 31, 2010:

DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash (\$)(1)	Stock Awards (\$)	Option Awards (\$)(2)	All Other Compensation	Total(\$)
Thomas Caulfield, DES	50,000	-	57,100	-	107,100
R. Stephen Heinrichs	54,500	-	63,400	-	117,900
Albert Y.C. Yu, Ph.D	41,500	-	50,700	-	92,200
Lucio Lanza	69,500	-	114,100	-	183,600

- (1) The amounts reported in this column reflect the fees earned by our non-employee directors. This is a correction from previously amounts that were erroneously reported in our Form 10-K/A filed with SEC on May 2, 2011.
- (2) The amounts reported in this column reflect the aggregate grant date fair value for financial statement reporting purposes for the stock options granted in 2010 as determined in accordance with the FASB ASC Topic 718. These amounts reflect our accounting expense for these awards and do not represent the actual value that may be realized by our non-employee directors. There can be no assurance that these amounts will ever be realized. For information on the assumptions used in valuing these stock option grants, refer to the Note to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for 2010 titled "Stockholder's Equity." The number of outstanding stock options held by each non-employee director at the end of 2010 were: Dr. Caulfield (42,500); Mr. Heinrichs (182,945); Mr. Lanza (347,500); and Dr. Yu (42,500). The outstanding and unvested restricted stock units held by each non-employee director at the end of 2010 were: Dr. Caulfield (9,108), and Dr. Yu (13,026).

On November 17, 2005, we entered into acceleration agreements (each, an "Acceleration Agreement") with each of Mr. Lanza, Dr. Yu and Mr. Heinrichs pursuant to which all of the stock options to purchase shares of the Company's common stock that have been granted or will be granted to each of the aforementioned directors will become vested and exercisable in full in the event of a change in control of the Company. Each of the acceleration agreements will generally remain in effect until terminated by the Company or, if earlier, the date a director ceases to provide services to the Company.

AUDIT AND CORPORATE GOVERNANCE COMMITTEE REPORT

The Audit and Corporate Governance Committee of our Board is composed of three independent directors and operates under a written charter adopted by the Board of Directors. The members of the Audit and Corporate Governance Committee are Mr. Heinrichs (Chair), Dr. Caulfield, and Mr. Lanza. Each of the members of the Audit and Corporate Governance Committee is independent as defined by the current NASDAQ Listing Rules. In addition, our Board has determined that Mr. Heinrichs qualifies as an "audit committee financial expert" as defined by SEC rules.

Our Board has adopted a written charter for the Audit and Corporate Governance Committee which governs the Audit and Corporate Governance Committee's functions and responsibilities. This charter was amended and restated on July 23, 2003, again on January 26, 2005, in light of the Sarbanes-Oxley Act of 2002 and new SEC and FINRA rules, and again on February 3, 2009 in conjunction with the renaming of the committee and the adoption of a revised charter for the committee on April 23, 2009 to reflect its corporate governance-related duties. The Audit and Corporate Governance Committee reviews and reassesses the adequacy of this charter at least once per year and makes recommendations to the Board regarding changes or amendments the Audit and Corporate Governance Committee deems appropriate.

The Audit and Corporate Governance Committee, subject to stockholder ratification, appoints the accounting firm to be engaged as the Company's independent registered public accounting firm. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States), or PCAOB, and to issue a report thereon. Management is responsible for our internal controls and the financial reporting process. The Audit and Corporate Governance Committee is responsible for monitoring, overseeing and assessing the effectiveness of these processes.

The Audit and Corporate Governance Committee held 12 meetings during the fiscal year ended December 31, 2010. The meetings were designed to facilitate and encourage communication between the Audit and Corporate Governance Committee, management and our independent registered public accounting firm PricewaterhouseCoopers LLP. Management represented to the Audit and Corporate Governance Committee that our consolidated financial statements were prepared in accordance with GAAP. The Audit and Corporate Governance Committee reviewed and discussed the audited consolidated financial statements for the fiscal year ended December 31, 2010 with management and the independent registered public accounting firm.

The Audit and Corporate Governance Committee discussed with the independent registered public accounting firm the adequacy of the Company's internal control system, financial reporting procedures and the matters required to be discussed by PCAOB AU380 Communication with Audit Committees and Rule 2-07 of SEC Regulation S-X, as amended.

The Audit and Corporate Governance Committee has received and reviewed the written disclosures and the letter from the independent registered public accounting firm, PricewaterhouseCoopers LLP as required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence. Additionally, the Audit and Corporate Governance Committee has discussed with PricewaterhouseCoopers LLP the issue of its independence from PDF Solutions, Inc.

Based on its review of the audited consolidated financial statements and the various discussions noted above, the Audit and Corporate Governance Committee recommended to the Board that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

THE AUDIT AND CORPORATE GOVERNANCE
COMMITTEE OF THE BOARD OF
DIRECTORS OF PDF SOLUTIONS, INC.:

R. Stephen Heinrichs, Chair
Thomas Caulfield, DES
Lucio L. Lanza

The information contained in the Audit and Corporate Governance 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 Audit and Corporate Governance 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.

OTHER MATTERS

The Board knows of no other business that will be presented to the Annual Meeting. If any other business is properly brought before the Annual Meeting, the enclosed proxy will be voted in respect thereof as the proxy holders deem advisable.

It is important that the enclosed proxies be returned promptly and that your shares be represented at the Annual Meeting. Stockholders are urged to mark, date, execute and promptly return the enclosed proxy card in the enclosed envelope or access the proxy materials online, indicate your choices and submit them on the Internet.

By Order of the Board of Directors,

PETER COHN
Secretary

San Jose, California
October 7, 2011

APPENDIX A

2011 STOCK INCENTIVE PLAN

TABLE OF CONTENTS

Page		
SECTION 1.	INTRODUCTION	1
SECTION 2.	DEFINITIONS	1
(a)	“Affiliate”	1
(b)	“Award”	1
(c)	“Award Agreement”	1
(d)	“Board”	1
(e)	“Cashless Exercise”	1
(f)	“Cause”	2
(g)	“Change in Control”	2
(h)	“Code”	2
(i)	“Committee”	2
(j)	“Common Stock”	3
(k)	“Company”	3
(l)	“Contractor”	3
(m)	“Covered Employees”	3
(n)	“Director”	3
(o)	“Disability”	3
(p)	“Employee”	3
(q)	“Exchange Act”	3
(r)	“Exercise Price”	3
(s)	“Fair Market Value”	3
(t)	“Fiscal Year”	4
(u)	“Incentive Stock Option” or “ISO”	4

(v)	“Key Service Provider”	4
(w)	“Non-Employee Director”	4
(x)	“Nonstatutory Stock Option” or “NSO”	4
(y)	“Option”	4
(z)	“Optionee”	4
(aa)	“Parent”	4
(bb)	“Participant”	4
(cc)	“Performance Goals”	4
(dd)	“Performance Period”	5
(ee)	“Plan”	5
(ff)	“Re-Price”	5

TABLE OF CONTENTS

Page			
	(gg)	“SAR Agreement”	5
	(hh)	“SEC”	5
	(ii)	“Section 16 Persons”	5
	(jj)	“Securities Act”	5
	(kk)	“Service”	5
	(ll)	“Share”	5
	(mm)	“Stock Appreciation Right” or “SAR”	5
	(nn)	“Stock Grant”	5
	(oo)	“Stock Grant Agreement”	5
	(pp)	“Stock Option Agreement”	6
	(qq)	“Stock Unit”	6
	(rr)	“Stock Unit Agreement”	6
	(ss)	“Subsidiary”	6
	(tt)	“10-Percent Stockholder”	6
SECTION 3.		ADMINISTRATION	6
	(a)	Committee Composition	6
	(b)	Authority of the Committee	6
	(c)	Indemnification	7
SECTION 4.		GENERAL	8
	(a)	General Eligibility	8
	(b)	Incentive Stock Options	8
	(c)	Restrictions on Shares	8
	(d)	Beneficiaries	8

(e)	Performance Conditions	8
(f)	No Rights as a Stockholder	8
(g)	Termination of Service	8
SECTION 5.	SHARES SUBJECT TO PLAN AND SHARE LIMITS	9
(a)	Basic Limitation	9
(b)	Additional Shares	9
(c)	Dividend Equivalents	9
(d)	Share Limits	9
(i)	Limits on Options	9
(ii)	Limits on SARs	9
(iii)	Limits on Stock Grants and Stock Units	10

A-ii

TABLE OF CONTENTS

Page			
	(iv)	Limits on Awards to Non-Employee Directors	10
SECTION 6.		TERMS AND CONDITIONS OF OPTIONS	10
	(a)	Stock Option Agreement	10
	(b)	Number of Shares	10
	(c)	Exercise Price	10
	(d)	Exercisability and Term	10
	(e)	Payment for Option Shares	10
	(i)	Surrender of Stock	10
	(ii)	Cashless Exercise	10
	(iii)	Other Forms of Payment	11
	(f)	Modifications or Assumption of Options	11
	(g)	Assignment or Transfer of Options	11
SECTION 7.		TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS	11
	(a)	SAR Agreement	11
	(b)	Number of Shares	11
	(c)	Exercise Price	12
	(d)	Exercisability and Term	12
	(e)	Exercise of SARs	12
	(f)	Modification or Assumption of SARs	12
	(g)	Assignment or Transfer of SARs	12
SECTION 8.		TERMS AND CONDITIONS FOR STOCK GRANTS.	13
	(a)	Time, Amount and Form of Awards	13
	(b)	Stock Grant Agreement	13

(c)	Payment for Stock Grants	13
(d)	Vesting Conditions	13
(e)	Assignment or Transfer of Stock Grants	13
(f)	Voting and Dividend Rights	13
(g)	Modification or Assumption of Stock Grants	14
SECTION 9.	TERMS AND CONDITIONS OF STOCK UNITS	14
(a)	Stock Unit Agreement	14
(b)	Number of Shares	14
(c)	Payment for Awards	14
(d)	Vesting Conditions	14
(e)	Form and Time of Settlement of Stock Units	14

TABLE OF CONTENTS

Page			
	(f)	Voting and Dividend Rights	14
	(g)	Creditors' Rights	15
	(h)	Modification or Assumption of Stock Units	15
	(i)	Assignment or Transfer of Stock Units	15
SECTION 10.		PROTECTION AGAINST DILUTION	15
	(a)	Adjustments	15
	(b)	Participant Rights	16
	(c)	Fractional Shares	16
SECTION 11.		EFFECT OF A CHANGE IN CONTROL	16
	(a)	Change in Control	16
	(b)	Acceleration	16
	(c)	Dissolution	16
SECTION 12.		LIMITATIONS ON RIGHTS	16
	(a)	Participant Rights	16
	(b)	Stockholders' Rights	17
	(c)	Regulatory Requirements	17
SECTION 13.		TAXES	17
	(a)	General	17
	(b)	Share Withholding	17
SECTION 14.		DURATION AND AMENDMENTS	18
	(a)	Term of the Plan	18
	(b)	Right to Amend or Terminate the Plan	18

PDF SOLUTIONS, INC.
2011 STOCK INCENTIVE PLAN

SECTION 1. INTRODUCTION.

On October 6, 2011 the Board adopted this 2011 Stock Incentive Plan, which shall become effective upon its approval by the Company's stockholders (the "Effective Date").

The purpose of this Plan is to promote the long-term success of the Company and the creation of stockholder value by offering Key Service Providers the opportunity to share in such long-term success by acquiring a proprietary interest in the Company.

The Plan seeks to achieve this purpose by providing for discretionary long-term 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.

The Plan shall be governed by, and construed in accordance with, the laws of the State of California (except its choice-of-law provisions). Capitalized terms shall have the meaning provided in Section 2 unless otherwise provided in this Plan or any related Award Agreement.

SECTION 2. DEFINITIONS.

(a) "Affiliate" means any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own not less than 50% of such entity.

(b) "Award" means an Option, SAR, Stock Grant or Stock Unit.

(c) "Award Agreement" means any Stock Option Agreement, SAR Agreement, Stock Grant Agreement or Stock Unit Agreement or the online grant summary, which will generally be delivered online by the Company or its designated third-party broker and accepted online by the Participant or Optionee.

(d) "Board" means the Board of Directors of the Company, as constituted from time to time.

(e) "Cashless Exercise" means, to the extent that a Stock Option Agreement so provides and as permitted by applicable law, a program approved by the Committee in which payment of the aggregate Exercise Price and/or satisfaction of any applicable tax obligations may be made all or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker to sell Shares subject to an Option and to deliver all or part of the sale proceeds to the Company.

(f) "Cause" means, except as may otherwise be provided in a Participant's employment agreement or Award Agreement, (i) Participant's willful failure to perform his or her duties and responsibilities to the Company or material violation of a written Company policy; (ii) Participant's commission of any act of fraud, embezzlement, dishonesty or any other willful misconduct that has caused or is reasonably expected to result in material injury to the Company; (iii) unauthorized use or disclosure by Participant of any proprietary information or trade secrets of the Company or any other party to whom the Participant owes an obligation of nondisclosure as a result of his or her relationship with the Company; or (iv) Participant's willful breach of any of his or her obligations under any written agreement or covenant with the Company. The determination as to whether a Participant is being terminated for Cause shall be

made in good faith by the Committee and shall be conclusive and binding on the Participant. The foregoing definition does not in any way limit the Company's ability to terminate a Participant's Service at any time as provided in Section 12(a), and the term "Company" will be interpreted to include any Subsidiary, Parent, Affiliate, or any successor thereto, if appropriate.

A-1

(g) "Change in Control" means the consummation of any of the following transactions:

(i) The sale of all or substantially all of the Company's assets;

(ii) The merger of the Company with or into another corporation in which securities possessing more than 50% of the total combined voting power of the Company are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction; or

(iii) The acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities of the Company representing more than 50% of the total combined voting power of the Company's then outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders which the Board does not recommend such stockholders accept.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transactions.

(h) "Code" means the Internal Revenue Code of 1986, as amended, and the regulations and interpretations promulgated thereunder.

(i) "Committee" means a committee described in Section 3.

(j) "Common Stock" means the Company's common stock.

(k) "Company" means PDF Solutions, Inc., a Delaware corporation.

(l) "Contractor" means an individual who provides bona fide services directly to the Company, a Parent, a Subsidiary or an Affiliate, other than as an Employee, Director or Non-Employee Director.

(m) "Covered Employees" means those persons who are subject to the limitations of Code Section 162(m).

(n) "Director" means a member of the Board who is also an Employee.

(o) "Disability" means that the Participant is classified as disabled under the long-term disability policy of the Company or, if no such policy applies, the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(p) “Employee” means any individual who is a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

(q) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(r) “Exercise Price” means, in the case of an Option, the amount for which a Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. “Exercise Price,” in the case of a SAR, means an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value in determining the amount payable upon exercise of such SAR.

(s) “Fair Market Value” means the market price of a Share as determined in good faith by the Committee. Such determination shall be conclusive and binding on all persons. The Fair Market Value shall be determined by the following:

(i) If the Shares are admitted to trading on any established national stock exchange or market system, including without limitation the NASDAQ National Market System, on the date in question, then the Fair Market Value shall be equal to the closing sales price for such Shares as quoted on such national exchange or system on such date; or

(ii) if the Shares are admitted to quotation on NASDAQ or are regularly quoted by a recognized securities dealer but selling prices are not reported on the date in question, then the Fair Market Value shall be equal to the mean between the bid and asked prices of the Shares reported for such date.

In each case, the applicable price shall be the price reported in The Wall Street Journal or such other source as the Committee deems reliable; provided, however, that if there is no such reported price for the Shares for the date in question, then the Fair Market Value shall be equal to the price reported on the last preceding date for which such price exists. If neither (i) or (ii) are applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

(t) “Fiscal Year” means the Company’s fiscal year.

(u) “Incentive Stock Option” or “ISO” means an incentive stock option described in Code Section 422.

(v) “Key Service Provider” means an Employee, Director, Non-Employee Director or Contractor who has been selected by the Committee to receive an Award under the Plan.

(w) “Non-Employee Director” means a member of the Board who is not an Employee.

(x) “Nonstatutory Stock Option” or “NSO” means a stock option that is not an ISO.

(y) “Option” means an ISO or NSO granted under the Plan entitling the Optionee to purchase Shares.

(z) "Optionee" means an individual, estate or other entity that holds an Option.

(aa) "Parent" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.

(bb) "Participant" means an individual or estate or other entity that holds an Award.

(cc) "Performance Goals" means one or more objective measurable performance goals established by the Committee with respect to a Performance Period based upon one or more factors, including, but not limited to: (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 Covered Employees may take into account other factors.

(dd) "Performance Period" means any period not exceeding 36 months as determined by the Committee, in its sole discretion. The Committee may establish different Performance Periods for different Participants, and the Committee may establish concurrent or overlapping Performance Periods.

(ee) "Plan" means this 2011 Stock Incentive Plan as it may be amended from time to time.

(ff) "Re-Price" means that the Company has repriced outstanding Options and/or outstanding SARs by lowering or reducing the Exercise Price of such Awards or has implemented an Option or SAR exchange program whereby the Participant agrees to cancel an existing Option or SAR in exchange for cash, an Option, a SAR or other Award.

(gg) "SAR Agreement" means the agreement described in Section 7 evidencing a Stock Appreciation Right.

(hh) "SEC" means the Securities and Exchange Commission.

(ii) "Section 16 Persons" means those officers, directors or other persons who are subject to the requirement of Section 16 of the Exchange Act.

(jj) "Securities Act" means the Securities Act of 1933, as amended.

(kk) "Service" means service as an Employee, Director, Non-Employee Director or Contractor. A Participant's Service does not terminate if he or she is an Employee and goes on a bona fide leave of absence that was approved by the Company in writing and the terms of the leave provide for continued service crediting, or when continued service crediting is required by applicable law. However, for purposes of determining whether an Option is entitled to continuing ISO status, an Employee's Service will be treated as terminating 90 days after such Employee went on leave, unless such Employee's right to return to active work is guaranteed by law or by a contract. Service terminates in any event when the approved leave ends, unless such Employee immediately returns to active work. Further, unless otherwise determined by the Committee, a Participant's Service will not terminate merely because of a change in the capacity in which the Participant provides service to the Company, a Parent, Subsidiary or Affiliate, or a transfer

between entities (the Company or any Parent, Subsidiary, or Affiliate); provided that there is no interruption or other termination of Service.

A-4

- (ll) “Share” means one share of Common Stock.
- (mm) “Stock Appreciation Right” or “SAR” means a stock appreciation right awarded under the Plan.
- (nn) “Stock Grant” means Shares awarded under the Plan.
- (oo) “Stock Grant Agreement” means the agreement described in Section 8 evidencing a Stock Grant.
- (pp) “Stock Option Agreement” means the agreement described in Section 6 evidencing an Option.
- (qq) “Stock Unit” means a bookkeeping entry representing the equivalent of one Share awarded under the Plan.
- (rr) “Stock Unit Agreement” means the agreement described in Section 9 evidencing a Stock Unit.
- (ss) “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.
- (tt) “10-Percent Stockholder” means an individual who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company, its Parent or any of its Subsidiaries. In determining stock ownership, the attribution rules of Code Section 424(d) shall be applied.

SECTION 3. ADMINISTRATION.

(a) Committee Composition. The Board or a Committee appointed by the Board shall administer the Plan. The Committee shall generally have membership composition which enables (i) Awards to Section 16 Persons to qualify as exempt from liability under Section 16(b) of the Exchange Act and (ii) Awards to Covered Employees to qualify as performance-based compensation as provided under Code Section 162(m). However, the Board may also appoint one or more separate Committees, each composed of one or more directors of the Company who need not qualify under Rule 16b-3 or Code Section 162(m), that may administer the Plan with respect to Key Service Providers who are not Section 16 Persons or Covered Employees, respectively, may grant Awards under the Plan to such Key Service Providers and may determine all terms of such Awards. Members of any such Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee.

Notwithstanding the foregoing, the Board shall administer the Plan with respect to all Awards granted to Non-Employee Directors.

The Board and any Committee appointed to administer the plan is referred to herein as the “Committee”.

(b) Authority of the Committee. Subject to the provisions of the Plan, the Committee shall have the full authority, in its sole discretion, to take any actions it deems necessary or advisable for the administration of the Plan. Such actions shall include:

- (i) selecting Key Service Providers who are to receive Awards under the Plan;
- (ii) determining the type, number, vesting requirements and other features and conditions of such Awards;
- (iii) amending any outstanding Awards;
- (iv) 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;
- (v) interpreting the Plan and any Award Agreement;
- (vi) correcting any defect, supplying any omission or reconciling any inconsistency in the Plan or any Award Agreement;
- (vii) adopting such rules or guidelines as it deems appropriate to implement the Plan;
- (viii) making all other decisions relating to the operation of the Plan; and
- (ix) adopting such plans or subplans as may be deemed necessary or appropriate to provide for the participation by employees of the Company, its Parent, Subsidiaries and Affiliates who reside outside of the U.S., which plans and/or subplans shall be attached hereto as Appendices.

The Committee’s determinations under the Plan shall be final and binding on all persons.

(c) Indemnification. To the maximum extent permitted by applicable law, each member of the Committee shall be indemnified and held harmless by the Company against and from (i) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any Award Agreement, and (ii) from any and all amounts paid by him or her in settlement thereof, with the Company’s approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company’s Articles of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

SECTION 4. GENERAL.

(a) General Eligibility. Only Employees, Directors, Non-Employee Directors and Contractors shall be eligible to participate in the Plan.

(b) Incentive Stock Options. Only Key Service Providers who are Employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs. In addition, a Key Service Provider who is a 10-Percent Stockholder shall not be eligible for the grant of an ISO unless the requirements set forth in Code Section 422(c)(5) are satisfied.

(c) Restrictions on Shares. Any Shares issued pursuant to an Award shall be subject to such vesting conditions, rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine, in its sole discretion. Such restrictions shall apply in addition to any restrictions that may apply to holders of Shares generally and shall also comply to the extent necessary with applicable law. In no event shall the Company be required to issue fractional Shares under this Plan.

(d) Beneficiaries. Unless stated otherwise in an Award Agreement and then only to the extent permitted by applicable law, a Participant may designate one or more beneficiaries with respect to an Award by timely filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Participant's death. If no beneficiary was designated or if no designated beneficiary survives the Participant, then after a Participant's death any vested Award(s) shall be transferred or distributed to the Participant's estate.

(e) Performance Conditions. The Committee may, in its discretion, include performance conditions in an Award. If performance conditions are included in Awards to Covered Employees and such Awards are intended to qualify as "performance-based compensation" under Code Section 162(m), then such Awards will be subject to the achievement of Performance Goals with respect to a Performance Period established by the Committee. Such Awards shall be granted and administered pursuant to the requirements of Code Section 162(m). Before any Shares underlying an Award or any Award payments are released to a Covered Employee with respect to a Performance Period, the Committee shall certify in writing that the Performance Goals for such Performance Period have been satisfied. Awards with performance conditions that are granted to Key Service Providers who are not Covered Employees need not comply with the requirements of Code Section 162(m).

(f) No Rights as a Stockholder. A Participant, or a transferee of a Participant, shall have no rights as a stockholder with respect to any Common Stock covered by an Award until such person has satisfied all of the terms and conditions to receive such Common Stock, has satisfied any applicable withholding or tax obligations relating to the Award and the Shares have been issued (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company).

(g) Termination of Service. Unless the applicable Award Agreement or, with respect to a Participant who resides in the U.S., the applicable employment agreement provides otherwise, the following rules shall govern the vesting, exercisability and term of outstanding Awards held by a Participant in the event of termination of such Participant's Service (in all cases subject to the maximum term of the Option and/or SAR as applicable): (i) upon a termination of Service for any reason, all unvested portions of any outstanding Awards shall be immediately forfeited without consideration; (ii) if Service is terminated for Cause, then all unexercised Options and/or SARs, unsettled portions of Stock Units and unvested portions of Stock Grants shall terminate, and/or be forfeited immediately without consideration; (iii) if Service is terminated for any reason other than for Cause, death or Disability, then the vested portion of his or her then-outstanding Options and/or SARs may be exercised by such Participant or his or her personal representative within ninety (90) days (inclusive) after the date of such termination; or (iv) if Service is terminated due to death or Disability, the vested portion of his or her then-outstanding Options and/or SARs may be exercised within six (6) months (inclusive) after the date of such termination.

SECTION 5. SHARES SUBJECT TO PLAN AND SHARE LIMITS.

(a) Basic Limitation. The stock issuable under the Plan shall be authorized but unissued Shares or treasury Shares. Subject to adjustment as set forth hereinafter and pursuant to Section 10, the aggregate number of Shares reserved for Awards under the Plan is 3,200,000 Shares, plus up to 3,500,000 Shares previously issued under the Company's 2001 Stock Option Plan (the "2001 Plan") that are forfeited or repurchased by the Company or Shares subject to awards previously issued under the 2001 Plan that expire or that terminate without having been exercised or settled in full. In case of Awards other than Options or SARs, the aggregate number of Shares reserved under the Plan shall be decreased at a rate of 1.33 per Share issued pursuant to such Awards.

(b) Additional Shares. If Awards are forfeited or are terminated for any reason before vesting or being exercised, then the Shares underlying such Awards shall again become available for Awards under the Plan (for purposes of clarity, if the Share reserve is reduced by 1.33 Shares per Share subject to Awards granted under the Plan other than Options or SARs, 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 Plan and again be available for issuance pursuant to the Plan, provided that, in the case of Awards other than Options or SARs, 1.33 times the number of Shares so forfeited or repurchased will return to the Plan and will again become available for issuance. SARs to be settled in Shares shall be counted in full against the number of Shares available for issuance under the Plan, regardless of the number of Shares issued upon settlement of the SARs. Shares subject to an Option or SAR that are retained by the Company to pay withholding taxes shall be deducted from the Plan Share reserve and shall not become available again for issuance under the Plan. Shares subject to Awards other than an Option or SAR that are retained by the Company to pay withholding taxes shall not be deducted from the Plan Share reserve and shall become available again for issuance under the Plan. Shares subject to an Option that are deducted by the Company to pay the exercise price of the Option shall be deducted from the Plan Share reserve and shall not become available again for issuance under the 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 Plan.

(c) Dividend Equivalents. Any dividend equivalents settled in cash distributed under the Plan shall not reduce the number of Shares available for Awards.

(d) Share Limits.

(i) Limits on Options. No Key Service Provider shall receive Options during any Fiscal Year covering in excess of 1,000,000 Shares, subject to adjustment pursuant to Section 10. The aggregate maximum number of Shares that may be issued in connection with ISOs shall be 1,000,000 Shares, subject to adjustment pursuant to Section 10.

(ii) Limits on SARs. No Key Service Provider shall receive SARs during any Fiscal Year covering in excess of 1,000,000 Shares, subject to adjustment pursuant to Section 10.

(iii) Limits on Stock Grants and Stock Units. No Key Service Provider shall receive Stock Grants or Stock Units during any Fiscal Year covering, in the aggregate, in excess of 1,000,000 Shares, subject to adjustment pursuant to Section 10.

SECTION 6. TERMS AND CONDITIONS OF OPTIONS.

(a) Stock Option Agreement. Each Option granted under the Plan shall be evidenced and governed exclusively by a Stock Option Agreement between the Optionee and the Company, which will generally be delivered online by the Company or its designated third-party broker and accepted online by the Optionee. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. The Stock Option Agreement shall specify whether the Option is an ISO or an NSO.

(b) Number of Shares. Each Stock Option Agreement shall specify the number of Shares that are subject to the Option, which number is subject to adjustment in accordance with Section 10.

(c) Exercise Price. Each Stock Option Agreement shall specify the Option's Exercise Price which shall be established by the Committee and is subject to adjustment in accordance with Section 10. The Exercise Price of an Option shall not be less than 100% of the Fair Market Value (110% for an ISO granted to a 10-Percent Stockholder) on the date of grant.

(d) Exercisability and Term. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable and may include performance conditions or Performance Goals pursuant to Section 4(e). The Stock Option Agreement shall also specify the maximum term of the Option; provided that the maximum term of an Option shall in no event exceed ten (10) years from the date of grant. A Stock Option Agreement may provide for accelerated vesting in the event of the Participant's death, Disability or other events. Notwithstanding any other provision of the Plan or the Stock Option Agreement, no Option can be exercised after the expiration date provided in the applicable Stock Option Agreement.

(e) Payment for Option Shares. The Exercise Price of an Option shall be paid in cash at the time of exercise, except as follows and if so provided for in the applicable Stock Option Agreement:

(i) Surrender of Stock. Payment of all or any part of the Exercise Price may be made with Shares which have already been owned by the Optionee; provided that the Committee may, in its sole discretion, require that Shares tendered for payment be previously held by the Optionee for a minimum duration (e.g., to avoid financial accounting charges to the Company's earnings).

(ii) Cashless Exercise. Payment of all or a part of the Exercise Price may be made through Cashless Exercise.

(iii) Other Forms of Payment. Payment may be made in any other form that is consistent with applicable laws, regulations and rules and approved by the Committee.

In the case of an ISO granted under the Plan, except to the extent permitted by applicable law, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. In the case of an NSO granted under the Plan, the Committee may, in its discretion at any time, accept payment in any form(s) described in this Section 6(e).

(f) Modifications or Assumption of Options. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer) in return for the grant of new Options for the same or a different number of Shares and at the same or a different Exercise Price. Notwithstanding the preceding sentence or anything to the contrary, no modification of an Option shall, without the consent of the Optionee, impair his or her rights or obligations under such Option and, unless there is approval by the Company stockholders, the Committee may not Re-Price outstanding Options.

(g) Assignment or Transfer of Options. Except as otherwise provided in the applicable Stock Option 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 Option shall be transferable by the Optionee other than by will or by the laws of descent and distribution. Except as otherwise provided in the applicable Stock Option Agreement, an Option may be exercised during the lifetime of the Optionee only or by the guardian or legal representative of the Optionee. No Option or interest therein may be assigned, pledged or hypothecated by the Optionee during his or her lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

SECTION 7. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS.

(a) SAR Agreement. Each SAR granted under the Plan shall be evidenced by a SAR 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 SAR shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. A SAR 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 SAR. The provisions of the various SAR Agreements entered into under the Plan need not be identical. SARs may be granted in consideration of a reduction in the Participant's compensation.

(b) Number of Shares. Each SAR Agreement shall specify the number of Shares to which the SAR pertains, which number is subject to adjustment in accordance with Section 10.

(c) Exercise Price. Each SAR Agreement shall specify the Exercise Price, which is subject to adjustment in accordance with Section 10. A SAR Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the SAR is outstanding. The Exercise Price of a SAR shall not be less than 100% of the Fair Market Value on the date of grant.

(d) **Exercisability and Term.** Each SAR Agreement, to which such agreement refers, shall specify the date when all or any installment of the SAR is to become exercisable and may include performance conditions or Performance Goals pursuant to Section 4(e). The SAR Agreement shall also specify the maximum term of the SAR which shall not exceed ten (10) years from the date of grant. A SAR Agreement may provide for accelerated exercisability in the event of the Participant's death, Disability or other events. SARs may be awarded in combination with Options or Stock Grants, and such an Award shall provide that the SARs will not be exercisable unless the related Options or Stock Grants are forfeited. A SAR may be included in an ISO only at the time of grant but may be included in an NSO at the time of grant or at any subsequent time, but not later than six months before the expiration of such NSO. Notwithstanding any other provision of the Plan or the SAR Agreement, no SAR can be exercised after the expiration date provided in the applicable SAR Agreement.

(e) **Exercise of SARs.** If, on the date when a SAR expires, the Exercise Price under such SAR is less than the Fair Market Value on such date but any vested portion of such SAR has not been exercised or surrendered, then such SAR shall automatically be deemed to be exercised as of such date with respect to such vested portion. Upon exercise of a SAR, the Participant (or any person having the right to exercise the SAR after Participant's death) shall receive from the Company (i) Shares, (ii) cash or (iii) any combination of Shares and cash, as the Committee shall determine at the time of grant of the SAR, in its sole discretion. The amount of cash and/or the Fair Market Value of Shares received upon exercise of SARs shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Shares subject to the SARs exceeds the Exercise Price of the Shares.

(f) **Modification or Assumption of SARs.** Within the limitations of the Plan, the Committee may modify, extend or assume outstanding SARs or may accept the cancellation of outstanding stock appreciation rights (including stock appreciation rights granted by another issuer) in return for the grant of new SARs for the same or a different number of Shares and at the same or a different Exercise Price. Notwithstanding the preceding sentence or anything to the contrary, no modification of a SAR shall, without the consent of the Participant, impair his or her rights or obligations under such SAR and, unless there is approval by the Company stockholders, the Committee may not Re-Price outstanding SARs.

(g) **Assignment or Transfer of SARs.** Except as otherwise provided in the applicable SAR 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 SAR shall be transferable by the Participant other than by will or by the laws of descent and distribution. Except as otherwise provided in the applicable SAR Agreement, a SAR may be exercised during the lifetime of the Participant only or by the guardian or legal representative of the Participant. No SAR or interest therein may be assigned, pledged or hypothecated by the Participant during his or her lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

SECTION 8. TERMS AND CONDITIONS FOR STOCK GRANTS.

(a) **Time, Amount and Form of Awards.** Awards under this Section 8 may be granted in the form of a Stock Grant. A Stock Grant may be awarded in combination with NSOs, and such an Award may provide that the Stock Grant will be forfeited in the event that the related NSOs are exercised.

(b) Stock Grant Agreement. Each Stock Grant awarded under the Plan shall be evidenced and governed exclusively 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. Each Stock Grant shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan that the Committee deems appropriate for inclusion in the applicable Stock Grant Agreement. The provisions of the Stock Grant Agreements entered into under the Plan need not be identical.

(c) Payment for Stock Grants. Stock Grants may be issued with or without cash consideration under the Plan.

(d) Vesting Conditions. Each Stock Grant may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Stock Grant Agreement which may include performance conditions or Performance Goals pursuant to Section 4(e). A Stock Grant Agreement may provide for accelerated vesting in the event of the Participant's death, Disability, or other events.

(e) Assignment or Transfer of Stock Grants. Except as otherwise provided in the applicable Stock Grant 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 unvested Stock Grant shall be transferable other than by will or by the laws of descent and distribution. Except as otherwise provided in the applicable Stock Grant Agreement, no unvested Stock Grant or interest therein may be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. Any act in violation of this Section 8(e) shall be void.

(f) Voting and Dividend Rights. The holder of a Stock Grant awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Stock Grant Agreement, however, may require that the holder of such Stock Grant invest any cash dividends received in additional Shares subject to the Stock Grant. Such additional Shares and any Shares received as a dividend pursuant to the Stock Grant shall be subject to the same conditions and restrictions as the Stock Grant with respect to which the dividends were paid. Such additional Shares subject to the Stock Grant shall not reduce the number of Shares available for issuance under Section 5.

(g) Modification or Assumption of Stock Grants. Within the limitations of the Plan, the Committee may modify or assume outstanding Stock Grants or may accept the cancellation of outstanding stock grants (including stock granted by another issuer) in return for the grant of new Stock Grants for the same or a different number of Shares. Notwithstanding the preceding sentence or anything to the contrary, no modification of a Stock Grant shall, without the consent of the Participant, impair his or her rights or obligations under such Stock Grant.

SECTION 9. TERMS AND CONDITIONS OF STOCK UNITS.

(a) Stock Unit Agreement. Each Stock Unit granted under the 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. Such Stock Units shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Stock Unit Agreements entered into under the Plan need not be identical. Stock Units may be granted in consideration of a reduction in the Participant's other compensation.

(b) Number of Shares. Each Stock Unit Agreement shall specify the number of Shares to which the Stock Unit pertains, which number is subject to adjustment in accordance with Section 10.

(c) Payment for Awards. To the extent that an Award is granted in the form of Stock Units, no cash consideration shall be required of the Award recipients.

(d) Vesting Conditions. Each Stock Unit may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Stock Unit Agreement which may include performance conditions or Performance Goals pursuant to Section 4(e). A Stock Unit Agreement may provide for accelerated vesting in the event of the Participant's death, Disability, or other events.

(e) Form and Time of Settlement of Stock Units. Settlement of vested Stock Units may be made in the form of (a) cash, (b) Shares or (c) any combination of both, as determined by the Committee at the time of the grant of the Stock Units, in its sole discretion. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when the vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred, in accordance with applicable law, to any later date. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents.

(f) Voting and Dividend Rights. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions as the Stock Units to which they attach.

(g) Creditors' Rights. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Unit Agreement.

(h) Modification or Assumption of Stock Units. Within the limitations of the Plan, the Committee may modify or assume outstanding Stock Units or may accept the cancellation of outstanding stock units (including stock units granted by another issuer) in return for the grant of new Stock Units for the same or a different number of Shares. Notwithstanding the preceding sentence or anything to the contrary, no modification of a Stock Unit shall, without the consent of the Participant, impair his or her rights or obligations under such Stock Unit.

(i) Assignment or Transfer of Stock Units. Except as provided in the applicable Stock Unit 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), Stock Units shall not be transferable other than by will or by the laws of descent and distribution. Except as otherwise provided in the applicable Stock Unit Agreement, no Stock Unit or interest therein may be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. Any act in violation of this Section 9(i) shall be void.

SECTION 10. PROTECTION AGAINST DILUTION.

(a) Adjustments. 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 Committee shall make such adjustments as it, in its sole discretion, deems appropriate in one or more of:

(i) the number of Shares and the kind of shares or securities available for future Awards under Section 5;

(ii) the limits on Awards specified in Section 5;

(iii) the number of Shares and the kind of shares or securities covered by each outstanding Award; or

(iv) the Exercise Price under each outstanding SAR or Option.

(b) Participant Rights. Except as provided in this Section 10, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class. If by reason of an adjustment pursuant to this Section 10 a Participant's Award covers additional or different shares of stock or securities, then such additional or different shares and the Award in respect thereof shall be subject to all of the terms, conditions and restrictions which were applicable to the Award and the Shares subject to the Award prior to such adjustment.

(c) Fractional Shares. Any adjustment of Shares pursuant to this Section 10 shall be rounded down to the nearest whole number of Shares. Under no circumstances shall the Company be required to authorize or issue fractional shares and no consideration shall be provided as a result of any fractional shares not being issued or authorized.

SECTION 11. EFFECT OF A CHANGE IN CONTROL.

(a) Change in Control. In the event that the Company is a party to a Change in Control, outstanding Awards shall be subject to the applicable agreement of merger or reorganization. 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.

(b) Acceleration. Notwithstanding the foregoing, the Committee 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 a party to a Change in Control and a Participant is terminated in connection with or within a set time following such Change in Control.

(c) Dissolution. To the extent not previously exercised or settled, Options, SARs and Stock Units shall terminate immediately prior to the dissolution or liquidation of the Company.

SECTION 12. LIMITATIONS ON RIGHTS.

(a) Participant Rights. A Participant's rights, if any, in respect of or in connection with any Award is derived solely from the discretionary decision of the Company to permit the individual to participate in the Plan and to benefit from a discretionary Award. By accepting an Award under the Plan, a Participant expressly acknowledges that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards. Any Award granted hereunder is not intended to be compensation of a continuing or recurring nature, or part of a Participant's normal or expected compensation, and in no way represents any portion of a Participant's salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain an employee, consultant or director of the Company, a Parent, a Subsidiary or an Affiliate. The Company and its Parent, Subsidiaries and Affiliates reserve the right to terminate the Service of any person at any time, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and any applicable written employment agreement (if any), and such terminated person shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(b) Stockholders' Rights. Except as provided in Section 9(f), a Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Shares covered by his or her Award prior to the issuance of such Shares (as evidenced by an appropriate entry on the books of the Company or a duly authorized transfer agent of the Company). No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such Shares are issued, except as expressly provided in Sections 9(f) and 10.

(c) Regulatory Requirements. Any other provision of the Plan notwithstanding, the obligation of the Company to issue Shares or other securities under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Shares or other securities pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Shares or other securities, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

SECTION 13. TAXES.

(a) General. A Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations or other required deductions that arise in connection with his or her Award. The Company shall not be required to issue any Shares or make any cash payment under the Plan until such obligations are satisfied.

(b) Share Withholding. The Committee may permit a Participant to satisfy all or part of his or her tax obligations by Cashless Exercise, by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired; provided that Shares withheld or previously owned Shares that are tendered shall not exceed the amount necessary to satisfy the Company's tax withholding obligations at the minimum statutory withholding rates, including, but not limited to, U.S. federal and state income taxes, payroll taxes and foreign taxes, if applicable, unless the previously owned Shares have been held for the minimum duration necessary to avoid financial accounting charges under applicable accounting guidance or as otherwise permitted by the Company in its sole and absolute discretion. Any payment of taxes by assigning Shares to the Company may be subject to restrictions, including, but not limited to, any restrictions required by rules of the SEC.

SECTION 14. DURATION AND AMENDMENTS.

(a) Term of the Plan. The Plan shall become effective upon its approval by the Company's stockholders. The Plan shall terminate on November 15, 2021 and may be terminated on any earlier date pursuant to this Section 14.

(b) Right to Amend or Terminate the Plan. The Board may amend or terminate the Plan at any time and for any reason. Any such termination of the Plan, or any amendment thereof, shall not impair any Award previously granted under the Plan. No Awards shall be granted under the Plan after the Plan's termination. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent such approval is required by applicable laws, regulations or rules.