AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 9, 2001

REGISTRATION NO. 333-43192

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 7

TO
FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PDF SOLUTIONS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	7379	25-1701361
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

333 WEST SAN CARLOS STREET, SUITE 700
SAN JOSE, CA 95110
(408) 280-7900
(ADDRESS AND TELEPHONE NUMBER OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

JOHN K. KIBARIAN
PRESIDENT AND CHIEF EXECUTIVE OFFICER
333 WEST SAN CARLOS STREET
SUITE 700
SAN JOSE, CA 95110
(408) 280-7900
(NAME, ADDRESS AND TELEPHONE NUMBER OF AGENT FOR SERVICE)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JULY 9, 2001

4,500,000 Shares

Common Stock

Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between $11.00 and $13.00 per share. We have applied to list our common stock on The Nasdaq Stock Market's National Market under the symbol "PDFS."

The underwriters have an option to purchase a maximum of 675,000 additional shares to cover over-allotments of shares.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" ON PAGE 6.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO PDF SOLUTIONS
Per Share.....	$	$	$

Total.....	$	$	$

Delivery of the shares of common stock will be made on or about , 2001.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

CREDIT SUISSE FIRST BOSTON

ROBERTSON STEPHENS

DAIN RAUSCHER WESSELS

The date of this prospectus is , 2001.

[INSIDE FRONT COVER]

[COLOR ARTWORK]

[The artwork depicts a bridge between IC design and manufacturing.]

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT. THIS DOCUMENT MAY ONLY BE USED WHERE IT IS LEGAL TO SELL THESE SECURITIES. THE INFORMATION IN THIS DOCUMENT MAY ONLY BE ACCURATE ON THE DATE OF THIS DOCUMENT.

DEALER PROSPECTUS DELIVERY OBLIGATION

UNTIL , 2001 (25 DAYS AFTER THE COMMENCEMENT OF THE OFFERING), ALL DEALERS THAT EFFECT TRANSACTIONS IN THESE SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALER'S OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS AN UNDERWRITER AND WITH RESPECT TO UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information and our Consolidated Financial Statements and Notes thereto appearing elsewhere in this prospectus. Unless otherwise stated, information in this prospectus assumes (i) no exercise of the underwriters' over-allotment option, (ii) the two-for-three reverse stock split of our common and preferred stock, which was completed on July 6, 2001, and (iii) the conversion of all outstanding shares of preferred stock into 6,333,318 shares of common stock upon completion of the offering.

PDF SOLUTIONS, INC.

Our comprehensive technologies and services enable semiconductor companies to improve yield and performance of manufactured integrated circuits by providing infrastructure to integrate the design and manufacturing processes. We believe that our solutions can significantly improve a semiconductor company's time to market, the rate at which yield improves and product profitability. To date, we have sold our technologies and services to, and established ongoing relationships with, key integrated device manufacturers such as Toshiba Corporation, Sony Corporation, Conexant Systems, Inc., Philips Semiconductor and Texas Instruments Incorporated.

Customers for electronic products continue to demand new applications with more power, reduced cost and smaller size. This leads semiconductor companies to adopt diverse new technologies for integrated circuits, or ICs. At the same time, they face dramatically compressed product life cycles. This has reduced the time for semiconductor companies to successfully bring a product to market in high volumes to achieve dominant market share and high-margin revenues. In the current environment, semiconductor companies have encountered significant challenges in their attempt to achieve competitive yields and optimize performance, which are critical drivers of IC companies' financial results. Disaggregation of the semiconductor industry into several separate specialized organizations and entities has further complicated IC companies' ability to maximize yield and optimize performance by fragmenting design and manufacturing process knowledge. The combination of these factors has left a gap between the design of an IC and its manufacture. We call this gap the design-to-silicon yield gap.

We provide comprehensive silicon-infrastructure technologies and services to address and bridge the design-to-silicon yield gap. Our offerings combine proprietary manufacturing process simulation, IC yield and performance modeling software, comprehensive test chips, proven yield and performance enhancement methodologies, and professional services. Our technologies and services drive

design and manufacturing changes that enable our customers to improve IC yield and performance earlier in product life cycles, thereby enabling our customers to simultaneously generate additional revenue and reduce costs. The result of implementing our solutions is the creation of value that can be measured based on improvements to our customers' actual IC yield and performance. We seek to align our financial interests with our customers' business results. Through an innovative approach that we call gain share, in addition to a fixed fee we receive revenue that increases based on increased value we create for our customers. To date, we have determined this value based on the demonstrated yield and performance improvements our customers realize on specific products or processes. As a result, our recurring revenues scale to the extent our customers continue to realize these improvements.

Our objective is to provide the industry standard in design-to-silicon yield solutions. To achieve this objective, we intend to leverage our results-based gain share model to deepen our relationships with our customers and rapidly generate market-driven improvements to our solutions. In addition, we intend to focus our solutions on key high-volume, high-growth IC product segments. We will also seek to extend and enhance our relationships with leading companies at key stages of the design-to-silicon process, thereby increasing our insight into future industry needs, and increasing industry awareness of our solutions. We intend to continue expanding our research and development efforts, and to selectively acquire complementary businesses and technologies to increase the scope of our solutions. Further, we plan to expand geographically to gain access to international engineering talent and to maintain proximity to our expanding customer base.

We have a limited operating history. As of March 31, 2001, our accumulated deficit was $12.6 million. For the years ended December 31, 1998, 1999, 2000 and the three months ended March 31,

2001, our net losses were approximately $404,000, $145,000, $9.1 million and $2.7 million respectively. We expect our spending to continue to exceed our revenue as we expand our business.

We were incorporated in Pennsylvania in November 1992. We reincorporated in California in November 1995 and reincorporated in Delaware in July 2001. Our principal executive office is located at 333 West San Carlos Street, Suite 700, San Jose, CA 95110. Our telephone number at that location is (408) 280-7900. Our Internet address on the world wide web is http://www.pdf.com. Information on our web site does not constitute part of this prospectus.

RECENT DEVELOPMENTS

For the quarter ended June 30, 2001, we had revenue of $8.3 million, compared to revenues of $4.6 million for the quarter ended June 30, 2000. Revenue from design-to-silicon yield solutions represented 73% and gain share represented 27% of total revenue for the quarter ended June 30, 2001. Our net loss for the quarter ended June 30, 2001, was $2.2 million, or $0.25 per share on a basic and diluted basis (on approximately 8.5 million weighted average shares), compared to a net loss for the quarter ended June 30, 2000 of $1.3 million or $0.19 per share on a basic and diluted basis (on approximately 7.1 million weighted average shares). For the quarters ended June 30, 2001 and 2000 our net loss included stock-based compensation amortization of $2.1 million and $1.2 million, respectively.

THE OFFERING

Common stock offered.....	4,500,000 shares
Common stock offered in the concurrent private placement.....	500,000 shares (or such lesser amount

	of shares having a maximum aggregate purchase price of $10.0 million)
Common stock to be outstanding after this offering and the concurrent private placement.....	22,206,611 shares
Use of proceeds.....	For general corporate purposes, including working capital. See "Use of Proceeds."
Proposed Nasdaq National Market symbol.....	PDFS

This table is based on shares outstanding as of March 31, 2001. The number of shares to be outstanding after this offering and the concurrent private placement is based on:

- a two-for-three reverse stock split of our common and preferred stock that was effective July 6, 2001;

- 10,873,293 shares of our common stock outstanding on March 31, 2001;

- automatic conversion of our Series A preferred stock outstanding on March 31, 2001 into 5,833,331 shares of our common stock upon completion of this offering; and

- automatic conversion of our Series B preferred stock outstanding on March 31, 2001 into 499,987 shares of common stock upon the closing of this offering, which includes an additional 149,115 shares of our common stock to be issued upon conversion of our Series B preferred stock, assuming the initial public offering price is less than $14.25 per share.

The number of shares to be outstanding after this offering and the concurrent private placement excludes:

- 369,689 shares issuable upon exercise of stock options and stock purchase rights outstanding on March 31, 2001 at a weighted average exercise price of $4.45 per share;

- 1,395,117 shares reserved under our 1997 stock plan as of March 31, 2001 and available for grant prior to completion of this offering of which we currently intend to grant options to purchase at least 650,000 shares to new and existing employees prior to completion of this offering; and

- 3,300,000 shares reserved under our 2001 stock plans and available for grant following completion of this offering.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1998	1999	2000	2000	2001
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Total revenue	$6,227	$11,824	$20,135	$ 3,694	$ 7,534
Total costs and expenses	6,417	11,541	29,216	4,102	10,224
Income (loss) from operations	(190)	283	(9,081)	(408)	(2,690)
Net loss	(404)	(145)	(9,097)	(498)	(2,743)
Net loss per share -- basic and diluted	$(0.08)	$ (0.02)	$ (1.24)	$ (0.07)	$ (0.34)
Shares used in computing basic and diluted net loss per share	4,944	6,086	7,356	6,797	8,065
Pro forma net loss per share -- basic and diluted			$ (0.68)		$ (0.19)
Shares used in computing pro forma basic and diluted net loss per share			13,394		14,398

	MARCH 31, 2001		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
CONSOLIDATED BALANCE SHEET DATA:			
Cash and cash equivalents	$ 6,866	$ 6,866	$61,916
Working capital	3,377	3,377	58,427
Total assets	15,034	15,034	70,084
Long-term debt, less current portion	43	43	43
Convertible preferred stock	8,457	--	--
Total shareholders' equity (deficiency)	(2,214)	6,243	61,293

See Notes 1 and 8 of Notes to Consolidated Financial Statements for an explanation of the determination of the amounts used in computing net loss per share and pro forma net loss per share amounts.

The pro forma balance sheet data above reflects the conversion of all shares of our preferred stock into 6,333,318 shares of common stock automatically upon completion of this offering.

The pro forma as adjusted balance sheet data gives effect to the sale of shares of common stock in this offering and 500,000 shares of common stock (or such lesser amount of shares having a maximum aggregate purchase price of $10.0 million) to be sold in the concurrent private placement at an assumed initial public offering price of $12.00 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses, and the application of the net proceeds.

RISK FACTORS

You should carefully consider the following risk factors and all other information contained in this prospectus before purchasing our common stock in

this offering.

RISKS RELATING TO OUR BUSINESS

IF SEMICONDUCTOR DESIGNERS AND MANUFACTURERS DO NOT ADOPT OUR DESIGN-TO-SILICON YIELD SOLUTIONS, WE MAY BE UNABLE TO INCREASE OR MAINTAIN OUR REVENUE.

If semiconductor designers and manufacturers do not adopt our design-to-silicon yield solutions, our revenue could decline. To date, we have worked with a limited number of semiconductor companies on a limited number of integrated circuit, or IC, products and processes. To be successful, we will need to enter into agreements covering a larger number of IC products and processes with existing customers and new customers. Our existing customers are large integrated device manufacturers, or IDMs. We will need to target as new customers additional IDMs, as well as semiconductor companies in different segments of the semiconductor market, such as fabless semiconductor companies, foundries and system manufacturers. Factors that may limit adoption of our design-to-silicon yield solutions by semiconductor companies include:

- our customers' failure to achieve satisfactory yield improvements using our design-to-silicon yield solutions;
- a decrease in demand for semiconductors generally or the demand for deep submicron semiconductors failing to grow as rapidly as expected;
- the industry may develop alternative methods to enhance the integration between the semiconductor design and manufacturing processes due to a rapidly evolving market and the likely emergence of new technologies;
- our existing and potential customers' reluctance to understand and accept our innovative gain share fee component, which is a variable fee based on improvements in our customers' yields; and
- our customers' concern about our ability to keep highly competitive information confidential.

OUR EARNINGS PER SHARE AND OTHER KEY OPERATING RESULTS MAY BE UNUSUALLY HIGH IN A GIVEN QUARTER, THEREBY RAISING INVESTORS' EXPECTATIONS, AND THEN UNUSUALLY LOW IN THE NEXT QUARTER, THEREBY DISAPPOINTING INVESTORS, WHICH COULD CAUSE OUR STOCK PRICE TO DROP.

Historically, our quarterly operating results have fluctuated. Our future quarterly operating results will likely fluctuate from time to time and may not meet the expectations of securities analysts and investors in some future period. The price of our common stock could decline due to such fluctuations. The following factors may cause significant fluctuations in our future quarterly operating results:

- the size and timing of sales volumes achieved by our customers' products;
- the loss of any of our large customers;
- the size of improvements in our customers' yield and the timing of agreement as to those improvements;
- our long and variable sales cycle;
- changes in the mix of our revenue;
- changes in the level of our operating expenses needed to support our projected growth; and
- delays in completing solution implementations for our customers.

OUR RECENT ADOPTION OF A NOVEL AND UNPROVEN BUSINESS MODEL MAKES IT DIFFICULT TO EVALUATE OUR FUTURE PROSPECTS.

Since we recently adopted our current business model, we do not have a long history of operating results on which you can base your evaluation of our business. In 1998, we began selling software, services and other technologies together as a design-to-silicon yield solution for the first time. Because we

have not demonstrated our ability to generate significant revenue, our business model is unproven, especially with respect to gain share fees, which we expect will constitute a significant portion of our revenue for the foreseeable future. In the past, we generally earned fixed fees for the separate sale of our software, services and other technologies. Under our new business model, we are selling these items together as a package and charging both a fixed fee and a variable fee based on demonstrated improvements in our customers' yields, which we call gain share. Our existing and potential customers may resist this approach and may seek to limit or restrict our gain share fees. As a result, it will be difficult for financial markets analysts and investors to evaluate our future prospects.

OUR GAIN SHARE REVENUE IS LARGELY DEPENDENT ON THE VOLUME OF ICS OUR CUSTOMERS ARE ABLE TO SELL TO THEIR CUSTOMERS, WHICH IS OUTSIDE OUR CONTROL.

Our gain share revenue for a particular product is largely determined by the volume of that product our customer is able to sell to its customers, which is outside of our control. We have limited ability to predict the success or failure of our customers' IC products. We may commit a significant amount of time and resources to a customer who is ultimately unable to sell as many units as we had anticipated when contracting with them. Since we currently work on a small number of large projects, any product that does not achieve commercial viability could significantly reduce our revenue and results of operations below expectations. In addition, if we work with two directly competitive products, volume in one may offset volume, and any of our related gain share, in the other product.

GAIN SHARE MEASUREMENT REQUIRES DATA COLLECTION AND IS SUBJECT TO CUSTOMER AGREEMENT, WHICH CAN RESULT IN UNCERTAINTY AND CAUSE QUARTERLY RESULTS TO FLUCTUATE.

We can only recognize gain share revenue once we have reached agreement with our customers on their level of yield performance improvements. Because measuring the amount of yield improvement is inherently complicated and dependent on our customers' internal information systems, there may be uncertainty as to some components of measurement. This could result in our recognition of less revenue than expected. In addition, any delay in measuring gain share could cause all of the associated revenue to be delayed until the next quarter. Since we currently have only a few large customers and we are relying on gain share as a significant component of our total revenue, any delay could significantly harm our quarterly results.

CHANGES IN THE STRUCTURE OF OUR CUSTOMER CONTRACTS, PARTICULARLY THE MIX BETWEEN FIXED AND VARIABLE REVENUE, CAN ADVERSELY AFFECT THE SIZE AND TIMING OF OUR TOTAL REVENUE.

Our success is largely dependent upon our ability to structure our future customer contracts to include a larger gain share component relative to the fixed fee component. If we are successful in increasing the gain share component of our customer contracts, we will experience an adverse impact on our operating results in the short term as we reduce the fixed fee component, which we typically recognize earlier than gain share fees. In addition, by increasing the gain share component, we increase the variability of our revenue, and therefore increase the risk that our total future revenue will be lower than expected and fluctuate significantly from period to period.

WE GENERATE VIRTUALLY ALL OF OUR TOTAL REVENUE FROM A LIMITED NUMBER OF CUSTOMERS, SO THE LOSS OF ANY ONE OF THESE CUSTOMERS COULD SIGNIFICANTLY REDUCE OUR REVENUE AND RESULTS OF OPERATIONS BELOW EXPECTATIONS.

Historically, we have had a small number of large customers and we expect this to continue in the near term. In the three months ended March 31, 2001, four customers accounted for 83% of our total net

revenue, with Toshiba representing 31%, Matsushita Electric Industrial Co., Ltd. representing 20%, Conexant representing 17% and Sony representing 15%. The loss of any one customer could significantly reduce our total revenue below expectations. In particular, such a loss could cause significant fluctuations in results of operations due to our expenses being fixed in the short term, the fact that it takes us a long time to replace customers and because any offsetting gain share revenue from new customers would not begin to be

recognized until much later.

IT TYPICALLY TAKES US A LONG TIME TO SELL OUR NOVEL SOLUTIONS TO NEW CUSTOMERS, WHICH CAN RESULT IN UNCERTAINTY AND DELAYS IN GENERATING ADDITIONAL REVENUE.

Because our gain share business model is novel and our design-to-silicon yield solutions are unfamiliar, our sales cycle is lengthy and requires a significant amount of our senior management's time and effort. Furthermore, we need to target those individuals within a customer's organization who have overall responsibility for the profitability of an IC. These individuals tend to be senior management or executive officers. We may face difficulty identifying and establishing contact with such individuals. We typically send one or more of our senior executives and several engineers to meet with a prospective customer. Even after initial acceptance, due to the complexity of structuring the gain share component, the negotiation and documentation processes can be lengthy. It can take six months or more to reach a signed contract with a customer. Unexpected delays in our sales cycle could cause our revenue to fall short of expectations.

WE HAVE A HISTORY OF LOSSES, WE EXPECT TO INCUR LOSSES IN THE FUTURE AND WE MAY BE UNABLE TO ACHIEVE OR SUBSEQUENTLY MAINTAIN PROFITABILITY.

We may not achieve or subsequently maintain profitability if our revenue increases more slowly than we expect or not at all. In addition, virtually all of our operating expenses are fixed in the short term, so any shortfall in anticipated revenue in a given period could significantly reduce our operating results below expectations. Our accumulated deficit was $12.6 million as of March 31, 2001. We expect to continue to incur significant expenses in connection with:

- increased funding for research and development;

- expansion of our solution implementation teams;

- expansion of our sales and marketing efforts; and

- additional non-cash charges relating to amortization of intangibles and deferred stock compensation.

As a result, we will need to significantly increase revenue to achieve profitability. If we do achieve profitability, we may be unable to sustain or increase profitability on a quarterly or annual basis. Any of these factors could cause our stock price to decline.

WE MUST CONTINUALLY ATTRACT AND RETAIN HIGHLY TALENTED EXECUTIVES, ENGINEERS AND RESEARCH AND DEVELOPMENT PERSONNEL OR WE WILL BE UNABLE TO EXPAND OUR BUSINESS AS PLANNED.

We will need to continue to hire highly talented executives, engineers and research and development personnel to support our planned growth. We have experienced, and we expect to continue to experience, delays and limitations in hiring and retaining highly skilled individuals with appropriate qualifications. We intend to continue to hire foreign nationals, particularly as we expand our operations internationally. We have had, and expect to continue to have, difficulty in obtaining visas permitting entry into the United States, for several of our key personnel, which disrupts our ability to strategically locate our personnel. In addition, we have a number of openings for key executive positions, including a Vice President of Marketing and additional Vice Presidents of Client Services, that we will need to fill in order to successfully execute our business strategy. We may have difficulty recruiting these executives or integrating them into our existing management team. If we lose the services of any of our key executives or a significant number of our engineers, it could disrupt our ability to implement our business strategy.

Competition for executives and qualified engineers is intense, especially in Silicon Valley where we are principally based.

IF OUR DESIGN-TO-SILICON YIELD SOLUTIONS FAIL TO KEEP PACE WITH THE RAPID TECHNOLOGICAL CHANGES IN THE SEMICONDUCTOR INDUSTRY, WE COULD LOSE CUSTOMERS AND REVENUE.

We must continually devote significant engineering resources to enable us to keep up with the rapidly evolving technologies and equipment used in the semiconductor design and manufacturing processes. These innovations are inherently complex and require long development cycles. Not only do we need the technical expertise to implement the changes necessary to keep our technologies current, we also rely heavily on the judgment of our advisors and management to anticipate future market trends. Our customers expect us to stay ahead of the technology curve and expect that our design-to-silicon yield solutions will support any new design or manufacturing processes or materials as soon as they are deployed. If we are not able to timely predict industry changes, or if we are unable to modify our design-to-silicon yield solutions on a timely basis, our existing solutions will be rendered obsolete and we may lose customers. If we do not keep pace with technology, our existing and potential customers may choose to develop their own solutions internally as an alternative to ours, and we could lose market share to competitors, which could adversely affect our operating results.

WE INTEND TO PURSUE ADDITIONAL STRATEGIC RELATIONSHIPS, WHICH ARE NECESSARY TO MAXIMIZE OUR GROWTH AND WHICH COULD SUBSTANTIALLY DIVERT MANAGEMENT ATTENTION AND RESOURCES.

In order to establish strategic relationships with industry leaders at each stage of the IC design and manufacturing processes, we may need to expend significant resources and will need to commit a significant amount of management's time and attention, with no guarantee of success. If we are unable to enter into strategic relationships with these companies, we will not be as effective at modeling existing technologies or at keeping ahead of the curve as new technologies are introduced. In the past, the absence of an established working relationship with key companies in the industry has meant that we have had to exclude the effect of their component parts from our modeling analysis, which reduces the overall effectiveness of our analysis and limits our ability to improve yield. We may be unable to establish key industry strategic relationships if any of the following occur:

- potential industry partners become concerned about our ability to protect their intellectual property;
- potential industry partners develop their own solutions to address the need for yield improvement;
- our potential competitors establish relationships with industry partners with which we seek to establish a relationship; or
- potential industry partners attempt to restrict our ability to enter into relationships with their competitors.

WE FACE OPERATIONAL AND FINANCIAL RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS.

We derive a majority of our revenue from international sales, principally from customers based in Japan. Revenue generated from customers in Japan accounted for 82% of total revenue in the year ended December 31, 1998, 90% of total revenue in the year ended December 31, 1999, 66% of total revenue in the year ended December 31, 2000 and 66% of total revenue in the three months ended March 31, 2001. We expect that a significant portion of our total future revenue will continue to be derived from companies based in Japan. We are subject to risks inherent in doing business in international markets. These risks include:

- some of our key engineers and other personnel who are foreign nationals may have difficulty gaining access to the United States and other countries in which our customers or our offices may be located;
- greater difficulty in collecting account receivables resulting in longer collection periods;

- language and other cultural differences may inhibit our sales and marketing efforts and create internal communication problems among our U.S. and foreign research and development teams;
- compliance with, and unexpected changes in, a wide variety of foreign laws and regulatory environments with which we are not familiar;

- currency risk due to the fact that expenses for our international offices are denominated in the local currency, while virtually all of our revenue is denominated in U.S. dollars; and

- economic or political instability.

In Japan, in particular, we face the following additional risks:

- Any recurrence of the recent overall downturn in Asian economies could limit our ability to retain existing customers and attract new ones in Asia.

- If the U.S. dollar increases in value relative to the Japanese Yen, the cost of our solutions will be more expensive to existing and potential Japanese customers and therefore less competitive.

If any of these risks materialize, we may be unable to continue to market our design-to-silicon yield solutions successfully in international markets.

COMPETITION IN THE MARKET FOR SOLUTIONS THAT ADDRESS YIELD IMPROVEMENT AND INTEGRATION BETWEEN IC DESIGN AND MANUFACTURING MAY INTENSIFY IN THE FUTURE, WHICH COULD SLOW OUR ABILITY TO GROW OR EXECUTE OUR STRATEGY.

Competition in our market may intensify in the future, which could slow our ability to grow or execute our strategy. Our current and potential customers may choose to develop their own solutions internally, particularly if we are slow in deploying our solutions. Many of these companies have the financial and technical capability to develop their own solutions. Currently, we are not aware of any other provider of comprehensive commercial solutions for Systematic IC yield and performance enhancement. We face indirect competition from the internal groups at IC companies that work on process integration, including groups at current customers, such as Toshiba or Conexant, and at prospective customers. Some vendors to IC companies may also compete with us indirectly. For example, Cadence Design Systems, Inc., a prominent electronic design automation vendor, has offerings that help enhance IC layout in ways that could result in improved yield. Providers of yield management software aimed at maintaining and improving yield in mass production, such as KLA-Tencor Corporation, although they can help us maintain yield gains achieved in integration and ramp, may increasingly seek to broaden their offering and compete with us. In addition, we believe that the demand for solutions that address the need for better integration between the silicon design and manufacturing processes may encourage direct competitors to enter into our market. For example, large integrated organizations, such as IDMs, electronic design automation software providers, IC design service companies or semiconductor equipment vendors, may decide to spin-off a business unit that competes with us. Other potential competitors include fabrication facilities that may decide to offer solutions competitive with ours as part of their value proposition to their customers. If these potential competitors are able to attract industry partners or customers faster than we can, we may not be able to grow and execute our strategy as quickly or at all. In addition, customer preferences may shift away from our design-to-silicon yield solutions as a result of the increase in competition.

WE MUST EFFECTIVELY MANAGE AND SUPPORT OUR RECENT AND PLANNED GROWTH IN ORDER FOR OUR BUSINESS STRATEGY TO SUCCEED.

We will need to continue to grow in all areas of operation and successfully integrate and support our existing and new employees into our operations, or we may be unable to implement our business strategy in the time frame we anticipate, if at all. We expect to outgrow our principal office facilities by May 2003 and at that time will need to secure additional space or relocate to a larger facility, which could be difficult in the very competitive Silicon Valley office leasing market. We will also need to switch to a new accounting system in the near future, which could result in reporting errors and other difficulties that may

disrupt our business operations and distract management. In addition, we will need to expand our intranet to support new data centers to enhance our research and development efforts. Our intranet is expensive to expand and must be highly secure due to the sensitive nature of our customers' information that we transmit. Building and managing the support necessary for our growth places

significant demands on our management and resources. These demands may divert these resources from the continued growth of our business and implementation of our business strategy. Further, we must adequately train our new personnel, especially our technical support personnel, to adequately, and accurately, respond to and support our customers. If we fail to do this, it could lead to dissatisfaction among our customers, which could slow our growth.

OUR SOLUTION IMPLEMENTATIONS MAY TAKE LONGER THAN WE ANTICIPATE WHICH COULD CAUSE US TO LOSE CUSTOMERS AND MAY RESULT IN ADJUSTMENTS TO OUR OPERATING RESULTS.

Our solution implementations require a team of engineers to collaborate with our customers to address complex yield loss issues by using our software and other technologies. We must estimate the amount of time needed to complete an existing solution implementation in order to estimate when the engineers will be able to commence a new solution implementation. Given the time pressures involved in bringing IC products to market, targeted customers may proceed without us if we are not able to commence their solution implementation on time. Due to our lengthy sales cycle, we may be unable to replace these targeted implementations in a timely manner, which could cause fluctuations in our operating results.

In addition, our accounting for solution implementation contracts, which generate fixed fees, sometimes require adjustments to profit and loss based on revised estimates during the performance of the contract. These adjustments may have a material effect on our results of operations in the period in which they are made. The estimates giving rise to these risks, which are inherent in fixed-price contracts, include the forecasting of costs and schedules, and contract revenues related to contract performance.

OUR CHIEF EXECUTIVE OFFICER AND OUR VICE PRESIDENT OF PRODUCTS AND METHODS ARE CRITICAL TO OUR BUSINESS AND WE CANNOT GUARANTEE THAT THEY WILL REMAIN WITH US INDEFINITELY.

Our future success will depend to a significant extent on the continued services of John Kibarian, our President and Chief Executive Officer, and David Joseph, our Vice President, Products and Methods. If we lose the services of either of these key executives, it could slow execution of our business plan, hinder our product development processes and impair our sales efforts. Searching for their replacements could divert our other senior management's time and increase our operating expenses. In addition, our industry partners and customers could become concerned about our future operations, which could injure our reputation. We do not have long-term employment agreements with these executives and we do not maintain any key person life insurance policies on their lives.

INADVERTENT DISCLOSURE OF OUR CUSTOMERS' CONFIDENTIAL INFORMATION COULD RESULT IN COSTLY LITIGATION AND CAUSE US TO LOSE EXISTING AND POTENTIAL CUSTOMERS.

Our customers consider their product yield information and other confidential information, which we must gather in the course of our engagement with the customer, to be extremely competitively sensitive. If we inadvertently disclosed or were required to disclose this information, we would likely lose existing and potential customers, and could be subject to costly litigation. In addition, to avoid potential disclosure of confidential information to competitors, some of our customers may, in the future, ask us not to work with key competitive products.

IF WE FAIL TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, CUSTOMERS OR POTENTIAL COMPETITORS MAY BE ABLE TO USE OUR TECHNOLOGIES TO DEVELOP THEIR OWN SOLUTIONS WHICH COULD WEAKEN OUR COMPETITIVE POSITION, REDUCE OUR REVENUE OR INCREASE OUR COSTS.

Our success depends largely on the proprietary nature of our technologies. We currently rely primarily on copyright, trademark and trade secret protection. Whether or not patents are granted to us, litigation

may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. As a result of any such litigation, we could lose our proprietary rights and incur substantial unexpected operating costs. Litigation could also divert our resources,

including our managerial and engineering resources. In the future, we intend to rely primarily on a combination of patents, copyrights, trademarks and trade secrets to protect our proprietary rights and prevent competitors from using our proprietary technologies in their products. These laws and procedures provide only limited protection. Our pending patent applications may not result in issued patents, and even if issued, they may not be sufficiently broad to protect our proprietary technologies. Also, patent protection in foreign countries may be limited or unavailable where we need such protection.

OUR TECHNOLOGIES COULD INFRINGE THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS CAUSING COSTLY LITIGATION AND THE LOSS OF SIGNIFICANT RIGHTS.

Significant litigation regarding intellectual property rights exists in the semiconductor industry. It is possible that a third party may claim that our technologies infringe their intellectual property rights or misappropriate their trade secrets. Any claim, even if without merit, could be time consuming to defend, result in costly litigation or require us to enter into royalty or licensing agreements, which may not be available to us on acceptable terms, or at all. For example, in May 2001, we were named as a defendant in a lawsuit claiming, among other things, that we misappropriated trade secrets. We are defending ourselves against the claims, which we believe to be without merit. We do not believe that this litigation, or resolution of this litigation, will have a material negative impact on our business. In general, however, a successful claim of infringement against us in connection with the use of our technologies could adversely affect our business.

DEFECTS IN OUR PROPRIETARY TECHNOLOGIES AND SOFTWARE TOOLS COULD DECREASE OUR REVENUE AND OUR COMPETITIVE MARKET SHARE.

If the software or proprietary technologies we provide to a customer contain defects that increase our customer's cost of goods sold and time to market, these defects could significantly decrease the market acceptance of our design-to-silicon yield solutions. Any actual or perceived defects with our software or proprietary technologies may also hinder our ability to attract or retain industry partners or customers, leading to a decrease in our revenue. These defects are frequently found during the period following introduction of new software or proprietary technologies or enhancements to existing software or proprietary technologies. Our software or proprietary technologies may contain errors not discovered until after customer implementation of the silicon design and manufacturing process recommended by us. If our software or proprietary technologies contain errors or defects, it could require us to expend significant resources to alleviate these problems, which could result in the diversion of technical and other resources from our other development efforts.

WE MAY NOT BE ABLE TO RAISE NECESSARY FUNDS TO SUPPORT OUR GROWTH OR EXECUTE OUR STRATEGY.

We currently anticipate that our available cash resources, combined with the net proceeds from this offering, will be sufficient to meet our presently anticipated working capital and capital expenditure requirements for at least the next 12 months. However, we may need to raise additional funds in order to:

- support more rapid expansion;

- develop or enhance design-to-silicon yield solutions;

- respond to competitive pressures; or

- acquire complementary businesses or technologies.

These factors will impact our future capital requirements and the adequacy of our available funds. We may need to raise additional funds through public or private financings, strategic relationships or other arrangements. We cannot guarantee that we will be able to raise any necessary funds on terms favorable to us, or at all.

GENERAL ECONOMIC CONDITIONS MAY REDUCE OUR REVENUES AND HARM OUR BUSINESS.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in domestic and global economic conditions. Because of the recent economic slowdown in the United States, many industries are

delaying or reducing technology purchases. The impact of this slowdown on us is difficult to predict, but it may result in reductions in purchases of our technologies and services by our customers, longer sales cycles and increased price competition. As a result, if the current economic slowdown continues or worsens, we may fall short of our revenue expectations for any given quarter in fiscal 2001 or for the entire year. These conditions would negatively affect our business and results of operations.

WE RELY ON CONTINUOUS POWER SUPPLY TO CONDUCT OUR OPERATIONS, AND THE CURRENT ENERGY CRISIS COULD DISRUPT OUR OPERATIONS AND INCREASE OUR EXPENSES.

California is in the midst of an energy crisis that could disrupt our operations and increase our expenses. In the event of an acute power shortage, that is, when power reserves for the State of California fall below 1.5%, California has on some occasions implemented, and may in the future continue to implement, rolling blackouts throughout the state, with or without advance notice. If blackouts interrupt our power supply, we may be temporarily unable to operate. Any such interruption in our ability to continue operations could delay the development of our products. Future interruptions could damage our reputation, harm our ability to promote the use of our solutions and could result in lost revenue, any of which could substantially harm our business and results of operations. In addition, we do not carry sufficient business interruption insurance to compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business.

Furthermore, the deregulation of the energy industry instituted in 1996 by the California government and shortages in wholesale electricity supplies have caused power prices to increase dramatically, and these prices will likely continue to increase for the foreseeable future. If wholesale prices continue to increase, our operating expenses will likely increase, as our headquarters and most of our employees are based in California.

WE MAY NOT BE ABLE TO EXPAND OUR PROPRIETARY TECHNOLOGIES IF WE DO NOT CONSUMMATE POTENTIAL ACQUISITIONS OR INVESTMENTS OR SUCCESSFULLY INTEGRATE THEM WITH OUR BUSINESS.

To expand our proprietary technologies, we may acquire or make investments in complementary businesses, technologies or products if appropriate opportunities arise. We may be unable to identify suitable acquisition or investment candidates at reasonable prices or on reasonable terms, or consummate future acquisitions or investments, each of which could slow our growth strategy. We may have difficulty integrating the acquired products, personnel or technologies of our recently acquired German company or of any additional acquisitions we might make. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses.

RISKS RELATING TO OUR INDUSTRY

THE SEMICONDUCTOR INDUSTRY IS CYCLICAL IN NATURE.

Our revenue is highly dependent upon the overall condition of the semiconductor industry, especially in light of our gain share revenue component. The semiconductor industry is highly cyclical and subject to rapid technological change and has been subject to significant economic downturns at various times, characterized by diminished product demand, accelerated erosion of average selling prices and production overcapacity. One such downturn appears to have commenced during the third quarter of calendar 2000 and is continuing currently. The semiconductor industry also periodically experiences increased demand and production capacity constraints. As a result, we may experience significant fluctuations in operating results due to general semiconductor industry conditions, and overall economic conditions.

SEMICONDUCTOR COMPANIES ARE SUBJECT TO RISK OF NATURAL DISASTERS.

Semiconductor companies have in the past experienced major reductions in foundry capacity due to earthquakes in Taiwan, Japan and California. In light of our gain share revenue component, our results of operations can be significantly decreased if one of our customers must shut down IC production due to a natural disaster such as earthquake, fire, tornado or flood. Moreover, since semiconductor product life cycles have become relatively short, a significant

delay in the production of a product could result in lost revenue, not merely delayed revenue.

RISKS RELATING TO THIS OFFERING

MANAGEMENT WILL HAVE BROAD DISCRETION AS TO THE USE OF PROCEEDS FROM THIS OFFERING AND, AS A RESULT, WE MAY NOT USE THE PROCEEDS TO THE SATISFACTION OF OUR STOCKHOLDERS.

Our board of directors and management will have broad discretion in allocating the net proceeds of this offering. They may choose to allocate such proceeds in ways that do not yield a favorable return or are not supported by our stockholders. We have designated only limited specific uses for the net proceeds from this offering. Please see "Use of Proceeds."

THE CONCENTRATION OF OUR CAPITAL STOCK OWNERSHIP WITH INSIDERS UPON THE COMPLETION OF THIS OFFERING WILL LIKELY LIMIT YOUR ABILITY TO INFLUENCE CORPORATE MATTERS.

The concentration of ownership of our outstanding capital stock with our directors and executive officers after this offering may limit your ability to influence corporate matters. Upon completion of this offering, our directors and executive officers, and their affiliates, will beneficially own 46.1% of our outstanding capital stock. As a result, these stockholders, if acting together, will have the ability to control all matters submitted to our stockholders for approval, including the election and removal of directors and the approval of any corporate transactions.

WE HAVE ANTI-TAKEOVER DEFENSES THAT COULD DELAY OR PREVENT AN ACQUISITION OF OUR COMPANY.

Provisions of our certificate of incorporation and bylaws in effect after completion of this offering and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. Please see "Description of Capital Stock."

NEGOTIATIONS BETWEEN THE UNDERWRITERS AND US DETERMINED THE INITIAL PUBLIC OFFERING PRICE, BUT THE MARKET PRICE MAY BE LESS OR MAY BE VOLATILE, AND YOU MAY NOT BE ABLE TO RESELL YOUR SHARES AT OR ABOVE THE INITIAL PUBLIC OFFERING PRICE.

The initial public offering price for the shares has been determined by negotiations between us and the representatives of the underwriters and may not be indicative of prices that will prevail in the trading market. An active public market for our common stock may not develop or be sustained after this offering. The market price of our common stock may fluctuate significantly in response to factors, some of which are beyond our control, including:

- actual or anticipated fluctuations in our operating results;
- changes in market valuations of other technology companies;
- conditions or trends in the semiconductor industry;
- announcements by us or our potential competitors of significant technical innovations, contracts, acquisitions or partnerships;
- additions or departures of key personnel;
- any deviations in revenue or in losses from levels expected by securities analysts;

- volume fluctuations, which are particularly common among highly volatile securities of technology related companies; and
- sales of substantial amounts of our common stock or other securities in the open market.

General political or economic conditions, such as a recession, or interest rate or currency rate fluctuations could also cause the market price of our

common stock to decline. Please see "Underwriting."

OUR STOCK PRICE IS LIKELY TO BE EXTREMELY VOLATILE AS THE MARKET FOR TECHNOLOGY COMPANIES' STOCK HAS RECENTLY EXPERIENCED EXTREME PRICE AND VOLUME FLUCTUATIONS.

Volatility in the market price of our common stock could result in securities class action litigation. Any litigation would likely result in substantial costs and a diversion of management's attention and resources. Despite the strong pattern of operating losses of technology companies, the market demand, valuation and trading prices of these companies have been high. At the same time, the share prices of these companies' stocks have been highly volatile and have recorded lows well below their historical highs. As a result, investors in these companies often buy the stock at very high prices only to see the price drop substantially a short time later, resulting in an extreme drop in value in the stock holdings of these investors. Our stock may not trade at the same levels as other technology stocks. In addition, technology stocks in general may not sustain current market prices.

A LARGE NUMBER OF SHARES BECOMING ELIGIBLE FOR SALE AFTER THIS OFFERING COULD CAUSE OUR STOCK PRICE TO DECLINE.

Sales of a substantial number of shares of our common stock after this offering could cause our stock price to fall. Our current stockholders hold a substantial number of shares, which they will be able to sell in the public market in the near future. Beginning on the effective date of this prospectus, only the shares sold in the offering will be immediately available for sale in the public market. Beginning 180 days after the effective date, approximately 15,715,207 shares will be eligible for sale pursuant to Rule 701 and pursuant to Rule 144. An additional 1,991,404 shares will be eligible for sale on various dates following the 181st day after the effective date of this prospectus, subject to compliance with the provisions of Rule 144 or Rule 701 or pursuant to a registration statement on Form S-8, which we expect to file following completion of the offering. Outstanding options and rights to purchase an additional 369,689 shares and at least an additional 650,000 shares we anticipate granting to new and existing employees prior to completion of this offering will be exercisable and eligible for sale on various dates following the 181st day after the effective date of this offering. Please see "Shares Eligible for Future Sale."

YOU WILL INCUR IMMEDIATE AND SUBSTANTIAL DILUTION IN THE BOOK VALUE OF THE STOCK YOU PURCHASE.

The initial public offering price is substantially higher than the book value per share of our outstanding common stock immediately after the offering. This is referred to as dilution. Accordingly, if you purchase common stock in the offering, you will incur immediate dilution of approximately $9.31, at an assumed initial public offering price of $12.00 per share, in the tangible book value per share of our common stock from the price you pay for our common stock. Please see "Dilution."

IF WE RAISE ADDITIONAL CAPITAL THROUGH THE ISSUANCE OF NEW SECURITIES AT A PRICE LOWER THAN THE INITIAL PUBLIC OFFERING PRICE, YOU WILL INCUR ADDITIONAL DILUTION.

If we raise additional capital through the issuance of new securities at a lower price than the initial public offering price, you will be subject to additional dilution. If we are unable to access the public markets in the future, or if our performance or prospects decrease, we may need to consummate a private placement or public offering of our capital stock at a lower price than the initial public offering price. In addition, any new securities may have rights, preferences or privileges senior to those securities held by you.

EXERCISE OF REGISTRATION RIGHTS AFTER THIS OFFERING COULD ADVERSELY AFFECT OUR STOCK PRICE.

If holders of registration rights exercise those rights after this offering

and the concurrent private placement, a large number of securities could be registered and sold in the public market, which could result in a decline in the price of our common stock. If we were to include in a company-initiated registration shares held by these holders pursuant to the exercise of their registration rights, our ability to raise needed capital could suffer. After this offering, the holders of 12,416,644 shares of our common stock, which will represent a total of approximately 55.9% of our outstanding stock after completion of this offering, are entitled to rights with respect to registration under the Securities Act of 1933.

WE DO NOT INTEND TO PAY DIVIDENDS.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings for funding growth and, therefore, do not expect to pay any dividends in the foreseeable future. See "Dividend Policy."

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology; for instance, may, will, should, intend, expect, plan, anticipate, believe, estimate, predict, potential or continue, the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined in "Risk Factors." These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, we are under no duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results, unless required by law.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the 4,500,000 shares of our common stock pursuant to this offering and the sale of the 500,000 shares of our common stock in the concurrent private placement will be $55.1 million, or $62.6 million if the underwriters' over-allotment option is exercised in full, at an assumed initial public offering price of $12.00 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses.

We currently intend to use the net proceeds from the offering, in approximate percentage terms, as follows:

- 20-35% for further development of our products, technologies and methodologies;
- 15-30% to increase Design-to-Silicon Yield Solutions capacity;
- 10-25% for the expansion of our marketing and sales organizations; and
- 10-55% for working capital and general corporate purposes.

These operating expenses will be partially offset by the degree to which we continue to garner revenues from our ongoing activities.

The amounts and timing of these expenditures will vary significantly depending upon a number of factors, including future revenue growth, if any, competitive and technological developments and the amount of cash we generate from operations. We may also use a portion of the net proceeds of this offering to acquire additional businesses, products and technologies, to acquire additional office space, or to establish joint ventures that we believe will complement our current or future business. As a result, we will retain broad discretion in the allocation of the net proceeds of this offering. Pending the

uses described above, we intend to invest the net proceeds from this offering in short-term, interest-bearing, investment grade securities. We cannot predict whether the proceeds will be invested to yield a favorable return. We believe our available cash, together with the net proceeds of this offering, will be sufficient to meet our capital needs for at least the next 12 months.

DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2001, on the following three bases:

- on an actual basis after giving effect to the two-for-three reverse stock split of our common stock and preferred stock;

- on a pro forma basis to reflect the conversion of all shares of our preferred stock into 6,333,318 shares of common stock automatically upon completion of this offering including the effects of dividends to be recorded of $1,619,000 (based on an assumed initial public offering price of $12.00 per share) representing the fair value of additional shares to be issued to the Series B preferred stockholders in excess of the shares issuable pursuant to the original terms of the Series B preferred stock; and

- on a pro forma as adjusted basis to reflect the sale of shares of common stock in this offering and 500,000 shares of common stock to be sold in the concurrent private placement assuming an initial public offering price of $12.00 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses, and the application of the net proceeds.

This table excludes:

- an aggregate of 369,689 shares subject to outstanding options and purchase rights as of March 31, 2001 at a weighted average exercise price of $4.45 per share;

- 1,395,117 shares reserved under our 1997 stock plan as of March 31, 2001 and available for grant prior to completion of this offering, of which we currently intend to grant options to purchase at least 650,000 shares to new and existing employees prior to completion of this offering; and

- 3,300,000 shares reserved under our 2001 stock plans and available for grant following completion of this offering.

You should read this information together with our Consolidated Financial Statements and Notes thereto appearing elsewhere in this prospectus. See "Management -- Benefit Plans," "Related-Party Transactions" and Notes 7 and 12 of Notes to Consolidated Financial Statements.

	MARCH 31, 2001		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS, EXCEPT SHARE DATA)		
Current portion of long-term debt	$ 1,023	$ 1,023	$ 1,023
Long-term debt, less current portion	$ 43	$ 43	$ 43
Series A convertible preferred stock, $0.00015 par value; shares authorized: 5,833,333 actual and pro forma and none pro forma as adjusted; issued and outstanding: 5,833,331 actual and none pro forma and pro forma as adjusted	3,497	--	--
Series B convertible preferred stock, $0.00015 par value; 366,667 shares authorized; issued and outstanding: 350,872 actual and none pro forma and pro forma as adjusted	4,960	--	--
Shareholders' equity (deficit):			
Preferred stock, $0.00015 par value; shares authorized: none actual and pro forma and 5,000,000 pro forma as adjusted; issued and outstanding: none actual, pro forma and pro forma as adjusted	--	--	--
Common stock, $0.00015 par value; shares authorized: 33,333,333 actual and pro forma and 75,000,000 pro forma as adjusted; shares issued and outstanding: 10,873,293 actual, 17,206,611 pro forma and 22,206,611 pro forma as adjusted	2	3	3
Additional paid-in capital	25,088	35,163	90,213
Deferred stock-based compensation	(9,087)	(9,087)	(9,087)
Notes receivable from shareholders	(5,578)	(5,578)	(5,578)
Accumulated deficit	(12,622)	(14,241)	(14,241)
Cumulative other comprehensive income	(17)	(17)	(17)
Total shareholders' equity (deficiency)	(2,214)	6,243	61,293
Total capitalization	$ 6,286	$ 6,286	$ 61,336

DILUTION

Our pro forma net tangible book value as of March 31, 2001 was approximately $4.7 million or $0.27 per share of common stock. Pro forma net tangible book value per share of common stock represents the amount of pro forma total assets, reduced by the amount of total liabilities and intangible assets, divided by the total number of shares of common stock outstanding assuming conversion of our preferred stock into 6,333,318 shares of common stock. After giving effect to the adjustments set forth above, and the sale of shares of common stock in this offering and 500,000 shares of common stock in the concurrent private placement at an assumed initial public offering price of $12.00 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses, our pro forma net tangible book value as of March 31, 2001 would have been $59.7 million or $2.69 per share of common stock. This represents an immediate increase in pro forma net tangible book value of $2.42 per share to existing stockholders and an immediate dilution of $9.31 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$12.00
Pro forma net tangible book value per share before this offering	$0.27	
Increase per share attributable to new public investors	2.42	
Pro forma net tangible book value per share after this offering		2.69

Dilution per share to new public investors.....	$ 9.31

The following table summarizes on a pro forma basis as of March 31, 2001, the differences between the existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid. The pro forma basis gives effect to the automatic conversion of all preferred stock into 6,333,318 shares of common stock upon completion of this offering.

	SHARES PURCHASED		TOTAL CASH CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing stockholders.....	17,206,611	77.5%	$14,518,344	19.5%	$ .84
New investors (including private placement investor).....	5,000,000	22.5	60,000,000	80.5	$12.00
Totals.....	22,206,611	100.0%	$74,518,344	100.0%	

As of March 31, 2001, options and rights to purchase 369,689 shares were outstanding with a weighted average exercise price of $4.45 per share. As of March 31, 2001, 1,395,117 shares were reserved under our 1997 stock plan and available for grant prior to completion of this offering. Of the shares reserved, we currently intend to grant options to purchase at least 650,000 shares to new and existing employees prior to completion of this offering. Upon completion of this offering, we will have 3,300,000 shares reserved under our 2001 stock plans and available for grant upon completion of this offering. The issuance of common stock under these plans will result in further dilution to new investors. See "Management -- Benefit Plans," "Related-Party Transactions" and Notes 7 and 12 of Notes to Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data is qualified by reference to, and should be read in conjunction with, Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto and the other information contained in this prospectus.

The selected consolidated balance sheets data as of December 31, 1999 and 2000 and the selected consolidated statements of operations data for each year in the three years ended December 31, 2000, have been derived from our audited Consolidated Financial Statements appearing elsewhere in this prospectus. The balance sheet data as of March 31, 2001 and for the three months ended March 31, 2000 and 2001 have been derived from our unaudited Consolidated Financial Statements appearing elsewhere in this prospectus. The selected consolidated balance sheet data as of December 31, 1998 and the selected consolidated statement of operations data for the year ended December 31, 1997 have been derived from our audited consolidated financial statements not included in this prospectus. The selected consolidated balance sheets data as of December 31, 1996 and 1997, and the selected consolidated statements of operations data for the year ended December 31, 1996 have been derived from our unaudited consolidated financial statements not included in this prospectus. The unaudited consolidated financial statements have been prepared by us on a basis consistent with the audited consolidated financial statements appearing elsewhere in this prospectus and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for the fair

presentation of this data. Historical results are not necessarily indicative of future results.

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1996	1997	1998	1999	2000	2000	2001
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:							
Revenue:							
Design-to-silicon yield solutions	$ 916	$2,621	$6,227	$10,567	$15,538	$ 2,194	$ 5,753
Gain share	--	--	--	1,257	4,597	1,500	1,781
Total revenue	916	2,621	6,227	11,824	20,135	3,694	7,534
Costs and expenses:							
Cost of design-to-silicon yield solutions	163	596	1,533	4,091	6,915	1,252	2,556
Research and development	624	1,005	1,864	3,087	6,418	946	2,657
Selling, general and administrative	454	1,404	2,959	4,295	7,333	1,446	2,454
Offering costs	--	--	--	--	1,258	--	--
Stock-based compensation amortization*	--	14	61	68	7,292	458	2,557
Total costs and expenses	1,241	3,019	6,417	11,541	29,216	4,102	10,224
Income (loss) from operations	(325)	(398)	(190)	283	(9,081)	(408)	(2,690)
Interest income and other	175	139	128	105	347	17	132
Income (loss) before taxes	(150)	(259)	(62)	388	(8,734)	(391)	(2,558)
Tax provision	--	9	342	533	363	107	185
Net loss	$ (150)	$ (268)	$ (404)	$ (145)	$(9,097)	$ (498)	$(2,743)
Net loss per share -- basic and diluted	$(0.04)	$(0.07)	$(0.08)	$ (0.02)	$ (1.24)	$ (0.07)	$ (0.34)
Shares used in computing basic and diluted net loss per share	3,372	4,101	4,944	6,086	7,356	6,797	8,065
Pro forma net loss per share -- basic and diluted					$ (0.68)		$ (.19)
Shares used in computing pro forma basic and diluted net loss per share					13,394		14,398
*STOCK-BASED COMPENSATION AMORTIZATION:							
Cost of design-to-silicon yield solutions	$ --	$ 4	$ 18	$ 20	$ 1,715	$ 42	$ 719
Research and development	--	10	43	48	4,016	355	1,181
Selling, general and administrative	--	--	--	--	1,561	61	657
	$ --	$ 14	$ 61	$ 68	$ 7,292	$ 458	$ 2,557

	DECEMBER 31,					MARCH 31,
	1996	1997	1998	1999	2000	2001
	(IN THOUSANDS)					
CONSOLIDATED BALANCE SHEETS DATA:						
Cash and cash equivalents	$3,357	$2,208	$2,155	$1,933	$ 7,625	$ 6,866
Working capital	3,277	2,854	2,501	2,153	3,707	3,377
Total assets	3,797	5,351	4,837	5,644	15,514	15,034
Long-term debt, less current portion	--	--	--	72	56	43
Convertible preferred stock	3,497	3,497	3,497	3,497	8,457	8,457
Total shareholders' equity (deficiency)	100	(155)	(480)	(512)	(2,026)	(2,214)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

OVERVIEW

Our comprehensive technologies and services enable semiconductor companies to improve yield and performance of integrated circuits by providing infrastructure to integrate the design and manufacturing processes. Our design-to-silicon yield solutions combine proprietary manufacturing process simulation, yield and performance modeling software, comprehensive test chips, proven yield and performance enhancement methodologies, and professional services.

From our incorporation in 1992 through late 1995, we were primarily focused on research and development of our proprietary manufacturing process simulation and yield and performance modeling software. From late 1995 through late 1998, we continued to refine and sell our software, while expanding our offering to include yield and performance improvement consulting services. In late 1998, we began to sell our software and consulting services, together with our newly developed proprietary technologies, as complete design-to-silicon yield solutions, reflecting our current business model. In April 2000, we expanded our research and development team and gained additional technology by acquiring Applied Integrated Systems and Software GmbH, which develops software and provides development services to the semiconductor industry.

Sources of Revenue

We derive revenue from two sources: design-to-silicon yield solutions and an innovative arrangement we call gain share.

Design-to-Silicon Yield Solutions. Design-to-silicon yield solutions revenue is derived from solution implementations, software and technology licenses and software support and maintenance.

Our integration engineers implement our solutions by delivering, installing and applying our software and other technologies to provide:

- assessment, which involves extensive diagnosis, analysis and prioritization of yield loss components; and

- implementation, which involves modifications to the design or manufacturing process to improve IC yield and optimize performance.

Solution implementations typically take 9 to 15 months to perform and our customer contracts generally provide for fixed price milestone payments during the course of the engagement. Revenue from solution implementations is recognized on the percentage of completion method as we perform the services. The majority of the software and other technologies that we license are bundled with solution implementations. Accordingly, these license fees are recognized as a component of solution implementation contracts. In some cases, we license selected software and technologies without solution implementation services to our existing customers. In addition, we may license our software and technologies without services to potential strategic industry partners to accelerate the adoption of our design-to-silicon yield solutions. If collection of the resulting receivable is probable, the fee is fixed or determinable, and vendor-specific objective evidence exists to allocate a portion of the total license fee to any undelivered elements of the arrangement, then these license fees are recognized upon delivery of our software or authorization codes. Otherwise, these license fees are recognized over the term of the license. Software support and maintenance fees are generally allocated based on vendor specific objective evidence and recognized ratably over the term of the maintenance agreement, typically 12 months.

Gain Share. In addition to the revenue we derive from our design-to-silicon yield solutions, many of our solution implementation contracts provide that we will receive revenue that varies based on the value we create for our customers. To date, we have determined this value based on our customers' actual yield improvements relative to a negotiated yield target, or baseline, for specified products or processes. This

target is typically based on the customer's projected yield without our solutions. We refer to these value-based fees as gain share. We have

historically determined gain share fees:

- as a percentage of the reduction in our customers' cost of goods sold or a percentage of incremental revenue achieved by our customers, in each case, relative to the baseline; or

- as a specified fee based on production milestones achieved by our customers.

Our customer contracts typically contain limitations on the scope of our gain share fees. Gain share may vary significantly because a customer's financial benefits from yield improvements can be affected by forces that are beyond our control, such as market demand for an end product, as well as a company's internal manufacturing performance and pricing decisions. Typically, gain share is measured on a quarterly basis, after mass production begins, and runs for periods of time exceeding one year. We recognize gain share revenue following agreement with our customers as to the level of performance achieved.

Stock-Based Awards

During the year ended December 31, 2000, we issued 2,605,486 common stock options to employees at a weighted average exercise price of $2.73 per share. The weighted average exercise price was below the weighted average deemed fair value of $9.89 per share. The cumulative deferred stock-based compensation with respect to these grants was $18.7 million, and is being amortized to expense on an accelerated method over the four year vesting periods of the options. During the year ended December 31, 2000, we amortized $6.6 million to stock-based compensation expense and reversed $145,000 of deferred stock compensation for cancelled common stock options. During the three months ended March 31, 2001, we amortized $2.6 million to stock-based compensation expense and reversed $238,000 of deferred stock compensation related to repurchased common shares. The deferred stock compensation balance of $9.1 million at March 31, 2001 will be amortized over the remaining vesting periods through December 2004. Due to the accelerated method of amortization, most of the deferred stock-based compensation charge will be incurred over the first one to two years of the vesting of the options. Through December 31, 1999 the cumulative deferred stock-based compensation amortization related to non-employee awards was not material. During the year ended December 31, 2000 and the three months ended March 31, 2001 we recorded stock-based compensation amortization of approximately $651,000 and $4,100, respectively, related to non-employee awards.

Customer Concentration

To date, a small number of integrated device manufacturers, or IDMs, have accounted for virtually all of our total revenue. In the year ended December 31, 1998, two customers accounted for 82% of our total revenue, with Toshiba representing 66% and Fujitsu representing 16%. In the year ended December 31, 1999, three customers accounted for 87% of our total revenue, with Toshiba representing 53%, Fujitsu representing 19% and Sony representing 15%. In the year ended December 31, 2000, four customers accounted for 84% of our total revenue, with Toshiba representing 32%, Sony representing 27%, Conexant representing 15% and Philips representing 10%. In the three months ended March 31, 2001, four customers accounted for 83% of our total net revenue, with Toshiba representing 31%, Matsushita representing 20%, Conexant representing 17%, and Sony representing 15%.

To date, companies based in Japan have accounted for the majority of our total revenue. Revenue generated from customers in Japan accounted for 82% in the year ended December 31, 1998, 90% in the year ended December 31, 1999, and 66% in the year ended December 31, 2000 and the three months ended March 31, 2001. We expect that a significant portion of our total future revenue will continue to be derived from companies based in Japan. Virtually all of our total revenue generated internationally has been denominated in U.S. dollars.

Recent Acquisition

On April 27, 2000, we acquired all of the outstanding stock of Applied Integrated Systems and Software GmbH, or AISS, for $1.25 million, consisting of $995,000 in notes payable due on April 27, 2001 and $255,000 in cash. AISS develops software and provides development services to the

semiconductor industry. The acquisition was accounted for using the purchase method and our Consolidated Financial Statements reflect the results of operations of AISS from the date of acquisition. The excess of the purchase price over the fair value of the tangible assets and liabilities assumed was $2.0 million which was allocated: $662,000 to acquired technology, $540,000 to employee workforce and $807,000 to goodwill which are being amortized on a straight line basis over a period of four years.

RESULTS OF OPERATIONS

We have historically experienced fluctuations from period to period. We expect these fluctuations to continue, therefore historical results are not indicative of future results.

THREE MONTHS ENDED MARCH 31, 2000 AND 2001

Revenue

Total revenue increased 104% from $3.7 million for the three months ended March 31, 2000 to $7.5 million for the three months ended March 31, 2001.

Design-to-Silicon Yield Solutions. Design-to-silicon yield solutions revenue increased 162% from $2.2 million for the three months ended March 31, 2000 to $5.8 million for the three months ended March 31, 2001. The increase was primarily attributable to a greater number of solution implementations during the three months ended March 31, 2001.

Gain Share. Gain share revenue increased 19% from $1.5 million for the three months ended March 31, 2000 to $1.8 million for the three months ended March 31, 2001. This increase was due to the attainment of gain share from three customers in the current period versus two customers in the prior year period.

Costs and Expenses

Costs of Design-to-Silicon Yield Solutions. Cost of design-to-silicon yield solutions consists primarily of compensation, benefits and related personnel costs of the engineers who perform system implementations and software support and maintenance as well as allocated facilities costs. Cost of design-to-silicon yield solutions increased from $1.3 million for the three months ended March 31, 2000 to $2.6 million for the three months ended March 31, 2001. The increase was due to a greater number and increased average size of solution implementations. As a percentage of design-to-silicon yield solutions, costs of design-to-silicon yield solutions decreased from 57% for the three months ended March 31, 2000 to 44% for the three months ended March 31, 2001. This percentage decrease was primarily the result of an increase in higher margin design-to-silicon yield solutions contracts. We anticipate that our cost of design-to-silicon yield solutions will increase in absolute dollars as we support an expanding number of solution implementations.

Research and Development. Research and development expenses consist primarily of compensation, benefits and related personnel costs of the engineers engaged in research and development as well as allocated facilities costs. Research and development expenses increased from $946,000 for the three months ended March 31, 2000 to $2.7 million for the three months ended March 31, 2001. The increase was due to our expanding research and development efforts in software and technologies. As a percentage of total revenue, research and development expenses increased from 26% for the three months ended March 31, 2000 to 35% for the three months ended March 31, 2001. A significant portion of this increase was due to the addition of personnel and the increase in personnel-related costs for development of existing and new technologies, including as a result of our acquisition of AISS. We anticipate that we will continue to commit considerable resources to research and development in the future and that these expenses will continue to increase significantly in absolute dollars.

Selling, General & Administrative. Selling, general and administrative expenses consist primarily of compensation, benefits and related personnel costs as well as allocated facilities costs, outside sales representative commissions, recruiting and relocation costs, accounting and administrative expenses,

training, costs for legal and professional services and general corporate expenses. Selling, general and administrative expenses increased from $1.4 million for the three months ended March 31, 2000 to $2.5 million for the three months ended March 31, 2001. The increase was due to increased spending in personnel and related costs and legal and other professional services in connection with building the necessary administrative infrastructure to support the growth of our operations. As a percentage of total revenue, selling, general and administrative expenses decreased from 39% for the three months ended March 31, 2000 to 33% for the three months ended March 31, 2001. We expect that selling, general and administrative expenses will increase in absolute dollars to support increased selling and administrative efforts.

Stock-Based Compensation Amortization. Stock-based compensation amortization expense increased from $458,000 for the three months ended March 31, 2000 to $2.6 million for the three months ended March 31, 2001. The increase was attributable primarily to options granted to employees at exercise prices below the deemed fair value of our common stock.

Interest and Other Income

Interest and other income increased from $17,000 for the three months ended March 31, 2000 to $132,000 for the three months ended March 31, 2001. This increase was due to higher average cash and short-term investment balances.

Provision for Taxes

Provision for taxes increased from $107,000 for the three months ended March 31, 2000 to $185,000 for the three months ended March 31, 2001. These provisions primarily represented foreign withholding taxes on certain revenue from Japanese customers with the increase in 2001 resulting from an increase in taxable income from worldwide operations.

YEARS ENDED DECEMBER 31, 1999 AND 2000

Revenue

Total revenue increased 70% from $11.8 million for the year ended December 31, 1999 to $20.1 million for the year ended December 31, 2000.

Design-to-Silicon Yield Solutions. Design-to-silicon yield solutions revenue increased 47% from $10.6 million for the year ended December 31, 1999 to $15.5 million for the year ended December 31, 2000. This increase was primarily attributable to a greater number of solution implementations during the year ended December 31, 2000 compared to the prior year.

Gain Share. Gain share revenue increased 266% from $1.3 million for the year ended December 31, 1999 to $4.6 million for the year ended December 31, 2000. This increase was due to the attainment of gain share yield targets for two new and one existing customer.

Costs and Expenses

Cost of Design-to-Silicon Yield Solutions. Cost of design-to-silicon yield solutions increased from $4.1 million for the year ended December 31, 1999 to $6.9 million for the year ended December 31, 2000. This increase was due to a greater number and increased average size of solution implementations, as well as the execution of our business strategy to aggressively increase capacity ahead of revenue, resulting in the hiring of additional personnel. As a percentage of design-to-silicon yield solutions revenue, cost of design-to-silicon yield solutions increased from 39% for the year ended December 31, 1999 to 45% for the year ended December 31, 2000. This percentage increase was primarily the result of increasing capacity in anticipation of expanding our customer base and being awarded new design-to-silicon solutions contracts. We anticipate that our cost of design-to-silicon yield solutions will increase in absolute dollars as we support an expanding number of solution implementations. We expect, however, that cost of design-to-silicon yield solutions revenue will decrease as a percentage of design-to-silicon yield solution revenue in

the long term as capacity to deliver solution implementations is more efficiently balanced with the number of ongoing solution implementation

contracts.

Research and Development. Research and development expenses increased from $3.1 million for the year ended December 31, 1999 to $6.4 million for the year ended December 31, 2000. This increase was due to our expanding research and development efforts in software and technologies. As a percentage of total revenue, research and development expenses increased from 26% for the year ended December 31, 1999 to 32% for the year ended December 31, 2000. A significant portion of this increase was due to the addition of personnel and the increase in personnel-related costs for development of existing and new technologies, including as a result of our acquisition of AISS. We anticipate that we will continue to commit considerable resources to research and development in the future and that these expenses will continue to increase significantly in absolute dollars.

Selling, General and Administrative. Selling, general and administrative expenses increased from $4.3 million for the year ended December 31, 1999 to $7.3 million for the year ended December 31, 2000. This increase was due to increased spending in personnel and related costs and legal and other professional services in connection with building the necessary infrastructure to support the growth of our operations. As a percentage of total revenue, selling, general and administrative expenses remained consistent at 36% for the year ended December 31, 1999 and 2000. We expect that selling, general and administrative expenses will increase in absolute dollars to support increased selling and administrative efforts.

Offering Costs. Costs of approximately $1.3 million related to this offering were expensed during the quarter ended December 31, 2000 due to protracted delays in this offering.

Stock-Based Compensation Amortization. Stock-based compensation amortization expense increased from approximately $68,000 during the year ended December 31, 1999 to $7.3 million during the year ended December 31, 2000. The increase was attributable primarily to options granted to employees at exercise prices below the deemed fair value of our common stock.

Interest and Other Income

Interest and other income increased from approximately $105,000 for the year ended December 31, 1999 to approximately $347,000 for the year ended December 31, 2000. This increase was due to higher average cash and short-term investment balances.

Provision for Taxes

Provision for taxes decreased from approximately $533,000 for the year ended December 31, 1999 to approximately $363,000 for the year ended December 31, 2000. This decrease in provision for taxes primarily resulted from a decrease in foreign withholding taxes partially offset by an increase in taxable income from U.S. operations.

YEARS ENDED DECEMBER 31, 1998 AND 1999

Revenue

Total revenue increased 90% from $6.2 million for the year ended December 31, 1998, to $11.8 million for the year ended December 31, 1999.

Design-to-Silicon Yield Solutions. Design-to-silicon yield solutions revenue increased 70% from $6.2 million for the year ended December 31, 1998, to $10.6 million for the year ended December 31, 1999. These increases were primarily the result of a greater number and size of solution implementations.

Gain Share. Gain share revenue increased from zero for the year ended December 31, 1998, to $1.3 million for the year ended December 31, 1999. This increase was due to the introduction of our gain share business model in late 1998 and the achievement of yield improvements over negotiated contract baselines.

Costs and Expenses

Cost of Design-to-Silicon Yield Solutions. Cost of design-to-silicon yield solutions increased from approximately $1.5 million for the year ended December 31, 1998, to $4.1 million for the year ended December 31, 1999. As a percentage of design-to-silicon yield solutions revenue, cost of design-to-silicon yield solutions increased from 25% for the year ended December 31, 1998, to 39% for the year ended December 31, 1999. This increase in absolute dollars and as a percentage of design-to-silicon yield solutions revenue was due to the hiring of additional engineers as we built our solution implementation teams in anticipation of increased demand for our solutions.

Research and Development. Research and development expenses increased from $1.9 million for the year ended December 31, 1998, to $3.1 million for the year ended December 31, 1999. This increase was due to an increase in personnel and related costs. As a percentage of total revenue, research and development expenses decreased from 30% for the year ended December 31, 1998, to 26% for the year ended December 31, 1999.

Selling, General and Administrative. Selling, general and administrative expenses increased from $3.0 million for the year ended December 31, 1998, to $4.3 million for the year ended December 31, 1999. This increase was due to additional personnel and related costs, outside sales representative commissions, recruiting and relocation costs, accounting and administrative expenses, training and costs for legal and professional services. As a percentage of total revenue, selling, general and administrative expenses decreased from 48% for the year ended December 31, 1998, to 36% for the year ended December 31, 1999.

Stock-Based Compensation Amortization. Stock-based compensation amortization expense increased from approximately $61,000 for the year ended December 31, 1998, to approximately $68,000 for the year ended December 31, 1999. This increase was primarily attributable to timing of the vesting of options and warrants granted to non-employees and the resulting revaluation of compensation expense related to such vested options and warrants.

Interest and Other Income

Interest and other income decreased from approximately $128,000 for the year ended December 31, 1998, to approximately $105,000 for the year ended December 31, 1999. This decrease was due to lower average balances of cash and cash equivalents.

Tax Provision

The tax provision increased from approximately $341,000 for the year ended December 31, 1998, to approximately $533,000 for the year ended December 31, 1999. These provisions primarily represented foreign withholding taxes on some revenue from Japanese customers. This increase was attributable to the increased number of contracts and the revenue subject to these withholding requirements.

NINE QUARTERS ENDED MARCH 31, 2001

The following tables set forth our consolidated statement of operations data for each quarter in the nine quarters ended March 31, 2001. This unaudited quarterly information has been prepared on the same basis as our audited Consolidated Financial Statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of such data. We believe that quarterly revenues, particularly the mix of the revenue components, and operating

results are likely to vary significantly in the future and that period-to-period comparisons of our results of operations should not be relied upon as indications of future performance.

	QUARTER ENDED								
	MAR 31, 1999	JUNE 30, 1999	SEPT 30, 1999	DEC 31, 1999	MAR 31, 2000	JUNE 30, 2000	SEPT 30, 2000	DEC 31, 2000	MAR 31, 2001
	(IN THOUSANDS)								
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:									

Revenue:									
Design-to-silicon yield solutions	$2,451	$2,883	$2,575	$2,658	$2,194	$ 3,774	$ 4,490	$ 5,080	$ 5,753
Gain share	--	--	500	757	1,500	808	848	1,441	1,781
Total revenue	2,451	2,883	3,075	3,415	3,694	4,582	5,338	6,521	7,534
Costs and expenses:									
Cost of design-to-silicon yield solutions	722	1,100	1,133	1,136	1,252	1,653	1,887	2,123	2,556
Research and development	650	594	816	1,027	946	1,296	1,817	2,359	2,657
Selling, general and administrative	1,142	1,060	1,084	1,009	1,446	1,579	2,239	2,069	2,454
Offering costs	--	--	--	--	--	--	--	1,258	--
Stock-based compensation amortization	(13)	13	27	41	458	1,235	2,896	2,703	2,557
Total costs and expenses	2,501	2,767	3,060	3,213	4,102	5,763	8,839	10,512	10,224
Income (loss) from operations	(50)	116	15	202	(408)	(1,181)	(3,501)	(3,991)	(2,690)
Interest income and other	27	25	26	27	17	24	114	192	132
Income (loss) before taxes	(23)	141	41	229	(391)	(1,157)	(3,387)	(3,799)	(2,558)
Tax provision	201	100	102	130	107	166	239	(149)	185
Net income (loss)	$ (224)	$ 41	$ (61)	$ 99	$ (498)	$(1,323)	$(3,626)	$(3,650)	$(2,743)

The trends discussed in the annual comparisons of operating results from 1998 through 2000, generally apply to the comparisons of results for our nine most recent quarters ended March 31, 2001.

A significant portion of our revenue has been, and will continue to be, derived from a small number of substantial contracts with large corporations, which involve extended contract negotiations. We attempt to maximize utilization of our implementation teams by minimizing the time between completion of one solution implementation and commencement of the next. Accordingly, the timing and performance of these contracts may cause material fluctuations in our operating results, particularly on a quarterly basis, although in the past this has been offset by gain share revenue resulting from previous engagements. For example, design-to-silicon yield solutions revenue decreased from the second quarter of 1999 to the third quarter of 1999 and from the fourth quarter of 1999 to the first quarter of 2000 as a result of a delay between completion of existing solution implementations and commencement of the next.

Some of our gain share arrangements provide for non-recurring incentive payments upon the achievement of negotiated yield targets within a specified time. Gain share revenue may increase significantly in the quarter in which these targets are met. For example, in the first quarter of 2000, we recognized revenue in connection with the achievement of one of these targets. In addition, our quarterly operating results, particularly as they pertain to gain share, have in the past and will in the future vary significantly depending upon factors such as our customers' production cycles, our customers' ability to measure, on a timely basis, the performance of their production facilities, changes in market demand for our customers' products, and our ability to deliver results above negotiated gain share baselines. These factors, among others, have made and will continue to make gain share revenues difficult to forecast.

Historically, research and development expenses have fluctuated depending on the rate of hiring engineers and on whether we use engineering resources for development projects or solution implementations. For example, in the fourth quarter of 1999, our research and development expenses increased due to these factors.

Selling, general and administrative expense levels have remained in a narrow range over most of the past eight quarters. Recently, expenses have increased in the sales, marketing, finance and administration functions as we have built the infrastructure necessary to support the growth of the business. In addition, expenses such as sales commissions and relocation of employees may vary from quarter to quarter as was the case in the third and fourth quarters of 2000.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, we have funded our operations primarily with the net proceeds from the sale of common and preferred stock, which has amounted to a total of $8.8 million and, to a lesser extent, from cash flow from operations, bank borrowings and capital equipment leases.

On December 4, 1995, we issued 5,833,331 shares of Series A preferred stock at $.60 per share resulting in net proceeds of $3.5 million. On August 4, 2000, we issued 350,872 shares of Series B preferred stock at $14.25 per share resulting in net proceeds of $5.0 million.

Net cash provided by operating activities was approximately $212,000 for the year ended December 31, 1998, approximately $272,000 for the year ended December 31, 1999, and approximately $1.9 million for the year ended December 31, 2000. Net cash provided by operating activities in 1998 was the result of decreases in accounts receivable and increases in accounts payable and other accrued liabilities partially offset by a loss and a decrease in deferred revenues. Net cash provided by operating activities in 1999 resulted from increases in accrued compensation and related benefits and net income, after adjustment for depreciation and amortization, partially offset by increases in accounts receivable. Net cash provided by operating activities in 2000 was the result of increases in accounts payable and accrued expenses of approximately $1.6 million, billings in excess of recognized revenue of approximately $1.1 million and deferred revenues of approximately $1.5 million, partially offset by a net loss of approximately $968,000 and increases in accounts receivable of approximately $815,000 and prepaid expenses and other assets of approximately $540,000. The net loss for the period of approximately $968,000, was adjusted for depreciation and amortization, including amortization of deferred stock compensation costs of $7.3 million. Net cash used in operating activities was approximately $339,000 for the three months ended March 31, 2001. This resulted primarily from decreases in accrued expenses of approximately $884,000 and increases in accounts receivable and prepaid expenses and other assets of approximately $178,000, partially offset by net income of approximately $123,000 after adjustment for depreciation and amortization, including amortization of deferred stock compensation cost of $2.6 million, and increases in deferred revenues of approximately $353,000, billings in excess of recognized revenue of approximately $141,000 and accounts payable of approximately $104,000. The increase in deferred revenues for the year ended December 31, 2000 and the three months ended March 31, 2001 was due primarily to advance payments from customers under license and maintenance agreements. The increase in accounts receivable for the year ended December 31, 2000 and the three months ended March 31, 2001 was attributable to performance under an increased number of contracts.

Net cash used in investing activities was approximately $281,000 for the year ended December 31, 1998, approximately $537,000 for the year ended December 31, 1999, approximately $1.4 million for the year ended December 31, 2000 and approximately $412,000 for the three months ended March 31, 2001. Net cash used in investing activities in 1998 and 1999 and in the three months ended March 31, 2001 was primarily the result of purchases of property and equipment consisting primarily of computer hardware and software and office furniture. Net cash used in investing activities in 2000 was primarily due to the purchase of property and equipment of approximately $1.2 million and the acquisition of AISS for $995,000 in promissory notes and $255,000 in cash.

Net cash provided by financing activities was approximately $16,000 for the year ended December 31, 1998 and approximately $42,000 for the year ended December 31, 1999. Net cash provided by financing activities was approximately $5.2 million for the year ended December 31, 2000, primarily due to the issuance of Series B convertible preferred stock. Net cash provided by financing activities of $1,800 for the

three months ended March 31, 2001 was the result of collection of notes receivable from shareholders, partially offset by principal payments on long-term debt.

In connection with our acquisition of AISS, we issued $995,000 in promissory notes on April 27, 2000. The principal amount, plus interest at 7% per annum, was paid on April 27, 2001.

We expect to experience significant growth in our operating expenses, particularly for research and development and additions to our workforce in order to execute our business plan. As a result, we anticipate that our

operating expenses, as well as planned capital expenditures, will constitute a material use of our cash resources. In addition, we may utilize cash resources to fund potential acquisitions of complementary products, technologies or businesses. We believe that the net proceeds from this offering and the concurrent private placement together with our existing cash resources, available bank financing and anticipated funds from operations, will satisfy our cash requirements for at least the next twelve months. In the event additional financing is required, we may not be able to raise it on acceptable terms or at all.

EURO-CURRENCY

The Single European Currency, or Euro, was introduced on January 1, 1999, with complete transition to this new currency required by January 2002. In connection with our acquisition of AISS, we are currently assessing the issues raised by the introduction of the Euro, but we do not expect that required changes, if any, will have a material effect on our business.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement will require us to record derivatives on our balance sheet as assets or liabilities measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company adopted SFAS No. 133, as amended, on January 1, 2001. The adoption of this statement did not have an effect on the Company's financial position, results of operations or cash flows as the Company had no stand-alone or embedded derivatives at December 31, 2000 and had not historically entered into any derivative transactions to hedge currency or other exposures.

In September 2000, the FASB issued SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 140 replaces SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. We adopted the applicable disclosure requirements of SFAS No. 140 in our consolidated financial statements as of December 31, 2000. We are currently evaluating the impact of adopting the remaining provisions of SFAS No. 140 which will be effective for transactions entered into after March 31, 2001.

MARKET RISK

The following discusses our exposure to market risk related to changes in interest rates and foreign currency exchange rates. We do not currently own any equity investments, nor do we expect to own any in the foreseeable future. This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors.

Interest Rate Risk. As of March 31, 2001 we had cash and equivalents of $6.9 million, consisting of cash and highly liquid money market instruments with maturities of less than 90 days. Because of the short maturities of these instruments, a sudden change in market interest rates would not have a material impact on the fair value of the portfolio. We would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest on our portfolio. As of March 31, 2001, we had outstanding notes payable of $995,000 which bear interest at a fixed rate of

7%. The fair value of these notes approximated the recorded value at March 31, 2001. Changes in market interest rates will affect the fair market value of these notes. A hypothetical increase in market interest rates of 10% from the market rates in effect at March 31, 2001 would cause the fair value of these investments and notes payable to decrease and increase, respectively, by an immaterial amount and would not have significantly impacted our financial position or results of operations. Declines in interest rates over time will result in lower interest income and increased interest expense.

Foreign Currency and Exchange Risk. Virtually all of our revenue is denominated in U.S. dollars, although such revenue is derived substantially from foreign customers. Foreign sales to date, generated by AISS since the date of its acquisition, have been invoiced in local currencies, creating receivables denominated in currencies other than the U.S. dollar. The risk due to foreign currency fluctuations associated with these receivables is partially reduced by local payables denominated in the same currencies, and presently we do not consider it necessary to hedge these exposures. We intend to monitor our foreign currency exposure, and may use financial instruments to limit this exposure. There can be no assurance that exchange rate fluctuations will not have a materially negative impact on our business.

BUSINESS

OVERVIEW

Our comprehensive technologies and services enable semiconductor companies to improve yield and performance of integrated circuits by providing infrastructure to integrate the design and manufacturing processes. We believe that our solutions significantly improve a semiconductor company's time to market, the rate at which yield improves and product profitability. Our design-to-silicon yield solutions combine proprietary manufacturing process simulation, yield and performance modeling software, comprehensive test chips, proven yield and performance enhancement methodologies, and professional services. The result of implementing our solutions is the creation of value that can be measured based on improvements to our customers' actual yield. We receive recurring revenue based on this value by aligning our financial interests with the demonstrated yield and performance improvement realized by our customers. To date, we have sold our technologies and services to, and we have established ongoing relationships with, key integrated device manufacturers such as Toshiba Corporation, Conexant Systems, Inc., Sony Corporation, Philips Semiconductor, and Texas Instruments Incorporated.

INDUSTRY BACKGROUND

Integrated circuits, or ICs, are critical components used in an increasingly wide variety of applications, such as computer systems; Internet and communications infrastructure equipment, including wireless and network devices; and consumer products including cellular phones, pagers, personal digital assistants, game consoles and network appliances. As IC performance has increased and size and cost have decreased, the use of ICs in these applications has grown significantly. According to a November 2000 report by the Semiconductor Industry Association, the worldwide semiconductor market is expected to grow from $149 billion in 1999 to $319 billion in 2003. A large part of this growth is expected to occur in deep submicron ICs having circuit component feature sizes, or geometries, that measure less than 0.20 microns, or millionths of a meter. ICs are manufactured onto silicon disks, commonly referred to as wafers. According to an April 2001 report by VLSI Research, the demand for deep submicron silicon wafers, which are wafers with a linewidth of less than 0.2 micron, is estimated to grow at a compound annual rate in excess of 48.6% from 1999 to 2005. Rapid technological innovation has shortened product life cycles, which fuels the economic growth of the semiconductor industry.

Customers for electronic products continue to demand new applications with more power, reduced cost and smaller size. As a result, IC companies are adopting new designs, process technologies and materials at an unparalleled rate. For example, silicon germanium processes will be integrated with standard logic processes to provide better performance for radio-frequency components in communication ICs.

In addition, the IC industry faces compression in product lifecycles. Previously, companies could afford to take months, or years in some cases, to integrate their new design and manufacturing processes. With traditional product life cycles, IC companies ramped production slowly, produced at high volume once the product hit its prime, and slowly reduced production volume when the price and the demand started to decrease near the end of its life cycle. More recently, demand -- largely driven by consumers in search of the next, more powerful, smaller device -- has dramatically reduced the time that semiconductor companies have to successfully bring a product to market in high volumes. Companies now need to sell the most volume when a product is first introduced

and has a performance and pricing advantage over its competition, or they will lose the market opportunity and the related high revenue.

Increased IC complexity and compressed product lifecycles create significant challenges to achieving competitive yields and optimizing performance. Yield is the percentage of ICs produced that meet customers' specifications. For example, it is not uncommon for an initial manufacturing run to yield only 20%, meaning 80% of those wafers were wasted. Yield improvement and performance optimization are critical drivers of IC companies' financial results because they typically lead to cost reduction and revenue generation concurrently, causing a leveraged effect on profitability. Historically, yield loss resulted primarily

from contamination in the IC manufacturing process. The dominant factor of yield loss with deep submicron ICs has shifted from contamination to:

- systematic yield loss, or non-functioning ICs resulting from the lack of compatibility between the design and manufacturing processes; and

- performance yield loss, or functioning ICs that do not meet customer speed requirements.

Manufacturers have historically addressed systematic and performance yield loss reactively and almost exclusively by inefficient and time consuming trial-and-error adjustments to the manufacturing process.

Disaggregation of the semiconductor industry has further complicated IC companies' ability to maximize yield. Historically, leading semiconductor companies designed, manufactured and tested their ICs internally, thus retaining design-manufacturing integration know-how. Today, the industry is comprised of organizations as well as separate companies that specialize in a particular phase of designing and manufacturing ICs. This has resulted in a fragmentation of the knowledge related to the integration of IC design and manufacturing.

The combination of increasingly complex ICs and design and manufacturing processes, reduced time to produce new products in high volumes and the loss of information due to disaggregation has left a gap between the design of an IC and its manufacture. We call this gap the design-to-silicon yield gap. This gap creates a number of significant problems for semiconductor companies, including:

- Slow Yield Ramp. Increased process and design complexity extends the time needed to arrive at acceptable yields and increases the time it takes for a semiconductor company to begin producing at high volumes, directly and negatively impacting a company's potential market share and potential revenue.

- Longer Time to Market and Increased Up-front Costs. Yield problems in the initial manufacturing phase result in numerous design and process iterations that delay product introductions and appreciably increase up-front costs, such as non-recurring engineering, mask-set redesigns and excessive sample wafers.

- High Cost of Goods Sold. Processed wafer costs are typically the largest component of an IC company's cost of goods sold and, therefore, yield loss significantly increases costs.

- Difficulties Producing High-Performance ICs. High-performance ICs are particularly sensitive to the lack of compatibility between design and manufacturing. In addition, semiconductor companies typically experience a trade-off between yield and IC performance because it is generally more difficult to produce ICs with more stringent specifications. Semiconductor companies may target high-performance ICs because they typically have higher margins.

Delivering complex ICs quickly and in high volumes requires unique silicon infrastructure solutions to tightly integrate the IC design and manufacturing processes -- thus bridging this design-to-silicon yield gap.

THE PDF SOLUTION

We provide comprehensive silicon infrastructure technologies and services

to address and bridge the design-to-silicon yield gap. Our solution combines proprietary manufacturing process simulation software, yield and performance modeling software, comprehensive test chips, proven yield and performance enhancement methodologies and professional services to increase yield, accelerate yield ramp and improve IC performance. We create a prioritized analysis of yield loss mechanisms to identify, quantify and correct the issues that cause yield loss, often before an IC design is complete. This drives IC design and manufacturing improvements that enable our customers to achieve and exceed targeted IC yield and performance earlier in product life cycles. Our solution is designed to increase the initial yield when a design first enters a manufacturing line, increase the rate at which that yield improves, and allow subsequent product designs to be added to manufacturing lines more quickly and easily. Because our

design-to-silicon yield solutions dramatically and quickly improve a semiconductor company's time to market and yield ramp -- and ultimately product profitability -- we tie our revenue to these improvements through a unique approach that we call gain share. Gain share is the percentage we receive of our customers' incremental cost savings or incremental revenue associated with improved yields and accelerated ramp or may be a specified fee based on production milestones achieved by our customers.

The following graphically depicts the integration of IC design with manufacturing processes using our design-to-silicon yield solutions.

[The diagram depicts the connection between IC design and manufacturing.]

The key benefits of our solution to our customers are:

Faster Time to Market. Our design-to-silicon yield solutions are designed to significantly accelerate our customers' time to market and increase product profitability. Our solutions, which predict and improve product yield even before IC product design is complete, change the traditional design-to-silicon sequence to primarily a concurrent process, and decrease our customers' time to market. Systematically incorporating knowledge of the integration of the design and manufacturing processes into software modules, enables faster introduction of additional products with consistently high initial yields. Our design-to-silicon yield solutions decrease design and process iterations, reduce our customers' up-front costs and speed time to market, thus providing our customers with early-mover advantages such as increased market share and higher selling prices.

Faster Time to Volume. After achieving higher initial yields and faster time to market, our design-to-silicon yield solutions are designed to enable our customers to isolate and eliminate remaining systematic yield issues to achieve cost efficient manufacturing volume. Once a manufacturing process has been modeled using our solutions, our customers are able to diagnose problems and simulate potential corrections more quickly than using traditional methods. In addition, if process changes are required, improvements can be verified more quickly using our technology than using traditional methods. Our design-to-silicon yield solutions enable our customers to quickly reach cost efficient volume, so that they are able to increase revenue, improve their competitive position, and capture higher market share.

Increased Manufacturing Efficiencies. After using our design-to-silicon yield solutions for product introduction and yield ramp, our solutions are designed to allow our customers to achieve a higher final yield and therefore a lower cost of goods sold. In addition, our design-to-silicon yield solutions are designed to provide our customers with the ability to proactively monitor process health to avoid potential yield problems. By paying us gain share as our customers recognize cost savings from these manufacturing efficiencies, they also benefit from better matching their costs to their revenue.

Increased Semiconductor Performance. Our design-to-silicon yield solutions are designed to enable our customers to achieve over-all higher level semiconductor performance by modeling the factors that affect speed and simulating possible improvements. Typically, the changes necessary to achieve higher performance result in an overall reduction in yield. Because our design-to-silicon yield solutions also model

the factors that affect yield at the same time, our customers can often achieve both higher IC performance and higher yield, thereby generating higher margin revenues.

OUR STRATEGY

Our objective is to provide the industry standard in design-to-silicon yield solutions. Key elements of our strategy include:

Leverage Our Innovative Gain Share Business Model. We intend to expand the gain share component of our customer contracts. We believe this innovative approach helps us to form highly collaborative and longer-term relationships. Working closely with our customers on their core technologies with a common focus on their business results provides direct and real-time feedback, which we will continue to use to rapidly generate market-driven improvements that add value to our solutions. We also believe that gain share allows us to increase penetration of our customer accounts because adding new semiconductor products to existing lines is increasingly easy and economical for our customers once our design-to-silicon yield solutions are implemented. As our gain share customers succeed in improving their yield and performance while reducing costs, we believe that we will generate new customer accounts based on these successes.

Focus on Key IC Product Segments. We intend to focus our solution on key IC product segments such as system-on-a-chip, communications networking, graphics and high-performance central processing units. These are high-volume, high-growth segments and are fueled by the growth of Internet and wireless infrastructure and consumer applications. As a result, we will expand our solution for key technology drivers such as low-k dielectrics, copper, embedded DRAM and silicon germanium, which are all new and relatively complex manufacturing process technologies. We believe that these product segments are particularly attractive because they include complex IC design and manufacturing processes where processed silicon is costly and yield is critical.

Expand Strategic Relationships with Industry Leaders. We intend to extend and enhance our relationships with leading companies at key stages of the design-to-silicon process, such as manufacturing equipment vendors, silicon intellectual property vendors, semiconductor foundries, and test and assembly equipment providers. We believe that strategic relationships with industry leaders will increase our insight into future industry needs, thus allowing us to further accelerate our learning and enhance the value of our solutions. We expect these relationships to also serve as sales channels for our design-to-silicon yield solutions and to increase industry awareness of our solutions.

Extend Our Technology Leadership Position. We intend to continue expanding our research and development efforts by leveraging our experienced engineering staff and codifying the knowledge that we continually acquire in our solution implementations. In addition, we intend to selectively acquire complementary businesses and technologies to increase the scope of our solutions. We will continue to make significant investments in the development of proprietary manufacturing process simulation software, yield and performance modeling software, other technologies, and yield and performance enhancement methodologies to accommodate our customers' increasingly complex semiconductor needs.

Expand Worldwide Presence. We intend to establish engineering design and product development centers in key international locations around the world. To date, we have focused on regions specific to our design efforts -- the United States, Japan and Europe. We intend to expand geographically to gain access to international engineering talent and to maintain proximity to our expanding customer base. In addition, we believe that these efforts will have collateral sales and marketing benefits as a result of local presence.

TECHNOLOGY

Our design-to-silicon yield solutions combine proprietary manufacturing

process simulation, yield and performance modeling software, comprehensive test chips and proven yield and performance enhancement methodologies. To calculate the likely yield of an IC design, we have designed a proprietary process that uses each of these technologies to:

- identify yield-relevant layout pattern elements by using the knowledge base embedded in our technologies;

- categorize IC layout components into these elements;

- quantify the yield of each of the elements; and

- model the frequency of yield-relevant elements and their yield-loss probabilities.

We continually enhance our technologies through the codification of knowledge that we gain in our solution implementations.

Our software incorporates the following elements:

- efficient modeling algorithms of the interaction between design layout and manufacturing processes, which creates layout pattern-dependent systematic yield models that encompass process technologies such as lithography, etch, interlayer dielectric chemical-mechanical polishing (ILD CMP), copper CMP and shallow trench isolation CMP (STI CMP);

- pattern recognition algorithms, which allow us to categorize the yield-relevant elements of a design as a function of their layout, including the effects of their proximity to other elements;

- a hierarchical representation of the layout, which encompasses layout manufacturing process proximity effects and minimizes the time necessary for computation of systematic yield prediction;

- algorithms that compute an overall yield impact matrix for design as a function of layout elements and manufacturing yield models;

- statistical simulation of circuit performance as a function of manufacturing process variations, including their impact on transistor performance; and

- statistical process and device simulation.

Our software that is used to predict yields of designs is also used to generate test chips, or characterization vehicles. These characterization vehicles, or CVs, are used to calibrate the yield models and to provide manufacturers with early prediction of product yields, often before the IC design is completed. Early prediction generated by the CVs is the basis of the yield improvement methodologies for the manufacturing line. Information generated by the CVs is also used to improve the IC design.

Our methodologies are a series of guidelines that our implementation teams use to drive our customers' adoption of our software and CVs to quantify the yield impact of each module of the process and design block, simulate the impact of changes to the design and manufacturing process, and analyze the outcome of executing such changes.

PRODUCTS AND SERVICES

Our design-to-silicon yield solutions consist of integration engineering services, proprietary software and other technologies. Our proprietary software and other technologies include proprietary manufacturing process simulation software, yield and performance modeling software, and comprehensive test chips.

We tailor our solution to our customers' specific business issues by offering one of the following design-to-silicon yield solutions:

- Integration and Ramp. This solution enables our customers to ramp the yield of new products when the manufacturing process or fabrication facility is new. Our solution is used to improve the process capability and manufacturability of designs targeted for that process.

- Yield and Performance Ramp. This solution enables our customers to ramp the yield and performance of new products when the manufacturing process is assumed to be mostly correct and complete. In this case, we focus on design oriented issues.

Our design-to-silicon yield solutions can incorporate various software and other technologies, typically including the following:

- Characterization Vehicles and Characterization Vehicle Software. Our integration engineers develop a design of experiments, or DOE, to determine how IC design building blocks interact with the manufacturing process. Our software utilizes the DOE, as well as a library of these building blocks that we know have potential yield and performance impact, to generate comprehensive test chips that we call Characterization Vehicles(TM), or CVs. These CVs are run through the manufacturing process with intentional modifications to explore the effects of natural manufacturing process variations. Our CV analysis software is then used to analyze the electrical test results generated by the test chips to model the yield and performance effects of process variations on these design building blocks.

- pdEx(TM) pdEx analyzes an IC design to compute its systematic and contamination yield loss. pdEx takes as input, a layout that is typically in industry standard format, yield models generated by running our CVs, other test chip data and other in-line inspection systems. pdEx is designed to estimate the yield loss due to optical proximity effects, etch micro loading, dishing in chemical-mechanical polishing and contamination, as well as a number of other basic process issues.

- Circuit Surfer(R) Circuit Surfer estimates the performance yield and manufacturability of small blocks in a design, such as analog subsystems or critical paths of digital blocks. Using Circuit Surfer, a design engineer is able to estimate how manufacturing process variations will impact circuit performance.

- pdFab(R) pdFab provides a framework for statistical manufacturing process and transistor simulation that enables our integration engineers to understand the effects of expected or measured manufacturing process variations on transistor performance. pdFab is used to optimize the transistor architecture and associated manufacturing process, and is primarily targeted to provide higher IC performance, although yield improvements may also be generated.

- Optissimo(R) Optissimo is used to optimize the layout of a design to minimize the impact of wafer printing variations due to optical proximity effects. Optissimo can be used for model based optical proximity correction technologies.

While the primary distribution method for our software and technologies is through our design-to-silicon yield solutions, we have in the past and may in the future separately license these and other technologies.

CUSTOMERS AND CASE STUDIES

Customers

Our current customers are primarily large integrated device manufacturers, or IDMs. We have established ongoing relationships with key IDMs such as Toshiba Corporation, Sony Corporation, Conexant Systems, Inc., Philips Semiconductor and Texas Instruments Incorporated. Our customers' targeted product segments vary significantly, including microprocessors, graphics, memory, and communi-

cations. We believe that the adoption of our solutions by such diverse and technologically advanced companies validates the application of our design-to-silicon yield solutions to the broader market.

Case Studies

TOSHIBA CORPORATION -- one of the world's leading semiconductor manufacturers with IC and end product revenue over $50 billion.

Challenge: To meet the anticipated large market demand for a new consumer product, Toshiba sought to ramp production of a very large, complex system-on-a-chip, or SoC. A chip of this size and complexity had not previously been manufactured at the projected high volumes.

Solution: Toshiba utilized our design-to-silicon yield solution to identify and quantify potential yield loss components and their root causes, and to monitor continuing manufacturing process health. Our CVs and analyses continuously identified yield issues and prioritized the causes by yield impact, which Toshiba used to drive proactive improvements to ensure that SoC yields would be on target. Toshiba made numerous design and manufacturing changes, so that the design and manufacturing process were already co-optimized to yield well by the time the SoC was inserted into mass production. In addition, our solution was used to improve the transistor architecture for significantly better transistor performance, which resulted in higher IC performance yield.

Impact: The SoC yield ramp rate greatly exceeded the industry benchmark ramp rates, increased the capacity of the fabrication facility and enabled Toshiba to meet the market demand. We continue to work very closely with Toshiba on the next generation of this process and SoC.

CONEXANT SYSTEMS, INC. -- one of the world's leading pure-play communications IC producers with IC revenue in excess of $2 billion.

Challenge: Conexant sought to achieve consistently high yields of a specific product across existing internal and external manufacturing processes. This was exacerbated by the added complexities of disparate design rules in each of the facilities.

Solution: We worked with Conexant to identify, quantify and prioritize yield loss components and their root causes to drive yield improvements for an archetypal product. These improvements were also expected to apply to other Conexant products. Our proprietary technology allowed our team to uncover the two major systematic causes of low yield for this product -- the first was an inconsistency in the design rules that specified how layers of metals were connected to each other, or borderless contacts, and the second was a problem in the transistor to transistor interconnect. We worked with Conexant to identify layout changes to compensate for process differences across the manufacturing facilities. Our team used our software simulation capability to predict the yield improvement and ensure that proposed changes were optimal.

Impact: In three months, we increased yields dramatically for the archetypal product. In addition, the corrections implemented for the archetypal product were applied to many products in the 0.25 micron technology. We continue to work closely with Conexant on the next generation of its processes and products.

SALES AND MARKETING

Our sales strategy is to pursue targeted accounts through a combination of our direct sales force and strategic alliances. To date, we have targeted leading IDMs to validate our solutions in leading technology and manufacturing environments and to establish credibility to support future sales and marketing efforts. We expect to extend these efforts to other IDMs and fabless semiconductor companies. For sales in the United States, we rely on our direct sales team, which primarily operates out of our San Jose, California

headquarters. In Japan we use our direct sales team as well as Innotech Corporation, a large semiconductor sales and distribution company located in Japan. Innotech has been instrumental in providing introductions to key executives with some of our targeted customers, which has allowed us to establish direct relationships with these key executives. We expect to continue establishing strategic alliances with vendors in the electronic design automation software, capital equipment for IC production, silicon intellectual property and mask-making software segments to create and take advantage of co-marketing opportunities. We believe that these relationships will also serve as sales channels for our design-to-silicon yield solutions and to increase industry awareness of our solutions.

We strive to provide compelling value in our initial engagement to establish ourselves as a key vendor to our customers and solidify relationships at the executive level. Early in the solution implementation, our engineers establish relationships across the organization and gain a solid understanding of our customers' business issues. Our direct sales and solution implementation teams combine their efforts to deepen our customer relationships by expanding our penetration across the customer's products, processes and technologies. This close working relationship with the customer has the added benefit of helping us identify new product areas and technologies in which we should next focus our research and development efforts. We believe that our sales and marketing efforts will facilitate the adoption of our design-to-silicon yield solutions as the industry standard.

RESEARCH AND DEVELOPMENT

Our research and development focuses on rapidly developing and introducing new proprietary technologies, software products and enhancements to our existing design-to-silicon yield solutions. We use a rapid-prototyping paradigm in the context of the customer engagement to achieve these goals. In addition, we have a highly-qualified technical advisory board comprised of professors from Harvard University's Business School, the Massachusetts Institute of Technology, Carnegie Mellon University and the University of California, Berkeley to help us develop and guide our strategic development roadmap.

We have made and expect to continue to make substantial investments in research and development. The complexity of our design-to-silicon yield technologies requires expertise in physical IC design and layout, transistor design and semiconductor physics, semiconductor process integration, numerical algorithms, statistics, and software development. We believe that the multidisciplinary expertise of our team of scientists and engineers will continue to advance our market and technological leadership. We conduct extensive in-house training for our engineers in the technical areas, as well focusing on ways to enhance their client service skills. At any given time, about one quarter of our research and development engineers are operating in the field, partnered with solution implementation engineers in a deliberate strategy to provide direct feedback between technology development and client needs. Our research and development expenses were approximately $1.9 million in 1998, $3.1 million in 1999, $6.4 million in 2000 and $2.7 million in the three months ended March 31, 2001.

COMPETITION

The semiconductor industry is highly competitive and characterized by rapidly changing design and process technologies, evolving standards, short product life cycles and decreasing prices. While the market for silicon infrastructure is in its infancy, it is rapidly evolving and we expect competition to develop and continue to increase. We believe a comprehensive solution to effectively close the design-to-silicon yield gap requires integration of design and manufacturing processes. Currently, we are the only provider of comprehensive commercial solutions for systematic IC yield and performance enhancement. We face indirect competition from the internal groups at IC companies that work on process integration, including groups at current customers such as Toshiba or Conexant, and at prospective customers. Some vendors to IC companies may also compete with us indirectly. For example, Cadence, a prominent electronic design automation vendor, has offerings that help enhance IC layout in ways that could result in improved yield. Providers of yield management software aimed at maintaining and improving yield in mass production, such as KLA-Tencor, although they can help us maintain yield gains

achieved in integration and ramp, may increasingly seek to broaden their offering and compete with us. In addition to such indirect

competition, other potential sources of competition include: yield-management software vendors who could expand their offerings to include or increase design and process capabilities; electronic design automation vendors, who could expand their offerings to include process and manufacturing; and semiconductor process equipment vendors, who could expand their offerings to include design and other elements of process and manufacturing beyond their own equipment.

We believe that the principal factors affecting competition in our market are:

- demonstrated results and reputation;
- strength of core technology;
- ability to implement solutions for new technology and product generations;
- time to market; and
- strategic relationships.

Although we believe that our solutions compete favorably with respect to these factors, our market is relatively new and is evolving rapidly. We may not be able to maintain our competitive position against current and potential competitors, especially those with significantly greater resources.

INTELLECTUAL PROPERTY

Our future success and competitive position are dependent upon our continued ability to develop and protect proprietary software and other technologies. We rely primarily on a combination of contractual provisions, confidentiality procedures, trade secrets, and patent, copyright and trademark laws to protect our proprietary technologies and prevent competitors from using our technologies in their products. We have been issued one German patent and have seven patent applications currently pending in the United States. We intend to prepare additional patent applications for submission to the United States Patent and Trademark Office. In the future, we may seek additional patent protection when we feel it is necessary.

We license our products and technologies pursuant to non-exclusive license agreements which impose restrictions on customer use. In addition, we seek to avoid disclosure of our trade secrets, including, requiring employees, customers and others with access to our proprietary information to execute confidentiality agreements with us and restricting access to our source code. We also seek to protect our software, documentation and other written materials under trade secret and copyright laws. Despite this protection, unauthorized parties may copy aspects of our current or future software and other technologies or obtain and use information that we regard as proprietary.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights or positions. There are also numerous patents in the semiconductor industry and new patents are being issued at a rapid rate. It is also possible that third parties will claim that we have infringed their patents and current or future products. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause delays, or require us to enter into royalty or licensing agreements, any of which could harm our business. Patent litigation in particular has complex technical issues and inherent uncertainties. In the event an infringement claim against us was successful and we could not obtain a license on acceptable terms or license a substitute technology or redesign to avoid infringement, our business would be harmed.

PDF Solutions(R), Circuit Surfer(R) and pdFab(R) are our registered trademarks and Characterization Vehicle(TM), CV(TM), pdEx(TM) and Optissimo(TM) are trademarks of PDF. All other brand names or trademarks appearing in this prospectus are the property of their respective holders.

EMPLOYEES

As of March 31, 2001, we had 159 employees, including 60 in client service teams, 68 in products and methods, 10 in sales and marketing and 21 in general and administrative functions. One hundred nine of these employees are located in San Jose, California, 15 are located in Texas and Virginia, 25 are located

in Germany, 7 employees are located in Japan and 3 employees are located in Italy. Of our 159 total employees, 129 are engineers, 113 of which have advanced degrees including 67 with Ph.Ds.

None of our employees is represented by a labor union or is subject to a collective bargaining agreement. We believe our relationship with our employees is good.

LEGAL PROCEEDINGS

We are not currently party to any material legal proceedings. In May 2001, we were named as a defendant in a lawsuit claiming, among other things, that we misappropriated trade secrets in connection with hiring an employee. We are defending ourselves against the claims, which we believe to be without merit. We do not believe that this litigation, or resolution of this litigation, will have a material negative impact on our business.

FACILITIES

Our principal executive offices are located in San Jose, California where we lease approximately 18,000 square feet under a lease that expires in October 2004 and have leased an additional 18,000 square feet under a lease that will expire in May 2003. We lease 5,418 square feet in Dallas, Texas under a lease that expires in July 2002. In addition, we lease 4,200 square feet in Munich, Germany, 1,600 square feet in Tokyo, Japan and 1,665 square feet in DesEnzano, Italy under leases that expire in June 2002, April 2002 and September 2006. We believe that our current facilities in San Jose are adequate to meet our needs through May 2003, at which time we will need to obtain additional space in the San Jose area, which we expect to be able to obtain when necessary.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The names and ages of our executive officers and directors as of March 31, 2001 are as follows:

NAME	AGE	POSITION(S)
John K. Kibarian, Ph.D.	37	Chief Executive Officer, President and Director
Thomas F. Cobourn, Ph.D.	40	Vice President, Yield Analysis
David A. Joseph	47	Vice President, Products and Methods
P. Steven Melman	46	Chief Financial Officer and Vice President, Finance and Administration
Kimon Michaels, Ph.D.	35	Vice President, Integration Practice and Director
P.K. Mozumder, Ph.D.	38	Vice President, Integration Practice
W. Steven Rowe	51	Vice President, Human Resources
David Tarpley	55	Vice President, Worldwide Sales
B.J. Cassin	67	Director
Donald L. Lucas	71	Director
Lucio L. Lanza	56	Director

John K. Kibarian, Ph.D., one of our founders, has served as President since November 1991 and has served as our Chief Executive Officer since July 2000. Mr.

Kibarian has served as a director since December 1992. Mr. Kibarian received a B.S. in Electrical Engineering, a M.S. E.C.E. and a Ph.D. E.C.E. from Carnegie Mellon University.

Thomas F. Cobourn, Ph.D., one of our founders, has served in Vice Presidential capacities since June 1992 including currently as Vice President, Yield Analysis. Mr. Cobourn received a B.S., Computer Science and Engineering from the University of Pennsylvania and a M.S. E.C.E. and Ph.D. E.C.E. from Carnegie Mellon University.

David A. Joseph has served as Vice President, Products and Methods since July 1999. He served as Vice President, Business Development from November 1998 through June 1999. From February 1978 to October 1998, Mr. Joseph served KLA/Tencor, a semiconductor manufacturing company, in various positions, including as Japan Business Manager, VP Customer Satisfaction and GM Yield Analysis Software. Mr. Joseph received a B.S. in Mathematical Science from Stanford University.

P. Steven Melman has served as Chief Financial Officer and Vice President, Finance and Administration since July 1998. From April 1997 to June 1998, Mr. Melman served as Vice President Finance and Administration with Animation Science Corporation, an animation company. From April 1995 to April 1997, he served as Vice President, Finance and Chief Financial Officer with Business Resource Group, a facilities management and commercial furnishings company. Mr. Melman received a B.S. in Business Administration from Boston University. Mr. Melman is a Certified Public Accountant.

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

P.K. Mozumder, Ph.D. has served as Vice President, Integration Practice since May 1998. From June 1994 to May 1998, Mr. Mozumder served as a Branch Manager with Texas Instruments, Inc., a consumer electronics and semiconductor company. Mr. Mozumder received a B. Tech in Electrical Engineering from the Indian Institute of Technology in Bombay, India, and a M.S. E.C.E. and a Ph.D. E.C.E. from Carnegie Mellon University.

W. Steven Rowe has served as Vice President, Human Resources since February 2000. From June 1995 to February 2000, Mr. Rowe served as Vice President, Human Resources at Trident Microsystems, a

multimedia semiconductor company. From May 1994 to June 1995, he served as Vice President, Human Resources at OPTi Inc., a semiconductor company. Mr. Rowe received a M.A. in Education Administration from San Jose State University, a M.A. in Speech Pathology from Chico State University and a J.D. from Lincoln University.

David Tarpley has served as Vice President, Worldwide Sales since November 1996. From 1995 through September of 1996, Mr. Tarpley served as Vice President, International Sales for Anagram, Inc., an Electronic Design Automation company. From 1993 to 1995, Mr. Tarpley served as Vice President, Worldwide Sales with HLD, Inc., an electronic design automation company. Mr. Tarpley received a B.S. in Business Administration from The University of California, Berkeley and an M.B.A. from The California State University Fullerton.

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

Donald L. Lucas has served as a director since May 1999. He has been a venture capitalist since 1960. He also serves as a director of Cadence Design Systems, Inc., an electronic design automation company, Coulter Pharmaceutical, Inc., a pharmaceutical company, Macromedia, Inc., a software company, Oracle Corporation, an information management software company, Preview Systems, Inc.,

a infrastructure software company, Transcend Services, Inc., a medical services company, and Tricord Systems, Inc., a storage system management software company. Mr. Lucas holds a B.A. in Economics and an M.B.A. from Stanford University.

Lucio L. Lanza has served as a director since November 1995. Mr. Lanza has served as chairman of the board of Artisan Components, Inc., a semiconductor intellectual property company since November 1997. From 1990 to December 2000, Mr. Lanza served with U.S. Venture Partners, a venture capital firm, including as a general partner from 1996 through December 2000.

BOARD COMPOSITION

Our bylaws currently provide for a board of directors consisting of five members. Commencing upon completion of this offering, the board of directors will be divided into three classes, each serving staggered three-year terms:

- Class I directors will include Mr. Lucas and Mr. Cassin, and their terms will expire at the first annual meeting of stockholders following the date of this prospectus;

- Class II directors will include Mr. Lanza and Mr. Michaels, and their terms will expire at the second annual meeting of stockholders following the date of this prospectus; and

- Class III directors will include Mr. Kibarian, whose term will expire at the third annual meeting of stockholders following the date of this prospectus.

As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective terms.

Each officer is elected by the board of directors and serves at its discretion. Each of our officers and directors, other than nonemployee directors, devotes his or her full time to our affairs. Our nonemployee directors devote the amount of time to our affairs as is necessary to discharge their duties. There are no family relationships among any of our directors or officers.

BOARD COMMITTEES

We have established an audit committee and a compensation committee.

Audit Committee

The audit committee reviews our internal accounting procedures and considers and reports to the board of directors with respect to other auditing and accounting matters, including the selection of our independent auditors, the scope of annual audits, fees to be paid to our independent auditors and the performance of our independent auditors. The audit committee currently consists of Mr. Lucas, Mr. Lanza and Mr. Cassin.

Compensation Committee

The compensation committee reviews and recommends to the board of directors the salaries, benefits and stock option grants of all employees, consultants, directors and other individuals compensated by us. The compensation committee also administers our stock option and other employee benefits plans. The compensation committee currently consists of Mr. Cassin and Mr. Lanza.

DIRECTOR COMPENSATION

Our directors do not currently receive any compensation for serving on the board of directors, although they are reimbursed for reasonable travel expenses incurred in connection with attending board of directors and committee meetings. In March 2000, we issued options to purchase 50,000 shares of common stock to Mr. Lucas, at an exercise purchase price of $1.50 per share, one-quarter of the shares vest on the 12 month anniversary of the vesting commencement date and 1/48 of the total number of shares subject to the option vest each month

thereafter, provided that Mr. Lucas remains one of our directors. After the completion of this offering, any new directors will receive an initial option to purchase 30,000 shares of common stock and all our directors will receive on an annual basis options to purchase 7,500 shares of common stock. Please see "Management -- Benefit Plans -- 2001 Stock Plan."

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The compensation committee makes all compensation decisions. Our compensation committee currently consists of Mr. Cassin and Mr. Lanza, neither of whom has ever been one of our officers or employees. Prior to the formation of the compensation committee in 1995, our board of directors made decisions relating to compensation of our executive officers. None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving as a member of our board of directors or compensation committee.

EXECUTIVE COMPENSATION

The following table sets forth information regarding the compensation that we paid during the fiscal years ended December 31, 1999 and 2000 to our Chief Executive Officer and our four other most highly compensated officers who earned more than $100,000 during those fiscal years. All option grants were made under our 1997 Stock Plan. Amounts listed under "Other Annual Compensation" represent the dollar value of commissions earned. The amounts listed under "All Other Compensation" represent the dollar value of term life insurance paid by us on behalf of the named executive officer during the fiscal

years ended December 31, 1999 and 2000. There is no cash surrender value under the life insurance policy.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION	SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPENSATION
John K. Kibarian.....	2000	$150,000	$42,000	--	200,000	$371
Chief Executive Officer and President	1999	120,000	15,000	--	--	321
David Tarpley.....	2000	100,240	--	$160,288	26,666	329
Vice President, Worldwide Sales	1999	100,240	--	104,851	53,333	327
David A. Joseph.....	2000	175,000	40,000	--	53,333	371
Vice President, Products and Methods	1999	160,240	1,450	--	33,333	327
P.K. Mozumder.....	2000	160,000	37,500	--	40,000	371
Vice President, Integration Practice	1999	150,240	6,200	--	--	327
P. Steven Melman.....	2000	160,000	30,000	--	33,333	371
Chief Financial Officer and Vice President, Finance and Administration	1999	150,240	4,600	--	--	327

Option Grants in 2000

The following table sets forth information with respect to stock options granted to our Chief Executive Officer and our four most highly compensated executive officers during the year ended December 31, 2000.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (PER SHARE)	EXPIRATION DATE	5%	10%

John K. Kibarian.....	200,000	7.6%	3.00	6/30/10	$3,309,347	$5,624,982
David Tarpley.....	26,666	1.0%	3.00	6/30/10	441,235	749,979
David A. Joseph.....	53,333	2.0%	3.00	6/30/10	882,487	1,499,986
P. K. Mozumder.....	40,000	1.5%	3.00	6/30/10	661,869	1,124,996
P. Steven Melman.....	33,333	1.3%	3.00	6/30/10	551,552	937,488

We have never granted any stock appreciation rights. All option grants were made under our 1997 stock plan. The exercise price per share was equal to the fair market value of the common stock on the date of grant as determined by the board of directors. Percentage of total options is based on an aggregate of 2,647,019 shares of common stock granted under the 1997 Stock Plan in the year ended December 31, 2000.

The potential realizable value represents the hypothetical gain or option spread that would exist for the options in this table if the assumed initial public offering price of $12.00 for our common stock appreciates at assumed annual rates of 5% and 10% for the ten year term of such options. These assumed rates comply with the rules of the Securities and Exchange Commission and do not represent our estimate of future stock price. Actual gains, if any, on stock option exercises will be dependent on the future performance of our common stock.

Beginning on the vesting commencement date for each grant, the options shown in this table vest monthly at a rate of 1/24 of the total number of shares subject to the grant as long as the optionee remains an employee, consultant or director. The vesting commencement dates for the named executive officers are as follows: Mr. Kibarian -- June 30, 2000; Mr. Tarpley -- November 2, 2000; Mr. Joseph -- May 20, 2003; Mr. Mozumder -- May 19, 2002; and Mr. Melman -- July 16, 2002.

2000 Fiscal Year-End Option Values

The following table provides summary information with respect to our chief executive officer and our four other most highly compensated executive officers concerning:

- the shares of common stock acquired in 2000;
- the value realized upon exercise of stock options in 2000; and
- the number and value of unexercised options as of December 31, 2000.

The value realized was calculated by determining the difference between the fair market value of underlying securities, which we have based on an assumed initial public offering price of $12.00, and the exercise price.

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 2000		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 2000	
NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
John K. Kibarian.....	200,000	$1,800,000	--	--	--	--
David Tarpley.....	26,666	239,994	--	--	--	--
David A. Joseph.....	53,333	479,997	--	--	--	--
P. K. Mozumder.....	40,000	360,000	--	--	--	--
P. Steven Melman.....	33,333	299,997	--	--	--	--

Each of these executives early exercised his stock options under our early exercise program, which was terminated in October 2000, and executed a

restricted stock purchase agreement granting us the right to repurchase any unvested shares at the exercise price upon the termination of his employment.

BENEFIT PLANS

1996 Stock Option Plan

Our 1996 Stock Option Plan, or the 1996 Plan, provides for the granting of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, or the Code, and for the granting to employees, directors and consultants of nonstatutory stock options. The 1996 Plan was approved by the board of directors in January of 1996 and by our stockholders in February of 1996. The board of directors approved an amendment to the 1996 Plan in August 1996 to allow grants to consultants, which amendment did not require stockholder approval. Unless terminated sooner, the 1996 Plan will terminate automatically in 2006. As of March 31, 2001, a total of 731,700 shares of common stock were reserved for issuance pursuant to the 1996 Plan of which options to purchase 15,282 were outstanding and none were available for grant.

The 1996 Plan may be administered by the board of directors or a committee of the board of directors, which committee shall, in the case of options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, consist of two or more "outside directors" within the meaning of Section 162(m) of the Code. The Administrator has the power to determine the terms of the options granted, including the exercise price, the number of shares, the exercisability thereof, and the form of consideration payable upon exercise. In March 2000, the administrator amended the 1996 Plan exercise practices to allow for the early exercise of unvested shares by all optionees. In October 2000, the practice of allowing early exercise of unvested shares was terminated. The board of directors has the authority to amend, suspend or terminate the 1996 Plan, provided that the action may not adversely affect any share of common stock previously issued and sold or any option previously granted under the 1996 Plan.

Options granted under the 1996 Plan are not generally transferable by the optionee, and each option is exercisable during the lifetime of the optionee only by the optionee. Options granted under the 1996 Plan generally must be exercised within three months of the optionee's separation of service from PDF, or

within twelve months of the optionee's termination by death or disability, but in no event later than the expiration of the option's ten year term. The exercise price of all incentive stock options granted under the 1996 Plan must be at least equal to the fair market value of the common stock on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive or nonstatutory stock option granted must equal at least 110% of the fair market value on the date of grant and the term of any incentive stock option must not exceed five years. The exercise price of a nonstatutory option granted to any other individual must equal at least 85% of the fair market value on the date of grant. The term of all other options granted under the 1996 Plan may not exceed ten years.

The 1996 Plan provides that in the event of a merger by us with or into another corporation or a sale of substantially all of our assets, each option shall be assumed or an equivalent option substituted by the successor corporation unless the administrator decides that the optionees shall have the right to exercise some or all of the unvested shares. If each outstanding option is made exercisable in lieu of substitution or assumption as described in the preceding sentence, the administrator shall notify the optionees that each option shall be exercisable for a period of thirty days from the date of such notice and that the option shall otherwise terminate upon the expiration of such period.

Following adoption of the 1997 Stock Plan in September 1997 by the board of directors, the 1996 Plan was effectively terminated and no additional grants could be issued under the 1996 Plan.

1997 Stock Plan

Our 1997 Stock Plan, or the 1997 Plan, provides for the granting of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the granting to employees, directors and consultants of nonstatutory stock options and stock purchase rights. The 1997 Plan was approved by the board of directors and stockholders in September 1997. The board of directors approved an amendment to the 1997 Plan in December 1999, and the stockholders approved this amendment in January of 2000. The board of directors approved an amendment to the 1997 Plan in June 2000 and the stockholders approved the amendment in July 2000. Unless terminated sooner, the 1997 Plan will terminate automatically in 2007. As of March 31, 2001, a total of 5,601,632 shares of common stock were reserved for issuance pursuant to the 1997 Plan of which options to purchase 354,407 shares were outstanding and 1,395,117 were available for grant.

The 1997 Plan may be administered by the board of directors or a committee of the board of directors. The Administrator has the power to determine the terms of the options granted, including the exercise price, the number of shares, the exercisability thereof, and the form of consideration payable upon exercise. The board of directors has the authority to amend, suspend or terminate the 1997 Plan, provided that the action may not adversely affect any share of common stock previously issued and sold or any option previously granted under the 1997 Plan. On June 30, 2000, the board of directors formed a Special Option Committee to serve as Administrator under the 1997 Plan for the purposes of granting options to purchase up to 23,333 shares of common stock to any new, non-executive employees. The Special Option Committee consists of Mr. Kibarian and Mr. Melman.

Options and stock purchase rights granted under the 1997 Plan are not generally transferable by the optionee, and each option and stock purchase right is exercisable during the lifetime of the optionee only by the optionee. Options granted under the 1997 Plan must generally be exercised within three months of the optionee's separation of service from us, or within twelve months of the optionee's termination by death or disability, but in no event later than the expiration of the option's ten year term. Options granted under the 1997 Plan generally may be exercised only when vested; however, certain options have been or may be exercised immediately after the grant date, and to the extent the shares subject to the options are not vested as of the date of exercise, we retain a right to repurchase any shares that remain unvested at the time of the optionee's termination of employment by paying an amount equal to the exercise price times the number of unvested shares. Options granted under the 1997 Plan generally vest at the rate of 1/4 of the total number of shares subject to the options on the twelve month anniversary of the date of grant

and 1/48 of the total number of shares subject to the options vest each month thereafter. In the case of stock purchase rights, unless the administrator determines otherwise, the Restricted Stock Purchase Agreement shall grant us a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service for any reason, including death or disability. The purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to us. The repurchase option shall lapse at a rate determined by the administrator, which is generally equal to 25% per year. The exercise price of all incentive stock options granted under the 1997 Plan must be at least equal to the fair market value of the common stock on the date of grant. The exercise price of all incentive stock options granted under the 1997 Plan must be at least equal to the fair market value of the common stock on the date of grant, and any nonstatutory option must have an exercise price at least equal to 85% of the fair market value of the common stock on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive or nonstatutory stock option or stock purchase rights granted must equal at least 110% of the fair market

value on the date of grant for options and 100% of the fair market value on the date of grant in the case of stock purchase rights and the term of any incentive stock option must not exceed five years. The term of all other options granted under the 1997 Plan may not exceed ten years.

The 1997 Plan provides that in the event of a merger by us with or into another corporation or a sale of substantially all of our assets, each option shall be assumed or an equivalent option substituted by the successor corporation. If each outstanding option is not assumed or substituted as described in the preceding sentence, the administrator shall notify the optionees that each option shall terminate upon the consummation of the merger or sale of assets.

Effective as of the date of this prospectus, no new grants will be made from the 1997 Plan.

2001 Stock Plan

Our 2001 Stock Plan, or the 2001 Plan, provides for the granting of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and for the granting to employees, directors and consultants of nonstatutory stock options and stock purchase rights. The 2001 Plan was approved by the board of directors in June of 2001 and by the stockholders in July of 2001. A total of 3,000,000 shares of common stock (subject to equitable adjustment in the event of a recapitalization, merger, spin-off or other similar event) has been reserved for issuance under the 2001 Plan, none of which have been issued as of the date of this offering. The number of shares reserved for issuance under the Purchase Plan will be increased on the first day of each of our fiscal years by the lesser of:

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

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

- the number of shares determined by the board of directors.

The 2001 Plan may be administered by the board of directors or a committee of the board of directors, which committee shall, in the case of options intended to qualify as the "performance-based compensation" within the meaning of Section 162(m) of the Code, consist of two or more "outside directors" within the meaning of Section 162(m) of the Code. The board of directors administers the 2001 Plan with respect to awards granted to non-employee directors. Except with respect to the automatic grant of options to our non-employee directors, the administrator has the power to determine the terms of the options granted, including the exercise price, the number of shares, the exercisability thereof, and the form of consideration payable upon exercise. The board of directors has the authority to amend, suspend or terminate the 2001 Plan, provided that the action may not adversely affect any share of common stock previously issued and sold or any option previously granted under the 2001 Plan.

Options and stock purchase rights granted under the 2001 Plan are not generally transferable by the optionee, and each option and stock purchase right is generally exercisable during the lifetime of the optionee only by the optionee. Options granted under the 2001 Plan must generally be exercised within three months of the optionee's separation of service, or within twelve months of the optionee's termination by death or disability, but in no event later than the expiration of the option's ten year term. Options granted under the 2001 Plan generally may be exercised only when vested, however certain options have been or may be exercised immediately after the grant date, and to the extent the shares subject to the options are not vested as of the date of exercise, we

retain a right to repurchase any shares that remain unvested at the time of the optionee's termination of employment by paying an amount equal to the exercise price times the number of unvested shares. Options granted under the 2001 Plan generally vest at the rate of 1/4 of the total number of shares subject to the options on the twelve month anniversary of the date of grant and 1/48 of the total number of shares subject to the options vest each month thereafter. In the case of stock purchase rights, unless the administrator determines otherwise, the Restricted Stock Purchase Agreement shall grant us a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service for any reason, including death or disability. The purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to us. The repurchase option shall lapse at a rate determined by the administrator which is generally equal to 25% per year. The exercise price of all incentive stock options granted under the 2001 Plan must be at least equal to the fair market value of the common stock on the date of grant. The exercise price of nonstatutory stock options granted under the 2001 Plan is determined by the administrator. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive stock option or must equal at least 110% of the fair market value on the date of grant for options and the term of any incentive stock option must not exceed five years. The term of all other options granted under the 2001 Plan may not exceed ten years.

The 2001 Plan provides for the automatic grant of nonstatutory stock options to nonemployee directors. The director option component will not become effective until completion of this offering. Each nonemployee director who first becomes a board member after the date of this prospectus will be granted options for 30,000 shares (subject to equitable adjustment in the event of a reorganization merger, spin-off or other similar event). In addition, each nonemployee director will be granted options for 7,500 shares (subject to equitable adjustment in the event of a reorganization merger, spin-off or other similar event) annually. These automatic grants shall vest in accordance with the vesting schedule set forth above, however, in the event of a change in control, these options shall become 100% vested.

Under the 2001 Plan, no individual shall receive options to purchase more than 1,000,000 shares in any fiscal year (2,000,000 shares in the first year of an individual's employment with us). No individual shall receive stock purchase rights covering more than 500,000 shares in any fiscal year (1,000,000 shares in the first year of an individual's employment with us). These limits are subject to equitable adjustment in the event of a recapitalization, merger, spin-off or other similar event.

The 2001 Plan provides that in the event of a merger by us with or into another corporation or a sale of substantially all of our assets, each option shall be assumed or an equivalent option substituted by the successor corporation, unless the administrator decides in its sole discretion that optionees have the right to exercise some or all of the stock in lieu of substitution or assumption. If each outstanding option is not assumed or substituted as described in the preceding sentence, the administrator shall notify the optionees that each option shall be immediately exercisable and the option will terminate upon expiration of such period.

2001 Employee Stock Purchase Plan

The 2001 Employee Stock Purchase Plan, or Purchase Plan, was adopted by the board of directors in June of 2001 and approved by the stockholders in July 2001. A total of 300,000 shares of common stock (subject to equitable adjustment in the event of a reorganization merger, spin-off or other similar event) has been reserved for issuance under the Purchase Plan, none of which have been issued as of the date of

this offering. The number of shares reserved for issuance under the Purchase Plan will be increased on the first day of each of our fiscal years by the least of:

- 675,000 shares;
- 2% of our outstanding common stock on the last day of the immediately preceding fiscal year; or
- the number of shares (subject to equitable adjustment in the event of a reorganization, merger, spin off or other similar event) determined by the board of directors.

The Purchase Plan becomes effective on the date of this prospectus. Unless terminated earlier by the board of directors, the Purchase Plan shall terminate on June 30, 2011.

The Purchase Plan, which is intended to qualify under Section 423 of the Code, will be implemented by a series of overlapping offering periods of 24 months' duration, with new offering periods, other than the first offering period, commencing on January 1 and July 1 of each year. Each offering period will consist of four consecutive purchase periods of six months' duration, and at the end of each six month period an automatic purchase will be made for participants. The initial offering period is expected to commence on the date of this offering and end on June 30, 2003; the initial purchase period is expected to begin on the date of this offering. The Purchase Plan will be administered by the board of directors or by a committee appointed by the board. Our employees (including officers and employee directors), or of any of our majority-owned subsidiaries designated by the board, are eligible to participate in the Purchase Plan if we or our subsidiary employs them for at least 20 hours per week and at least five months per year. Under the Purchase Plan, eligible employees may purchase common stock through payroll deductions, which in any event may not exceed 10% of an employee's compensation, at a price equal to the lower of 85% of the fair market value of the common stock at the beginning of each offering period or at the end of each purchase period. Employees may reduce their participation in the Purchase Plan at any time during an offering period but can only increase or end their participation at the next offering period and participation ends automatically on termination of employment.

Under the Purchase Plan no employee shall be granted an option if immediately after the grant the employee would own stock and/or hold outstanding options to purchase stock equaling 5% or more of the total voting power or value of all classes of our stock or its subsidiaries. In addition, no employee shall be granted an option under the Purchase Plan if the option would permit the employee to purchase stock under all our employee stock purchase plans and our subsidiaries in an amount that exceeds $25,000 of fair market value for each calendar year in which the option is outstanding at any time. If the fair market value of the common stock on a purchase date is less than the fair market value at the beginning of the offering period, each participant in the Purchase Plan shall automatically be withdrawn from the offering period as of the end of the purchase date and re-enrolled in the new twenty-four month offering period beginning on the first business day following the purchase date.

The Purchase Plan provides that in the event of our merger or consolidation with or into another corporation or a sale of all or substantially all of our assets, each right to purchase stock under the Purchase Plan will be assumed or an equivalent right will be substituted by the successor corporation unless the board of directors shortens any ongoing offering period so that employees' rights to purchase stock under the Purchase Plan are exercised prior to consummation of the transaction. The board of directors has the power to amend

or terminate the Purchase Plan.

401(k) PLAN

We sponsor a 401(k) plan in which eligible employees may participate. The 401(k) plan is intended to qualify under Sections 401(a) and 401(k) of the Code. Contributions to the 401(k) plan and income earned on such contributions are not taxable to employees until withdrawn from the 401(k) plan. Subject to restrictions imposed by the Code on highly compensated employees, employees generally may defer up to 15% of their pre-tax earnings up to the statutorily prescribed annual limit, which is $10,500 for the 2001 calendar year, and to have the amount of such reduction contributed to the 401(k) plan. The 401(k) plan permits, but does not require, additional matching contributions from us to the 401(k) plan. Participants'

salary reduction contributions are fully vested at all times. Each participant's interest in their employer discretionary contributions and matching contributions generally vest in accordance with a four-year graduated vesting schedule. Participants may receive loans and hardship distributions while in service and are eligible for a distribution from the 401(k) plan upon separation from service with us. All contributions are tax deductible by us. The trustee under the 401(k) plan, at the direction of participants, invests the assets of the 401(k) plan in any of seven designated investment options. To date, we have not made any matching contributions to the 401(k) plan. The 401(k) plan may be amended or terminated by us at any time, and in our sole discretion.

CHANGE OF CONTROL ARRANGEMENTS

On July 9, 1998, we entered into a letter agreement with Mr. Melman to act as our Vice President, Finance and Administration and Chief Financial Officer. This letter agreement provides that in the event Mr. Melman is terminated without cause any time after his one-year anniversary with us and there is no change of control, Mr. Melman will receive six months accelerated vesting of shares purchased pursuant to an option or restricted stock purchase agreement. In the event of a change of control, Mr. Melman will receive 24 months accelerated vesting, regardless of whether his employment is terminated. Change of control is defined as an event whereby a party or group of parties, different from those in control of PDF at the time of Mr. Melman's offer, attains a majority voting right in PDF. Other than as described above, in general, our employees are not subject to written employment agreements.

LIMITATION OF LIABILITY AND INDEMNIFICATION MATTERS

As permitted by the Delaware general corporation law, we have included a provision in our 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 expect to obtain directors' and officers' liability insurance effective upon completion of this offering.

At present, we are not aware of any pending or threatened litigation or proceeding involving any of our directors, officers, employees or agents in which indemnification would be required or permitted. We believe that our charter provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers.

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RELATED-PARTY TRANSACTIONS

SALES OF PREFERRED STOCK SECURITIES

On December 4, 1995, we sold 5,833,331 shares of Series A preferred stock at a price of $0.60 per share to a group of private investors that included the directors, officers and 5% stockholders listed below. On August 4, 2000, we sold 350,872 shares of Series B preferred stock at a price of $14.25 per share to a group of private investors that included the directors, officers and 5% stockholders listed below. Upon completion of this offering, each outstanding share of Series A preferred stock will automatically convert into one share of common stock and each outstanding share of Series B preferred stock will automatically convert into 1.425 shares of common stock, assuming an initial public offering price that is less than $14.25 per share. Listed below are the directors, executive officers, and stockholders who beneficially own 5% or more of our securities who participated in these financings. The Value of Stock at Initial Public Offering column includes the effect of additional shares to be issued to Series B preferred stockholders upon conversion into common stock in the amount of 37,278 shares to entities associated with U.S. Venture Partners and 13,420 shares to Donald L. Lucas.

	SERIES A PREFERRED	SERIES B PREFERRED	AGGREGATE CASH CONSIDERATION	VALUE OF STOCK AT INITIAL PUBLIC OFFERING PRICE
Entities associated with U.S. Venture Partners	2,500,000	87,718	$2,750,000	$31,499,952
Telos Venture Partners, L.P.	2,500,000	--	1,500,000	30,000,000
B.J. Cassin	541,666	--	325,000	6,499,992
Donald L. Lucas	125,000	31,578	524,986	2,039,976

U.S. Venture Partners IV, L.P., U.S.V.P. Entrepreneur Partners II, L.P., Second Ventures II, L.P. and 2180 Associates Fund are affiliated entities and together are considered a greater than 5% stockholder. Lucio L. Lanza, one of our directors, is a former partner of U.S. Venture Partners. Mr. Lanza disclaims any beneficial ownership of the securities held by those entities, except to the extent of his proportional interest in the entities. This table also includes 41,666 shares that are held in the name of Cassin Family Partners, A California Limited Partnership of which Mr. Cassin is a General Partner and 500,000 shares held in the name of The Cassin Family Trust U/D/T dtd 1/31/96. Mr. Lucas is the trustee of the Richard M. Lucas Foundation which holds 125,000 shares of Series A preferred stock. Mr. Lucas disclaims beneficial ownership of these shares except for 25,765 shares which the foundation has agreed to assign to him. This table also includes 21,052 shares of Series B preferred stock held in the name of Donald L. Lucas Profit Sharing Trust and 10,526 shares held in the name of Teton Capital Company, which are beneficially owned by Mr. Lucas. Mr. Lucas disclaims beneficial ownership of all shares held in the name of Teton Capital Company. The "Value of Stock at Initial Public Offering Price" column data is calculated based on an assumed initial public offering price of $12.00 per share.

LOANS TO, AND OTHER ARRANGEMENTS WITH, OFFICERS AND DIRECTORS

We have an early exercise provision under our 1996 Stock Option Plan and 1997 Stock Plan which allows our optionholders and holders of stock purchase rights to purchase shares of stock underlying unvested options, subject to our own repurchase right. In addition, we have an employee loan program which allows employees to borrow the full exercise price of their options or stock purchase rights from us by signing a full recourse promissory note bearing interest at

the applicable federal rate in the month of purchase. The following officers have participated in the loan program:

- In connection with his purchase of 1,264,096 shares of common stock on December 1, 1995, we loaned approximately $15,000 to Thomas Cobourn under a four year, 5.83% promissory note. The term of this note was extended for two years in 1999 at a rate of 5.93%. In connection with his purchase of 26,666 shares of common stock on July 14, 2000, we loaned $80,000 to Mr. Cobourn under a four year, 6.62% promissory note. These notes are full recourse notes secured by pledges of

the shares of common stock purchased. At March 31, 2001 his indebtedness plus accrued interest totaled approximately $104,000.

- In connection with his purchase of 1,648,516 shares of common stock on December 1, 1995, we loaned approximately $20,000 to Kimon Michaels under a four year, 5.83% promissory note. The term of this note was extended for two years in 1999 at a rate of 5.93%. In connection with his purchase of 40,000 shares of common stock on July 14, 2000, we loaned $120,000 to Mr. Michaels under a four year, 6.62% promissory note. These notes are full recourse notes secured by pledges of the shares of common stock purchased. At March 31, 2001 his indebtedness plus accrued interest totaled approximately $153,000.

- In connection with his purchase of 200,000 shares of common stock on August 25, 1998, we loaned approximately $30,000 to P. Steven Melman under a four year, 5.47% promissory note. In connection with his purchase of 33,333 shares of common stock on July 14, 2000, we loaned $100,000 to Mr. Melman under a four year, 6.62% promissory note. These notes are full recourse notes secured by pledges of the shares of common stock purchased. At March 31, 2001 his indebtedness plus accrued interest totaled approximately $139,000.

- In connection with his purchase of 166,666 shares of common stock on October 5, 1998, we loaned $25,000 to P.K. Mozumder under a four year, 5.47% promissory note. In connection with his purchase of 40,000 shares of common stock on July 13, 2000, we loaned $120,000 to Mr. Mozumder under a four year, 6.62% promissory note. These notes are full recourse notes secured by pledges of the shares of common stock purchased. At March 31, 2001 his indebtedness plus accrued interest totaled approximately $154,000.

- In connection with his purchase of 200,000 shares of common stock on December 4, 1998 we loaned $75,000 to David A. Joseph under a four year, 4.46% promissory note. In connection with his purchase of 33,333 shares on September 20, 1999 we loaned $12,500 to David Joseph under a four year, 4.46% promissory note and in connection with his purchase of 53,333 shares of common stock on July 14, 2000, we loaned $160,000 to Mr. Joseph under a four year, 6.62% promissory note. These notes are full recourse notes secured by pledges of the shares of common stock purchased. At March 31, 2001 his indebtedness plus accrued interest totaled approximately $264,000.

- In connection with his purchase of 116,666 shares of common stock on February 24, 2000, we loaned approximately $61,000 to W. Steven Rowe under a four year, 6.69% promissory note. This note is a full recourse note secured by a pledge of the shares of common stock purchased. At March 31, 2001 his indebtedness plus accrued interest totaled approximately $66,000.

- In connection with his purchase of 26,666 shares of common stock on July 13, 2000, we loaned $80,000 to David Tarpley under a four year, 6.62% promissory note. This note is a full recourse note secured by a pledge of the shares of common stock purchased. At March 31, 2001 his indebtedness plus accrued interest totaled approximately $84,000.

- In connection with his purchase of 200,000 shares of common stock on July 14, 2000, we loaned $600,000 to John K. Kibarian under a four year, 6.62% promissory note. This note is a full recourse note secured by pledges of the shares of common stock purchased. At March 31, 2001 his indebtedness plus accrued interest totaled approximately $629,000.

OTHER TRANSACTIONS

We have granted options to some of our officers and directors. Please see "Management -- Executive Compensation," "Management -- Director Compensation" and "Principal Stockholders."

We have entered into indemnification agreements with each of our executive officers and directors. Please see "Management -- Limitation of Liability and Indemnification Matters."

Holders of preferred stock are entitled to registration rights with respect to common stock issued or issuable upon conversion of the preferred stock. Please see "Description of Capital Stock -- Registration Rights."

We believe that all related-party transactions described above were made on terms no less favorable to us than could have been otherwise obtained from unaffiliated third parties.

PRINCIPAL STOCKHOLDERS

The following table sets forth information known to us regarding beneficial ownership of our common stock as of March 31, 2001 by:

- each person known by us to beneficially own more than 5% of the outstanding common stock;
- each of our executive officers listed on the Summary Compensation Table under "Management;"
- each of our directors; and
- all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting or investment power with respect to securities. All shares of common stock subject to options exercisable within 60 days following March 31, 2001 are deemed to be outstanding and beneficially owned by the persons holding those options for the purpose of computing the number of shares beneficially owned and the percentage of ownership of that person. They are not, however, deemed to be outstanding and beneficially owned for the purpose of computing the percentage ownership of any other person. Except as otherwise indicated the address for each person listed as a director or officer is c/o PDF Solutions, Inc., 333 West San Carlos Street, Suite 700, San Jose, CA 95110. Unless otherwise indicated in the footnotes, each person or entity has sole voting and investment power, or shares such powers with his or her spouse, with respect to the shares shown as beneficially owned.

Percentage of beneficial ownership prior to this offering is based on 17,206,611 common stock outstanding as of March 31, 2001, after giving effect to

the conversion of the outstanding preferred stock. Percentage of beneficial ownership after this offering is based on 22,206,611 shares of common stock to be outstanding after completion of this offering and completion of the concurrent private placement, assuming no exercise of the underwriters' over-allotment option.

BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF SHARES OUTSTANDING	
		PRIOR TO THIS OFFERING	AFTER THIS OFFERING
5% STOCKHOLDERS:			
Funds affiliated with U.S. Venture Partners(1)..... 2180 Sand Hill Road Suite 300 Menlo Park, CA 94025	2,624,996	15.3%	11.8%
Telos Venture Partners, L.P.(2)..... 835 Page Mill Road Palo Alto, CA 94303	2,500,000	14.5	11.3
EXECUTIVE OFFICERS AND DIRECTORS:			
John K. Kibarian(3).....	2,782,422	16.2	12.5
Lucio L. Lanza(4).....	2,624,996	15.3	11.8
Kimon Michaels(5).....	1,688,516	9.8	7.6
Thomas Cobourn(6).....	1,290,762	7.5	5.8
B.J. Cassin(7)..... 3000 Sand Hill Road Building 3, Suite 210 Menlo Park, CA 94025	541,666	3.1	2.4
David A. Joseph(8).....	286,666	1.7	1.3
David Tarpley(9).....	246,664	1.4	1.1
P. Steven Melman(10).....	233,333	1.4	1.1
Donald L. Lucas(11)..... 3000 Sand Hill Road Building 3, Suite 210 Menlo Park, CA 94025	219,998	1.3	*
P.K. Mozumder(12).....	206,666	1.2	*
W. Steven Rowe(13).....	116,666	*	*
All executive officers and directors as a group (11 persons)(14).....	10,238,355	59.5	46.1

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* Less than 1%

(1) U.S. Venture Partners IV, L.P., U.S.V.P. Entrepreneur Partners II, L.P., Second Ventures II, L.P. and 2180 Associates Fund are affiliated entities and together are considered a greater than 5% stockholder. The general partner of each of these entities is Presidio Management Group IV, L.P., or PMG. The general partners of PMG are William K. Bowes, Jr., Irwin Federman, Steven M. Krausz and Philip M. Young. Each of these persons may be deemed to share voting and dispositive control over the shares, but each disclaims beneficial ownership therein except to the extent of their pecuniary interest therein as a result of their respective interests in PMG. Lucio L. Lanza, one of our directors, is a former partner of U.S. Venture Partners. Mr. Lanza disclaims any beneficial ownership of the securities held by those entities, except to the extent of his proportional interest in the entities.

(2) Voting and dispositive power over these shares is held by Telos Management LLC which is the general partner of Telos Venture Partners, L.P. The managing members of Telos Management LLC are Bruce Bourbon, Athanasios Kalekos and Paul Asel. Mr. Bourbon votes the shares after consultation with the other two managing members.

(3) Includes 3,333 shares each issued in the names of Johanna Aznif Chilingarian, as custodian for Ani Maritsa Chilingarian under the Massachusetts Uniform Transfers to Minors Act and Johanna Aznif Chilingarian, as custodian for Berj Krikor Chilingarian under the Massachusetts Uniform Transfers to Minors Act, each of whom are family members of Mr. Kibarian. Mr. Kibarian disclaims

beneficial ownership of these shares. Includes 162,501 unvested shares subject to our right to repurchase upon termination of employment.

(4) Includes 2,624,996 shares of stock held by U.S. Venture Partners IV, L.P., U.S.V.P. Entrepreneur Partners II, L.P., Second Ventures II, L.P. and 2180 Associates Fund are all affiliates of U.S. Venture Partners, of which Mr. Lanza is a former partner. Mr. Lanza disclaims any beneficial ownership of the securities held by those entities, except to the extent of his proportional interest in the entities.

(5) Includes 3,333 shares each issued in the names of Lee W. Michaels, William N. Michaels, and Christine S. Michaels, each of whom is an adult family member of Mr. Michaels. Mr. Michaels disclaims beneficial ownership of these shares. Includes 25,001 unvested shares subject to our right to repurchase upon termination of employment.

(6) Includes 66,667 shares held in the name of the Thomas F. Coburn 2001 Grantor Retained Annuity Trust dated June 25, 2001 and 16,667 unvested shares subject to our right to repurchase upon termination of employment.

(7) Includes 41,666 shares held in the name of Cassin Family Partners, A California Limited Partnership and 500,000 shares held in the name of The Cassin Family Trust U/D/T dtd 1/31/96.

(8) Includes 154,724 unvested shares subject to our right to repurchase upon termination of employment.

(9) Includes 5,333 shares each issued in the names of Scott David Tarpley, Andrew Neil Tarpley and Jeffrey John Tarpley, each of whom is an adult child of Mr. Tarpley. Mr. Tarpley disclaims beneficial ownership of these shares. Includes 22,222 unvested shares subject to our right to repurchase upon termination of employment.

(10) Includes 100,001 unvested shares subject to our right to repurchase upon termination of employment.

(11) Includes 125,000 shares held by the Richard M. Lucas Foundation of which Mr. Lucas is a trustee. Mr. Lucas disclaims beneficial ownership of these shares except as to 25,765 shares which the foundation has agreed to assign to him. Also includes 21,052 shares held in the name of the Donald L. Lucas Profit Sharing Trust and 10,526 shares held in the name of Teton Capital Company. Also includes 37,500 unvested shares subject to our right to repurchase upon termination of service. Mr. Lucas disclaims beneficial ownership of all shares held in the name of Teton Capital Company.

(12) Includes 88,613 unvested shares subject to our right to repurchase upon termination of employment.

(13) Includes 85,070 unvested shares subject to our right to repurchase upon termination of employment.

(14) Includes an aggregate of 692,298 unvested shares which are subject to our right to repurchase upon termination of employment or service.

DESCRIPTION OF CAPITAL STOCK

Upon the completion of this offering, we will be authorized to issue 75,000,000 shares of common stock, $0.00015 par value per share, and 5,000,000 shares of undesignated preferred stock, $0.00015 par value per share. All currently outstanding shares of preferred stock will be converted into common stock upon the closing of this offering.

COMMON STOCK

As of March 31, 2001, there were 17,206,611 shares of common stock outstanding, as adjusted to give effect to the automatic conversion of all outstanding shares of preferred stock upon completion of this offering, held of record by approximately 155 stockholders. Options and rights to purchase 369,689 shares of common stock were also outstanding. Additionally, we currently intend to grant options to purchase at least 650,000 shares to new and existing employees prior to completion of this offering. There will be 22,206,611 shares of common stock outstanding, assuming no exercise of the underwriter's overallotment option or exercise of outstanding options under our stock option plans after March 31, 2001, after giving effect to the sale of the shares in this offering and completion of the concurrent private placement.

The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, holders of common stock are entitled to receive ratably such dividends as may be declared by the board of directors out of funds legally available for that purpose. See "Dividend Policy." In the event of our liquidation, dissolution or winding, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to the prior distribution rights of any outstanding preferred stock. The common stock has no preemptive or conversion rights or other subscription rights. The outstanding shares of common stock are, and the shares of common stock to be issued upon completion of this offering will be, fully paid and non-assessable.

PREFERRED STOCK

Upon the closing of the offering, all outstanding shares of preferred stock will be converted into 6,333,318 shares of common stock and automatically retired, assuming an initial public offering price of $12.00 per share. Each share of Series A preferred stock will be converted into one share of common stock and each share of Series B preferred stock will be converted into 1.425 shares of common stock, assuming an initial public offering price that is less than $14.25 per share. Thereafter, the board of directors will have the authority, without further action by the stockholders, to issue up to 5,000,000 shares of preferred stock, $0.00015 par value, in one or more series. The board of directors will also have the authority to designate the rights, preferences, privileges and restrictions of each such series, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series.

The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of us without further action by the stockholders. The issuance of preferred stock with voting and conversion rights may also adversely affect the voting power of the holders of common stock. In some circumstances, an issuance of preferred stock could have the effect of decreasing the market price of the common stock. As of the closing of the offering, no shares of preferred stock will be outstanding. We currently have no plans to issue any shares of preferred stock.

WARRANTS

At March 31, 2001, there were no warrants outstanding to purchase our common or preferred stock.

REGISTRATION RIGHTS

The holders of 12,416,644 shares of common stock (assuming the conversion of all outstanding preferred stock upon completion of this offering and completion of the concurrent private placement) or

their transferees are entitled to rights with respect to the registration of such shares under the Securities Act. These rights are provided under the terms of an agreement between us and the holders of these securities. Subject to limitations in the agreement, the holders of at least 50% of these securities then outstanding may require, on two occasions beginning six months after the date of this prospectus, that we use our best efforts to register these securities for public resale if Form S-3 is not available. If we register any of our common stock either for our own account or for the account of other security holders, the holders of registrable securities are entitled to include their shares of common stock in that registration. A holder's right to include shares in an underwritten registration is subject to the ability of the underwriters to limit the number of shares included in this and other offerings, and in the case of our initial public offering, the underwriters may preclude any participation by holders of registrable securities. The holders of at least 50% of these securities then outstanding may also require us, not more than once in any twelve-month period, to register all or a portion of these securities on Form S-3 when the use of that form becomes available to us, provided, among other limitations, that the proposed aggregate selling price, net of any underwriters' discounts or commissions, would exceed $1.0 million. Under the same agreement, Applied Materials has one right to require us to register one half of its shares on Form S-3 when the use of that form becomes available to us, provided that it may only require us to do so if the proposed aggregate offering price, net of underwriters' discounts or commissions would exceed $1.0 million. We will be responsible for paying all registration expenses, and the holders selling their shares will be responsible for paying all selling expenses.

DELAWARE ANTI-TAKEOVER LAW AND CHARTER AND BYLAW PROVISIONS

Provisions of Delaware law and our charter documents could make our acquisition and the removal of incumbent officers and directors more difficult. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate with us first. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweighs the disadvantages of discouraging such proposals because, among other things, negotiation of such proposals could result in an improvement of their terms.

We are subject to the provisions of Section 203 of the Delaware law. In general, the statute prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date that the person became an interested stockholder unless, subject to exceptions, the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger,

asset or stock sale, or other transaction resulting in a financial benefit to the stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years prior, did own, 15% or more of the corporation's voting stock. These provisions may have the effect of delaying, deferring or preventing a change in control of us without further action by the stockholders.

Our Amended and Restated Certificate of Incorporation provides that stockholder action can be taken only at an annual or special meeting of stockholders and may not be taken by written consent. The Bylaws provide that special meetings of stockholders can be called only by the board of directors, the chairman of the board, if any, the president and holders of 50% of the votes entitled to be cast at a meeting. Moreover, the business permitted to be conducted at any special meeting of stockholders is limited to the business brought before the meeting by the board of directors, the chairman of the board, if any, the president or any such 50% holder. The bylaws set forth an advance notice procedure with regard to the nomination, other than by or at the direction of the board of directors, of candidates for election as directors and with regard to business to be brought before a meeting of stockholders.

CONCURRENT PRIVATE PLACEMENT

On June 28, 2001, we entered into a common stock purchase agreement with Applied Materials, Inc., or Applied Materials, under which we agreed to sell to Applied Materials 500,000 shares of our common

stock (or such lesser amount of shares having a maximum aggregate purchase price of $10.0 million) in a private placement concurrent with and conditioned upon the sale of shares in this offering. The price per share in the concurrent private placement will be equal to the public offering price on the cover page of the prospectus.

Transfer Restrictions. Applied Materials has agreed not to sell, transfer, encumber or otherwise dispose of one half of the shares purchased in the concurrent private placement in a public or private sale for a minimum period of 12 months following the closing of the offering. The remaining shares purchased by Applied Materials in the concurrent private placement will be subject to transfer restrictions for a period ranging from two to seven years following the closing of the offering, depending upon the achievement of performance-based milestones in connection with anticipated commercial agreements.

Registration Rights. We have granted Applied Materials registration rights relating to one half of the shares of common stock they will purchase in the concurrent private placement. See "-- Registration Rights."

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common stock is Boston EquiServe. The transfer agent's address is c/o Shareholder Services, 150 Royale Street, Canton, MA 02021.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for our common stock. Future sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because

of certain contractual and legal restrictions on resale, sales of substantial amounts of our common stock in the public market after the restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of the offering and the concurrent private placement, we will have outstanding 22,206,611 shares of common stock, assuming no exercise of outstanding options after March 31, 2001. Of these shares, the 5,000,000 shares sold in the offering and the concurrent private placement, plus any shares issued upon exercise of the underwriters' overallotment option, will be freely tradable without restriction under the Securities Act, unless purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act, which generally includes officers, directors or 10% stockholders.

The remaining 17,206,611 shares outstanding are "restricted securities" within the meaning of Rule 144 under the Securities Act. These shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144, 144(k) or 701 promulgated under the Securities Act, which are summarized below. Sales of these shares in the public market, or the availability of such shares for sale, could adversely affect the market price of the common stock.

Our stockholders have entered into lock-up agreements generally providing that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction which would have the same effect, or enter into swap, hedge or other arrangement that transfers, in whole or part, any of the economic consequences of ownership of our common stock, whether any such aforementioned transaction is to be settled by delivery of our common stock or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus. As a result of these contractual restrictions, notwithstanding possible earlier eligibility for sale under the provisions of Rules 144, 144(k) and 701, shares subject to lock-up agreements will not be salable until such agreements expire or are waived. Taking into account the lock-up agreements, and assuming Credit Suisse First Boston Corporation does not release stockholders from these agreements, the following shares will be eligible for sale in the public market at the following times:

- Beginning on the effective date of this prospectus, only the shares sold in the offering will be immediately available for sale in the public market.

- Beginning 180 days after the effective date, approximately 15,715,207 shares will be eligible for sale pursuant to Rule 701 and pursuant to Rule 144.

- An additional 1,491,404 shares will be eligible for sale on various dates following the 181st day after the effective date of this offering, subject to compliance with the provisions of Rule 144 or Rule 701 or pursuant to a registration statement on Form S-8.

- A private placement of 500,000 shares (or such lesser amount of shares having a maximum aggregate purchase price of $10.0 million) will occur concurrent with the closing of this offering, one half of which will become eligible for sale in the public market beginning one year from the date of this prospectus pursuant to Rule 144. The remaining half of the shares purchased in the concurrent private placement will become eligible for sale as early as two years or as late as seven years following the closing of this offering. See "-- Concurrent Private Placement -- Transfer Restrictions."

Outstanding options and rights to purchase an additional 369,689 shares plus at least an additional 650,000 options we currently intend to grant to new and existing employees prior to completion of this

offering will be exercisable and eligible for sale on various dates following the 181st day after the effective date of this offering.

In general, under Rule 144 as currently in effect, and beginning after the expiration of the lock-up agreements, or 180 days after the date of this prospectus, of a person who has beneficially owned restricted securities for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of: (1) one percent of the number of shares of common stock then outstanding, which will equal approximately 222,066 shares immediately after the offering; or (2) the average weekly trading volume of the common stock during the four calendar weeks preceding the sale. Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us. Under Rule 144(k), a person who is not deemed to have been our affiliate at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

The holders of approximately 12,416,644 shares of our common stock or their transferees are also entitled to rights with respect to registration of their shares of common stock for offer or sale to the public. If the holders, by exercising their registration rights, cause a large number of shares to be registered and sold in the public market, the sales could have a material adverse effect on the market price for our common stock.

As a result of the lock-up agreements, all of our employees holding common stock or stock options may not sell shares acquired upon exercise until 180 days after the effective date. Beginning 180 days after the effective date, any of our employees, officers or directors or consultants who purchased shares pursuant to a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell such shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144.

In addition, we intend to file registration statements under the Securities Act as promptly as possible after the effective date to register shares to be issued pursuant to our employee benefit plans. As a result, any options exercised under any of our benefit plans after the effectiveness of such registration statement will also be freely tradable in the public market, except that shares held by affiliates will still be subject to the volume limitation, manner of sale, notice and public information requirements of Rule 144 unless otherwise resalable under Rule 701. As of March 31, 2001, there were outstanding stock purchase rights and options for the purchase of 369,689 shares, of which 43,852 shares were exercisable. No shares have been issued to date under our 2001 Employee Stock Purchase Plan and 2000 Stock Plan. See "Shares Eligible for Future Sale," "Management -- Benefit Plans" and "Description of Capital Stock -- Registration Rights."

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated , 2001, we have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston Corporation, Robertson Stephens, Inc. and Dain Rauscher Incorporated are acting as representatives, the following respective numbers of shares of common stock:

UNDERWRITER	NUMBER OF SHARES
Credit Suisse First Boston Corporation	
Robertson Stephens, Inc.	
Dain Rauscher Incorporated	
Total	4,500,000

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 675,000 additional shares from us at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of $ per share. The underwriters and selling group members may allow a discount of $ per share on sales to other broker/dealers. After the initial public offering, the public offering price and concession and discount to broker/dealers may be changed by the representatives.

The following table summarizes the compensation and estimated expenses we will pay.

	PER SHARE		TOTAL	
	WITHOUT OVER-ALLOTMENT	WITH OVER-ALLOTMENT	WITHOUT OVER-ALLOTMENT	WITH OVER-ALLOTMENT
Underwriting discounts and commissions paid by us	$	$	$	$
Expenses payable by us	$	$	$	$

The underwriters have informed us that they do not expect discretionary sales to exceed 5% of the shares of common stock being offered.

In addition, Credit Suisse First Boston Corporation is acting as the placement agent for the concurrent private placement with Applied Materials, and will receive a customary fee for its services. See "Description of Capital Stock -- Concurrent Private Placement."

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act of 1933 (the "Securities Act") relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus.

Our officers, directors and some of our other stockholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a

transaction that would have the same effect, or enter into swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus.

The underwriters have reserved for sale, at the initial public offering price up to 225,000 shares of the common stock for employees, directors and some other persons associated with us, who have expressed an interest in purchasing common stock in the offering. The number of shares available for sale to the general public in the offering will be reduced to the extent these persons purchase the reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

We have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

We have applied to list our common stock on The Nasdaq Stock Market's National Market under the symbol "PDFS."

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be determined by negotiation between us and the underwriters and will not necessarily reflect the market price of the common stock following the offering. The principal factors that will be considered in determining the public offering price will include:

- the information in this prospectus and otherwise available to the underwriters;
- market conditions for initial public offerings;
- the history and the prospects for the industry in which we will compete;
- the ability of our management;
- the prospects for our future earnings;
- the present state of our development and our current financial condition;
- the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies; and
- the general condition of the securities markets at the time of this offering.

We can offer no assurances that the initial public offering price will

correspond to the price at which the common stock will trade in the public market subsequent to the offering or that an active trading market for the common stock will develop and continue after the offering.

In connection with the offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934 (the "Exchange Act").

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may

close out any short position by either exercising their over-allotment option and/or purchasing shares in the open market.

- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters participating in this offering. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters that will make internet distributions on the same basis as other allocations. Credit Suisse First Boston Corporation may effect an on-line distribution through its affiliate, CSFBdirect Inc., an on-line broker/dealer, as a selling group member.

NOTICE TO CANADIAN RESIDENTS

RESALE RESTRICTIONS

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of the common stock in Canada must be made under applicable securities laws, which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

REPRESENTATIONS OF PURCHASERS

By purchasing common stock in Canada and accepting a purchase confirmation, a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws,

- where required by law, that the purchaser is purchasing as principal and not as agent, and

- the purchaser has reviewed the text above under Resale Restrictions.

RIGHTS OF ACTION (ONTARIO PURCHASERS)

The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual right of action prescribed by Ontario securities law. As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the U.S. federal securities laws.

ENFORCEMENT OF LEGAL RIGHTS

All of the issuer's directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the issuer or such persons. All or a substantial portion of the assets of the issuer and such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the issuer or such persons in Canada or to enforce a judgment obtained in Canadian courts against such issuer or persons outside of Canada.

NOTICE TO BRITISH COLUMBIA RESIDENTS

A purchaser of common stock to whom the Securities Act (British Columbia) applies is advised that the purchaser is required to file with the British Columbia Securities Commission a report within ten days of the sale of any common stock acquired by the purchaser in this offering. The report must be in the form attached to British Columbia Securities Commission Blanket Order BOR #95/17, a copy of which may be obtained from us. Only one report must be filed for Shares acquired on the same date and under the same prospectus exemption.

TAXATION AND ELIGIBILITY FOR INVESTMENT

Canadian purchasers of common stock should consult their own legal and tax advisers with respect to the tax consequences of an investment in the common stock in their particular circumstances and about the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

TAXATION AND ELIGIBILITY FOR INVESTMENT

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and with respect to the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Orrick, Herrington & Sutcliffe LLP, Menlo Park, California. Peter Cohn, a partner of Orrick, Herrington & Sutcliffe LLP, is our Secretary. The underwriters are represented by Wilson Sonsini Goodrich & Rosati, Palo Alto, California. As of the completion of this offering, Orrick, Herrington & Sutcliffe LLP and partners in that firm beneficially own an aggregate of 14,996 shares of our common stock.

EXPERTS

The Consolidated Financial Statements of PDF Solutions, Inc. as of December 31, 1999 and 2000 and for each of the three years in the period ended December 31, 2000, included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The financial statements of Applied Integrated Systems and Software Entwicklungs-, Produktions-und Vertriebs GmbH ("AISS") as of December 31, 1999 and for the year ended December 31, 1999, included in this prospectus have been audited by Deloitte & Touche GmbH Wirtschaftsprufungsgesellschaft, independent auditors, as stated in their report appearing herein, and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE TO FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a Registration Statement on Form S-1 under the Securities Act with respect to the common stock offered hereby. This prospectus is materially complete, although additional information is set forth in the Registration Statement and the exhibits and schedules. For further information with respect to us and the common stock offered hereby, reference is made to the Registration Statement and to the exhibits and schedules. With respect to each such document filed as an exhibit to the Registration Statement, reference is made to the exhibit for a more complete description of the matter involved. The Registration Statement and the exhibits and schedules may be inspected without charge at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the Commission located at Seven World Trade Center, 13th Floor, New York, NY 10048, and the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of all or any part of the Registration Statement may be obtained from the SEC's offices upon payment of fees prescribed by the SEC. The SEC maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the site is http://www.sec.gov.

PDF SOLUTIONS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
of PDF Solutions, Inc.

We have audited the accompanying consolidated balance sheets of PDF Solutions, Inc. and subsidiaries (collectively, the "Company") as of December 31, 1999 and 2000 and the related consolidated statements of operations, shareholders' deficiency, and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1999 and 2000 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
January 19, 2001

(July 6, 2001 as to the third

paragraph of Note 12)

PDF SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,		MARCH 31,	PRO FORMA MARCH 31,
	1999	2000	2001	2001
			(UNAUDITED)	(NOTE 1)
ASSETS				
Current assets:				
Cash and cash equivalents	$1,932,923	$ 7,625,404	$ 6,866,274	
Accounts receivable, net of allowances of $144,000 in 1999, and $192,000 in 2000 and 2001	2,749,174	3,950,146	4,122,579	
Prepaid expenses and other current assets	58,714	576,250	586,251	
Total current assets	4,740,811	12,151,800	11,575,104	
Property and equipment, net	822,026	1,561,402	1,786,729	
Intangible assets, net	--	1,669,935	1,544,689	
Other assets	81,498	131,332	127,385	
Total assets	$5,644,335	$ 15,514,469	$ 15,033,907	
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)				
Current liabilities:				
Accounts payable	$ 730,232	$ 1,143,080	$ 1,247,302	
Accrued compensation and related benefits	1,152,956	2,362,443	1,691,064	
Other accrued liabilities	213,690	984,645	792,825	
Taxes payable	130,000	15,397	27,467	
Deferred revenues	345,992	1,870,027	2,222,589	
Billings in excess of recognized revenue	--	1,052,513	1,193,700	
Notes payable	--	995,000	995,000	
Current portion of long-term debt	15,379	21,491	28,047	
Total current liabilities	2,588,249	8,444,596	8,197,994	
Long-term debt	71,616	55,947	43,249	
Deferred tax liability	--	532,263	493,796	
Deferred rent		50,821	56,690	
Series A convertible preferred stock, $0.00015 par value, 5,833,333 shares authorized; shares issued and outstanding: 5,833,331 in 1999, 2000 and 2001; none pro forma (liquidation preference of $3,500,000)	3,496,558	3,496,558	3,496,558	--
Series B convertible preferred stock, $0.00015 par value, 366,667 shares authorized; issued and outstanding: 350,872 in 2000 and 2001; none pro forma (liquidation preference of $5,000,000)	--	4,960,000	4,960,000	--
Commitments and contingencies (Notes 4 and 13)				
Shareholders' equity (deficiency):				
Common stock, $0.00015 par value, 33,333,333 shares authorized; shares issued and outstanding 7,326,539 in 1999, 10,903,174 in 2000, 10,873,293 in 2001; 17,206,611 pro forma	1,099	1,635	1,631	$ 2,559
Additional paid-in capital	537,199	25,386,369	25,088,609	35,163,519
Deferred stock-based compensation	(43,406)	(11,882,070)	(9,087,360)	(9,087,360)
Notes receivable from shareholders	(225,261)	(5,645,632)	(5,577,757)	(5,577,757)
Accumulated deficit	(781,719)	(9,878,447)	(12,622,005)	(14,241,285)
Cumulative other comprehensive loss	--	(7,571)	(17,498)	(17,498)
Total shareholders' equity (deficiency)	(512,088)	(2,025,716)	(2,214,380)	$ 6,242,178
Total liabilities and shareholders' equity (deficiency)	$5,644,335	$ 15,514,469	$ 15,033,907	

See notes to consolidated financial statements.

PDF SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1998	1999	2000	2000	2001
				(UNAUDITED)	
Revenue:					
Design-to-silicon yield solutions	$6,227,249	$10,566,597	$15,538,325	$ 2,193,674	$ 5,752,838
Gain share	--	1,257,000	4,597,000	1,500,000	1,781,134
Total revenue	6,227,249	11,823,597	20,135,325	3,693,674	7,533,972
Costs and expenses:					
Cost of design-to-silicon yield solutions	1,532,620	4,090,649	6,915,001	1,251,982	2,555,935
Research and development	1,863,808	3,086,825	6,418,173	946,206	2,657,071
Selling, general and administrative	2,959,504	4,294,521	7,332,857	1,445,587	2,454,384
Offering costs	--	--	1,257,617	--	--
Stock-based compensation amortization*	61,317	68,282	7,292,300	458,358	2,556,866
Total costs and expenses	6,417,249	11,540,277	29,215,948	4,102,133	10,224,256
Income (loss) from operations	(190,000)	283,320	(9,080,623)	(408,459)	(2,690,284)
Interest and other income	127,598	105,021	346,895	17,367	131,906
Income (loss) before taxes	(62,402)	388,341	(8,733,728)	(391,092)	(2,558,378)
Tax provision	341,492	533,087	363,000	107,000	185,180
Net loss	$ (403,894)	$ (144,746)	$(9,096,728)	$ (498,092)	$(2,743,558)
Net loss per share -- basic and diluted (Note 1)	$ (0.08)	$ (0.02)	$ (1.24)	$ (0.07)	$ (0.34)
Shares used in computing basic and diluted net loss per share (Note 1)	4,943,906	6,085,562	7,356,221	6,796,536	8,064,375
Unaudited pro forma net loss per share -- basic and diluted (Note 1)			$ (0.68)		$ (0.19)
Shares used in computing unaudited pro forma basic and diluted net loss per share (Note 1)			13,393,649		14,397,693
*Stock-based compensation amortization:					
Cost of design-to-silicon yield solutions	$ 18,395	$ 20,485	$ 1,714,866	$ 42,254	$ 718,641
Research and development	42,922	47,797	4,015,978	355,453	1,181,109
Selling, general and administrative	--	--	1,561,456	60,651	657,116
	$ 61,317	$ 68,282	$ 7,292,300	$ 458,358	$ 2,556,866

See notes to consolidated financial statements.

PDF SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIENCY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK COMPENSATION	NOTES RECEIVABLE FROM SHAREHOLDERS	ACCUMULATED EARNINGS (DEFICIT)
	SHARES	AMOUNT				

Balances, January 1, 1998	5,833,331	$ 875	$ 153,433	$ (36,617)	$ (39,011)	$ (233,079)
Exercise of options	1,267,302	190	215,093		(198,750)	
Compensatory stock arrangements for non-employees, primarily remeasurement			99,674	(99,674)		
Amortization of non-employee stock-based compensation				61,317		
Net loss						(403,894)
Balances, December 31, 1998	7,100,633	1,065	468,200	(74,974)	(237,761)	(636,973)
Collection of notes receivable from shareholders					6,772	
Repurchase of common stock through cancellation of note receivable	(121,520)	(18)	(18,210)		18,228	
Exercise of options	347,426	52	50,495		(12,500)	
Compensatory stock arrangements for non-employees, primarily remeasurement			36,714	(36,714)		
Amortization of non-employee stock-based compensation				68,282		
Net loss						(144,746)
Balances, December 31, 1999	7,326,539	1,099	537,199	(43,406)	(225,261)	(781,719)
Collection of notes receivable from shareholders					8,999	
Exercise of options	3,440,070	516	5,757,226		(5,478,370)	
Repurchase of common stock through cancellation of note receivable	(30,093)	(5)	(48,995)		49,000	
Compensatory stock arrangements for non-employees			376,544	(376,544)		
Remeasurement of compensatory stock arrangements for non-employees			538,753	(538,753)		
Cancellation of unvested non-employee options			(301,690)	301,690		
Compensatory stock arrangements for employees			18,662,357	(18,662,357)		
Reversal of employee stock-based compensation for cancelled shares			(145,000)	145,000		
Issuance of common stock upon exercise of warrants	166,666	25	9,975			
Amortization of employee stock-based compensation				6,641,620		
Amortization of non-employee stock-based compensation				650,680		
Net loss						(9,096,728)
Cumulative translation adjustment						
Comprehensive loss						
Balances, December 31, 2000	10,903,174	1,635	25,386,369	(11,882,070)	(5,645,632)	(9,878,447)
Collection of notes receivable from shareholders*					7,875	
Repurchase of common stock through cancellation of notes receivable*	(31,268)	(4)	(297,840)	237,844	60,000	
Exercise of options*	1,387		80			
Amortization of employee stock-based compensation*				2,552,743		
Amortization of non-employee stock-based compensation*				4,123		
Net loss*						(2,743,558)
Cumulative translation adjustment*						
Comprehensive loss*						
Balances, March 31, 2001*	10,873,293	$1,631	$25,088,609	$ (9,087,360)	$(5,577,757)	$(12,622,005)

	CUMULATIVE OTHER COMPREHENSIVE LOSS	TOTAL
Balances, January 1, 1998	$ --	$ (154,399)
Exercise of options		16,533
Compensatory stock arrangements for non-employees, primarily remeasurement		--
Amortization of non-employee stock-based compensation		61,317
Net loss		(403,894)
Balances, December 31, 1998	--	(480,443)
Collection of notes receivable from shareholders		6,772
Repurchase of common stock through cancellation of note receivable		--
Exercise of options		38,047
Compensatory stock arrangements for non-employees, primarily remeasurement		--
Amortization of non-employee stock-based compensation		68,282
Net loss		(144,746)
Balances, December 31, 1999	--	(512,088)
Collection of notes receivable from shareholders		8,999
Exercise of options		279,372
Repurchase of common stock through cancellation of note receivable		--

Compensatory stock arrangements for non-employees		--
Remeasurement of compensatory stock arrangements for non-employees		--
Cancellation of unvested non-employee options		--
Compensatory stock arrangements for employees		--
Reversal of employee stock-based compensation for cancelled shares		--
Issuance of common stock upon exercise of warrants		10,000
Amortization of employee stock-based compensation		6,641,620
Amortization of non-employee stock-based compensation		650,680
Net loss		
Cumulative translation adjustment	(7,571)	
Comprehensive loss		(9,104,299)
Balances, December 31, 2000	(7,571)	(2,025,716)
Collection of notes receivable from shareholders*		7,875
Repurchase of common stock through cancellation of notes receivable*		--
Exercise of options*		80
Amortization of employee stock-based compensation*		2,552,743
Amortization of non-employee stock-based compensation*		4,123
Net loss*		
Cumulative translation adjustment*	(9,927)	
Comprehensive loss*		(2,753,485)
Balances, March 31, 2001*	$(17,498)	$(2,214,380)

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* Unaudited

See notes to consolidated financial statements.

PDF SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1998	1999	2000	2000	2001
				(UNAUDITED)	
Operating activities:					
Net loss	$ (403,894)	$ (144,746)	$(9,096,728)	$ (498,092)	$(2,743,558)
Adjustments to reconcile net loss to net cash provided by operating activities:					
Depreciation and amortization	240,953	303,546	833,499	98,234	309,744
Stock-based compensation amortization	61,317	68,282	7,292,300	458,358	2,556,866
Common stock issued for services	625	--	--	--	--
Loss (gain) on the sale of property and equipment	16,902	(1,157)	15,038	--	2,306
Deferred revenues	(987,969)	(132,058)	1,514,154	663,260	352,562
Changes in assets and liabilities, net of effect of acquisition:					
Accounts receivable	578,254	(699,014)	(815,388)	(600,214)	(172,433)
Prepaid expenses and other assets	(93,295)	(6,705)	(540,157)	(140,744)	(6,054)
Accounts payable	502,020	(9,263)	372,727	222,376	104,222
Accrued compensation and related benefits	70,121	777,074	1,209,487	(564,495)	(671,379)
Billings in excess of recognized revenue	2,597	(2,597)	1,052,513	--	141,187
Other accrued liabilities and taxes payable	224,625	119,065	62,879	(78,909)	(212,348)
Net cash provided by (used in) operating activities	212,256	272,427	1,900,324	(440,226)	(338,885)
Investing activities:					
Purchases of property and equipment	(280,758)	(549,615)	(1,203,330)	(198,746)	(412,131)
Proceeds from sale of equipment	--	12,926	--	--	--
Acquisition of AISS, net of cash acquired	--	--	(225,330)	--	--
Net cash used in investing activities	(280,758)	(536,689)	(1,428,660)	(198,746)	(412,131)
Financing activities:					

Exercise of stock options and warrants.....	15,908	38,047	289,372	30,770	80
Proceeds from the sale of preferred stock.....	--	--	4,960,000	--	--
Collection of notes receivable from shareholders.....	--	6,772	8,999	--	7,875
Principal payments on long-term debt.....	--	(3,018)	(29,983)	(15,713)	(6,142)
Net cash provided by financing activities.....	15,908	41,801	5,228,388	15,057	1,813
Effect of exchange rate changes on cash.....	--	--	(7,571)	--	(9,927)
Net increase (decrease) in cash and cash equivalents.....	(52,594)	(222,461)	5,692,481	(623,915)	(759,130)
Cash and cash equivalents, beginning of period....	2,207,978	2,155,384	1,932,923	1,932,924	7,625,404
Cash and cash equivalents, end of period.....	$2,155,384	$1,932,923	$ 7,625,404	$1,309,009	$ 6,866,274
Noncash investing and financing activities:					
Common stock issued for notes receivable.....	$ 198,750	$ 12,500	$ 5,478,370	$ --	$ --
Property acquired under capital lease.....	$ --	$ 90,013	$ --	$ --	$ --
Notes payable issued to acquire AISS.....	$ --	$ --	$ 995,000	$ --	$ --
Supplemental disclosure of cash flow information --					
Cash paid during the year for:					
Taxes.....	$ 341,492	$ 403,087	$ 582,000	$ 100,000	$ 100,000
Interest.....	$ --	$ 677	$ 5,137	$ 1,099	$ 1,211

See notes to consolidated financial statements.

PDF SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000 AND THREE MONTHS ENDED MARCH 31, 2000 AND 2001
(INFORMATION AS OF MARCH 31, 2001 AND FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND 2001 IS UNAUDITED)

1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

PDF Solutions, Inc. (the "Company"), a California corporation, was incorporated in November 1992 and provides comprehensive infrastructure technologies and services to improve yield and optimize performance of integrated circuits. The Company's approach includes manufacturing simulation and analysis, combined with yield improvement methodologies to increase product yield and performance.

Basis of Presentation -- The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after the elimination of all significant intercompany balances and transactions.

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

Certain Significant Risks and Uncertainties -- The Company operates in the dynamic semiconductor and software industry, and accordingly, can be affected by a variety of factors. For example, management of the Company believes that changes in any of the following areas could have a significant negative effect on the Company in terms of its future financial position, results of operations and cash flows: ability to obtain additional financing; regulatory changes; fundamental changes in the technology underlying software technologies; market acceptance of the Company's solutions; development of sales channels; litigation or other claims against the Company; the hiring, training and retention of key employees; successful and timely completion of development efforts; and new product introductions by competitors. Due to protracted delays in the Company's planned initial public offering, the Company expensed offering costs of $1,257,617 in the quarter ended December 31, 2000.

Concentration of Credit Risk -- Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with high credit quality financial institutions. The Company primarily sells its products to companies in Japan and North America. The Company does not require collateral or other security to support accounts receivable. To reduce credit risk, management performs ongoing credit evaluations of its customers' financial condition. The Company maintains allowances for potential credit losses.

Cash Equivalents -- The Company considers all highly liquid debt instruments purchased with a remaining maturity of three months or less to be cash equivalents.

Accounts Receivable -- Accounts receivable include amounts that are unbilled at the end of the period. Unbilled accounts receivable are determined on an individual contract basis and were approximately $0, $365,000 and $194,000 at December 31, 1999 and 2000 and March 31, 2001, respectively.

Property and equipment -- Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the related asset. The estimated useful lives are as follows:

Computer and equipment	3 years
Software	3 years
Furniture and fixtures	5 - 7 years

Intangible Assets -- Intangible assets are related to the business acquisition discussed in Note 2. Amortization is recorded on a straight-line basis over a period of four years.

Impairment of Long-Lived Assets -- In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, the Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount, an impairment loss would be measured based on the discounted cash flows compared to the carrying amount. No impairment charge has been recorded in any of the periods presented.

Notes Receivable from Shareholders -- The notes receivable from shareholders are full recourse notes issued in exchange for common stock. Notes outstanding at December 31, 2000 and March 31, 2001, bear interest at 4.46% to 6.69% per annum. The notes are generally payable over periods of two to four years.

Revenue Recognition -- The Company derives revenue from two sources: design-to-silicon yield solutions and gain share. The Company recognizes revenues in accordance with the provisions of American Institute of Certified Public Accountants Statement of Position ("SOP") 97-2, Software Revenue Recognition, as amended, and SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts.

Design-to-Silicon Yield Solutions -- Design-to-silicon yield solutions revenue is derived from solution implementations, software licenses and software support and maintenance. Revenue recognition for each element of design-to-silicon yield solutions is summarized as follows:

Solution Implementations -- Revenue under contracts for solution

implementation services is recognized as the services are performed using the cost-to-cost percentage of completion method of contract accounting. Losses on solution implementation contracts are recognized when determined. Revisions in profit estimates are reflected in the period in which the conditions that require the revision become known and are estimable.

Software Licenses -- The Company has entered into a few multi-year time based licenses, generally three years. Revenue under arrangements which require the Company to provide support and maintenance over a period of time, where vendor-specific objective evidence of fair value does not exist to allocate a portion of the total fee to the undelivered elements, are recognized ratably over the term of the agreement. No revenue under arrangements with extended payment terms has been recognized in excess of amounts due.

Other license fees are recognized on the residual value method: (i) when an agreement has been signed, the software has been delivered, the license fee is fixed or determinable and collection of the fee is probable or (ii) as a component of a related solution implementation contract.

Software Support and Maintenance -- Amounts allocated to undelivered support and maintenance are based on vendor specific objective evidence, generally negotiated renewal rates. Revenue from allocated support and maintenance and renewals is recognized ratably over the term of the support and maintenance contract, generally one year.

Gain Share -- Gain share revenue represents profit sharing and performance incentives earned based upon its customer reaching certain defined operational levels. Upon achieving such operational levels, the Company receives either a fixed fee and/or royalties based on the units sold by the

customer. Due to the uncertainties surrounding attainment of such operational levels, the Company recognizes gain share revenue (to the extent of completion of the related solution implementation contract) upon receipt of performance reports or other related information from the customer supporting the determination of amounts and probability of collection.

Software Development Costs -- Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, Computer Software to be Sold, Leased or Otherwise Marketed. Because the Company believes its current process for developing software is essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

Research and Development -- Research and development expenses are charged to operations as incurred.

Stock-Based Compensation -- The Company accounts for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25 ("APB No. 25"), Accounting for Stock Issued to Employees, and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"). Deferred compensation recognized under APB No. 25 is amortized to expense using the graded vesting method. The Company accounts for stock options and warrants issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force No. 96-18 under the fair value based method.

Net Loss per Share -- Basic net loss per share excludes dilution and is computed by dividing net loss by the weighted average number of common shares outstanding for the period (excluding shares subject to repurchase). Diluted net loss per share was the same as basic net loss per share for all periods presented since the effect of any potentially dilutive securities is excluded as they are anti-dilutive because of the Company's net losses.

Unaudited Pro Forma Net Loss per Share -- Pro forma basic and diluted net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period (excluding shares subject to repurchase) and the weighted average number of common shares resulting from the assumed conversion, from their respective issuance dates, of outstanding shares of Series A and Series B convertible preferred stock which will occur upon the closing of the planned initial public offering. The computation does not include the effect of a one-time dividend charge expected to be recorded upon conversion of the Series B convertible preferred stock (see Note 12).

Unaudited Pro Forma Information -- Upon the closing of the planned initial public offering, the outstanding shares of Series A and Series B convertible preferred stock will convert into an aggregate of 6,333,318 shares of common stock. The pro forma balance sheet presents the Company's balance sheet as if this had occurred at March 31, 2001 (see Note 12).

Unaudited Interim Financial Information -- The interim financial information as of March 31, 2001 and for the three months ended March 31, 2000 and 2001 is unaudited and has been prepared on the same basis as the audited financial statements. In the opinion of management, such unaudited financial information includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the interim information. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001.

Foreign Currency Translation -- The functional currency of the Company's foreign subsidiaries is the local currency for the respective subsidiary. The assets and liabilities are translated at the period-end exchange rate, and statements of operations are translated at the average exchange rate during the year. Gains and losses resulting from foreign currency translations are included as a component of other comprehensive income.

Comprehensive Income -- Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income, requires that an enterprise report, by major components and as a single total, the change in its net assets during the period from nonowner sources. For 1998 and 1999, comprehensive loss was equal to net loss. Comprehensive loss for the year ended December 31, 2000 and the three months ended March 31, 2001 is presented within the statement of shareholders' deficiency and is comprised entirely of cumulative translation adjustment.

Recently Issued Accounting Standards -- In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement requires companies to record derivatives on the balance sheet as assets or liabilities measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company adopted SFAS No. 133, as amended, on January 1, 2001. The adoption of this statement did not have an effect on the Company's financial position, results of operations or cash flows as the Company had no stand-alone or embedded derivatives at December 31, 2000 and had not historically entered into any derivative transactions to hedge currency or other exposures.

As a matter of policy, the Company does not currently enter into transactions involving derivative financial instruments. In the event the Company does enter into such transactions in the future, such items will be accounted for in accordance with SFAS No. 133, in which case the Company will formally document all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking such hedge transactions.

In September 2000, the FASB issued SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 140 replaces SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. The Company has adopted the applicable disclosure requirements of SFAS No. 140 in its consolidated financial statements as of December 31, 2000. The Company is currently evaluating the impact of adopting the remaining provisions of SFAS No. 140 which will be effective for transactions entered into after March 31, 2001.

2. BUSINESS COMBINATION

On April 27, 2000, the Company acquired all of the outstanding common stock of AISS, a German company, for $1.25 million, consisting of $995,000 in notes payable and $255,000 in cash. AISS develops software and provides yield management services to the semiconductor industry. The note bears interest at 7% per annum payable quarterly with principal due on April 27, 2001.

The acquisition was accounted for using the purchase method and the operating results of AISS have been included in the consolidated statements of operations since the date of acquisition. The excess purchase price (including costs of acquisition) over the fair value of the tangible assets and liabilities

assumed, totaled $2,007,994 and represents acquired technology, employee workforce and goodwill which is being amortized on a straight line basis over a period of four years. Amortization expense totaled $338,059 and $125,246 for the year ended December 31, 2000 and the three months ended March 31, 2001, respectively.

The fair value of the assets acquired and liabilities assumed were as follows (in thousands):

Cash	$ 30
Accounts receivable	386
Other assets	27
Property and equipment	46
Acquired technology	662
Employee workforce	540
Goodwill	807
Accrued acquisition cost	(113)
Less liabilities assumed	(509)
Deferred tax liability	(626)
	$1,250

Had the acquisition taken place at the beginning of fiscal 1999 and 2000 respectively, the unaudited pro forma results of operations would have been as follows for the years ended December 31, 1999 and 2000 (in thousands, except per share data):

	1999	2000
	(UNAUDITED)	
Net revenues	$12,836	$20,457
Net loss	(386)	(9,131)
Net loss per share -- basic and diluted	(0.06)	(1.24)

The pro forma results of operations give effect to certain adjustments, including amortization of purchased intangibles and goodwill, interest charges on the note issued in connection with the acquisition, and the elimination of sales between the Company and AISS.

The pro forma amounts are based on certain assumptions and estimates and do not necessarily represent results which would have occurred if the acquisition had taken place on the basis assumed above, nor are they indicative of results of future combined operations.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of:

	DECEMBER 31,		MARCH 31,
	1999	2000	2001
			(UNAUDITED)
Computer equipment	$ 884,276	$ 1,810,385	$ 2,039,465
Software	355,687	506,838	737,192
Furniture, fixtures, and equipment	351,803	428,381	460,718
Construction in progress	--	80,968	--
	1,591,766	2,826,572	3,237,375
Accumulated depreciation	(769,740)	(1,265,170)	(1,450,646)
	$ 822,026	$ 1,561,402	$ 1,786,729

4. LEASE COMMITMENTS

Equipment with a net book value of $87,747 and $71,469, respectively, at December 31, 1999 and 2000 (net of accumulated amortization of $2,266 and $21,067) has been leased under capital leases which expire in 2004. The Company leases administrative and sales offices and other equipment under noncancelable operating leases which contain various renewal options and require payment of common area costs, taxes and utilities, when applicable. These operating leases expire from 2001 to 2006.

Future minimum lease payments under capital and noncancelable operating leases at December 31, 2000 are as follows:

YEAR ENDING DECEMBER 31,	CAPITAL LEASES	OPERATING LEASES
2001	$ 18,706	$ 905,939
2002	18,706	817,885
2003	18,706	779,120
2004	15,262	667,698
2005	--	12,838
Thereafter	--	12,838
Total future minimum lease payments	71,380	$3,196,318
Less amount representing interest (ranging from 7.32% to 9.25%)	(10,090)	
Present value of future minimum lease payments	61,290	
Less current portion	(14,290)	
Long-term portion	$ 47,000	

Rent expense was approximately $220,226, $379,364 and $906,015 in 1998, 1999 and 2000, respectively.

5. BORROWING ARRANGEMENTS

Line of Credit

The Company's German subsidiary has a secured line of credit with a bank of approximately $65,000. Borrowings under the line of credit are for working capital requirements and other general corporate purposes and bear interest at 9.5%. At December 31, 2000 and March 31, 2001, no amounts were outstanding under the agreement.

Long-term Debt

Long-term debt consists of:

	DECEMBER 31,		MARCH 31,
	1999	2000	2001
			(UNAUDITED)
Term debt (interest at 6.4%)	$ --	$ 16,148	$ 13,467
Capital leases (see Note 4)	86,995	61,290	57,829
Total	86,995	77,438	71,296
Current portion	(15,379)	(21,491)	(28,047)
Long-term portion	$ 71,616	$ 55,947	$ 43,249

Future payment requirements of term debt at December 31, 2000 are as follows:

YEAR ENDING DECEMBER 31,	
2001	$ 7,201
2002	7,201
2003	1,746
	$16,148

6. CONVERTIBLE PREFERRED STOCK

Convertible Preferred Stock

The Company had 5,833,331 shares of Series A convertible preferred stock outstanding at December 31, 1999 and 2000 and March 31, 2001. In August 2000, the Company issued 350,872 shares of Series B convertible preferred stock which were outstanding at December 31, 2000 and March 31, 2001. The significant terms of the Series A and Series B convertible preferred stock are as follows:

- Each share is convertible into one share of common stock (subject to adjustment for events of dilution). See Note 12.

- Each share will automatically convert in the event of a public offering in which the Company receives proceeds equal to or greater than $7,500,000 and a price per share equal to or greater than $14.25. See Note 12.

- Each share has voting rights equivalent to the number of shares of common stock into which it is convertible.

- In the event of liquidation or winding up of the Company, the holders of Series A and Series B convertible preferred stock shall receive $0.60 per share and $14.25 per share, respectively, plus all accrued but unpaid dividends. A sale of substantially all of the Company's assets or a change in control is treated as a deemed liquidation.

- In the event the Board of Directors declares dividends payable on the then outstanding common stock, the holders of Series A and Series B preferred stock shall receive $0.03 per share and $1.14 per share, respectively. The right to such dividends are not cumulative.

- The Series A convertible preferred stock shareholders, voting separately as a class, shall elect two members of the Board of Directors. Additionally, the holders of common stock and Series A preferred stock voting collectively as a class shall elect one member of the Board of Directors.

7. SHAREHOLDERS' EQUITY

Common Stock -- Common stock issued to the founders and certain other

employees are subject to repurchase agreements whereby the Company has the option to repurchase the unvested shares upon termination of employment at the original issue price. The Company's repurchase right generally lapses over four years. At December 31, 2000, 2,944,947 shares of common stock were subject to repurchase by the Company.

During 1998, the Company issued 4,166 shares of common stock to consultants for services rendered. The fair value of the common stock of $625, based on the then fair market value of common stock of $0.15 per share, was recognized as general and administrative expense at the date of issuance.

The Company has reserved shares of common stock for issuance as follows at December 31, 2000:

Conversion of preferred stock	6,184,203
Issuance and exercise of options	1,766,193
	7,950,396

Stock Plans -- Under the Company's 1996 and 1997 Stock Plans ("the Plans"), the Company may grant options to purchase up to 6,333,332 shares of common stock (731,700 from the 1996 Plan and 5,601,632 from the 1997 Plan) to employees, directors and consultants at prices not less than the fair market value at the date of grant for incentive stock options and not less than 85% of fair market value for nonstatutory stock options. These options generally expire ten years from the date of grant and become vested and exercisable ratably over a four-year period. Certain option grants provide for the immediate exercise by the optionee with the resulting shares issued subject to a right of repurchase by the Company which lapses based on the original vesting provisions. At December 31, 2000 and March 31, 2001 1,395,117 shares were available for future grant under the Plans.

At December 31, 1998, 1999 and 2000 and March 31, 2001 the Company's outstanding options include 67,660, 67,660, 0, and 0 shares, respectively, which had been granted outside of the Plans.

Additional information with respect to options under the Plans, including options granted outside the Plans, is as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE OPTION PRICE PER SHARE
Outstanding, January 1, 1998	1,025,314	0.06
Granted (weighted average fair value of $0.05 per share)	1,665,617	0.20

Exercised	(1,267,302)	0.17
Canceled	(65,194)	0.06
Outstanding, December 31, 1998 (417,123 shares vested and exercisable at a weighted average exercise price of $0.06 per share)	1,358,435	0.12
Granted (weighted average fair value of $0.11 per share)	497,656	0.38
Exercised	(347,426)	0.15
Canceled	(107,986)	0.15
Outstanding, December 31, 1999 (558,272 shares vested and exercisable at a weighted average exercise price of $0.13 per share)	1,400,679	0.20
Granted (weighted average fair value of $7.16 per share)	2,647,019	2.73
Exercised	(3,440,070)	1.68
Canceled	(236,552)	0.39
Outstanding, December 31, 2000 (24,971 shares vested and exercisable at a weighted average exercise price of $0.22 per share)	371,076	4.43
Exercised*	(1,387)	0.06
Outstanding, March 31, 2001 (43,852 shares vested and exercisable at a weighted average exercise price of $0.60 per share)*	369,689	$4.45

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* Unaudited

Additional information regarding options outstanding as of December 31, 2000 is as follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	NUMBER VESTED AND EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
$ 0.06 - $ 0.15	30,681	7.0	$ 0.10	15,055	$0.11
0.38 - 0.95	28,737	8.4	0.38	9,916	0.39
1.50 - 3.75	127,329	9.4	1.84	--	--
4.50 - 11.25	146,330	9.6	6.40	--	--
12.00 - 15.00	37,999	9.7	12.08	--	--
$ 0.06 - $15.00	371,076	9.2	$ 4.43	24,971	$0.22

Statement of Financial Accounting Standards No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation, requires the disclosure of pro forma net loss as if the Company had adopted the fair value method. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely

tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including expected time to exercise, which affect the calculated values.

The weighted average fair value of the Company's stock-based awards to employees was estimated using the minimum value method and assuming no dividends will be declared and the following additional assumptions:

	DECEMBER 31,		
	1998	1999	2000
Estimated life (in years)	5.5	5.5	5.5
Risk-free interest rate	5.6%	6.0%	6.7%

For pro forma purposes, the estimated fair value of the Company's stock-based awards to employees is amortized using the accelerated method over the options' vesting period. The Company's pro forma results are as follows (in thousands):

	DECEMBER 31,		
	1998	1999	2000
Net loss:			
As reported	$ (404)	$ (145)	$(9,097)
Pro forma	(448)	(198)	(9,839)
Basic and diluted net loss per share:			
As reported	$(0.08)	$(0.02)	$ (1.24)
Pro forma	(0.09)	(0.03)	(1.34)

Stock-Based Compensation

Through December 31, 1999, non-employee options and warrants were valued or revalued, respectively, using the Black-Scholes pricing model with the following weighted average assumptions; contractual life of 10 years; risk free interest rates ranging from 4.6% to 6%; volatility of 40% or 50%; and no dividends during the expected term. Non-employee options and warrants during the year ended December 31, 2000 were valued or revalued, respectively, using the Black-Scholes pricing model with the following weighted average assumptions: contractual life of 10 years; risk free interest rates of 6.7%; volatility of 70%; and no dividends during the expected term. The value of deferred stock-based compensation related to unvested awards at December 31, 2000 is subject to adjustment based upon the future value of the Company's common stock.

COMMON STOCK OPTIONS

During the years ended December 31, 1998, 1999 and 2000 the Company granted nonstatutory options to consultants and advisory board members ("non-employees") to purchase 27,466, 5,000 and 41,533 shares, respectively. These options had weighted average exercise prices of $0.15 per share, $0.39 per share and $1.50 per share, respectively, and vesting periods, which approximated the period of service, of immediate to five years. These options were originally valued at $2,554, $1,537 and $376,544, respectively. The values attributable to these

options have been amortized over the service period on a graded vesting method and the vested portion of these options were remeasured at each vesting date. No options related to non-employees were cancelled for the periods ended December 31, 1998 and 1999. For the year ended December 31, 2000, 117,293 non-employee options were cancelled.

During 1998, the Company sold 266,666 shares of common stock to a consultant at $0.15 per share. The Company retained the right to repurchase the shares at the original issue price in the event of termination of service. Such repurchase right lapsed over a period of four years. The Company recorded additional stock-based compensation expense over the service period for the difference between the purchase price and the fair value of the Company's common stock on the date the repurchase right lapsed. During 1999, the Company terminated its remaining repurchase rights and recorded non-employee stock-based compensation of $57,500 with respect to such shares.

During the year ended December 31, 2000, the Company issued 2,605,486 common stock options to employees at a weighted average exercise price of $2.73 per share. The weighted average exercise price was below the weighted average deemed fair value of $9.89 per share. The cumulative deferred stock-based compensation with respect to these grants totaled $18,662,357 and is being amortized to expense on a graded vesting method over the four year vesting period of the options through September 2004. During the year ended December 31, 2000, the cancellation of 17,333 of these common stock options resulted in the reversal of $145,000 of employee stock-based compensation.

During the three months ended March 31, 2001, the Company did not issue any common stock options. The Company repurchased 31,268 shares of common stock through the cancellation of notes receivable which resulted in the reversal of $237,844 of employee stock-based compensation.

COMMON STOCK WARRANTS

During 1996, the Company issued warrants to purchase 200,000 shares of the Company's common stock at $0.06 per share to acquire software from AISS. The warrants were originally valued at $8,286. The value attributable to these warrants has been amortized over the vesting period of four years, which approximated the useful life of the software, and the vested portion of this warrant was remeasured at each vesting date. In connection with the acquisition of AISS on April 27, 2000, warrants to purchase 33,334 shares were cancelled. No warrants were outstanding at December 31, 2000.

Amortization of employee and non-employee stock-based compensation totaled $61,317, $68,282, $7,292,300 and 2,556,866 in 1998, 1999, 2000 and the three months ended March 31, 2001, respectively.

Unvested non-employee options and warrants are as follows as of:

	UNVESTED OPTIONS AND WARRANTS
	WEIGHTED AVERAGE EXERCISE PRICE

	NUMBER	PER SHARE
December 31, 1998	257,695	$0.06
December 31, 1999	169,382	$0.06
December 31, 2000	4,861	$0.06
March 31, 2001 (Unaudited)	2,778	$0.06

8. NET LOSS PER SHARE

The following is a reconciliation of the numerators and denominators used in computing basic and diluted net loss per share (in thousands):

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1998	1999	2000	2000	2001
				(UNAUDITED)	
Net loss (numerator), basic and diluted	$ (404)	$ (145)	$(9,097)	$ (498)	$(2,743)
Shares (denominator):					
Weighted average common shares outstanding	6,222	7,229	9,445	7,483	10,884
Weighted average common shares outstanding subject to repurchase	(1,278)	(1,143)	(2,089)	(686)	(2,819)
Shares used in computation, basic and diluted	4,944	6,086	7,356	6,797	8,065
Net loss per share -- basic and diluted	$ (0.08)	$ (0.02)	$ (1.24)	$ (0.07)	$ (0.34)
Shares used in computation -- basic and diluted			7,356		8,065
Weighted average Series A convertible preferred stock outstanding			5,833		5,833
Weighted average Series B convertible preferred stock outstanding			205		500
Shares used in computing pro forma per share amounts on an as converted basis -- basic and diluted			13,394		14,398
Pro forma net loss per share on an as converted basis -- basic and diluted			$ (0.68)		$ (0.19)

Pro forma net loss per share assumes that the conversion of all shares of Series A and Series B convertible preferred stock into common stock, which occurs upon the consummation of an initial public offering. This computation does not include the effect of a one-time dividend charge expected to be recorded upon conversion of the Series B convertible preferred stock (see Note 12).

For the above mentioned periods, the Company had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded in the computation of diluted net loss per share in the periods presented, as their effect would have been anti-dilutive. Such outstanding securities consist of the following (in thousands):

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31	
	1998	1999	2000	2000	2001
				(UNAUDITED)	
Convertible preferred stock	5,833	5,833	5,977	5,833	6,184
Shares of common stock subject to repurchase	1,278	1,143	2,089	686	2,819
Outstanding options	957	1,433	457	1,061	370
Warrants	200	200	64	200	--

9. TAX PROVISION

The tax provision in 1998 and 1999 was $341,492 and $533,087, respectively, and primarily represents withholding tax on revenues from foreign customers. The tax provision for the year ended December 31, 2000 of $363,000 includes withholding tax on revenues from foreign customers of $100,000 and foreign and U.S. income tax of $(50,000) and $313,000, respectively. The tax provision for the three months ended March 31, 2001 of $185,000 includes withholding tax on revenues from foreign customers of $100,000 and foreign and U.S. income tax of $15,000 and $70,000, respectively.

During fiscal 1998 and 1999 all income (loss) before taxes was derived from U.S. operations. During the year ended December 31, 2000 and the three months ended March 31, 2001, respectively, income (loss) before taxes was $(8.8 million) and $(2.6 million) from U.S. operations and $38,000 and $91,000 from foreign operations.

Deferred income taxes reflect the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as net operating loss and tax credit carryforwards.

The components of the net deferred tax liability is comprised of (in thousands):

	DECEMBER 31,			MARCH 31,
	1998	1999	2000	2001
				(UNAUDITED)
Net operating loss carryforward	$ 172	$ 38	$ --	$ --
Research and development credit carryforward	35	--	63	177
Foreign tax credit carryforward	365	765	544	644
Accruals deductible in different periods	(152)	(129)	1,078	1,105
Stock-based compensation	--	--	324	324
Valuation allowances	(420)	(674)	(2,009)	(2,250)
Intangible assets	--	--	(532)	(494)

	$ --	$ --	$ (532)	$ (494)

The Company has established a valuation allowance against certain deferred tax assets due to the uncertainty surrounding the realization of such assets. Annually, management evaluates the recoverability of the deferred tax assets and the level of the valuation allowance. At such time as it is determined that it is more likely than not that deferred tax assets are realizable the valuation allowance will be reduced.

The amount of income tax recorded differs from the amount using the statutory federal income tax rate (35%) for the following reasons (in thousands):

	DECEMBER 31,			THREE MONTHS ENDED MARCH 31,
	1998	1999	2000	2001
				(UNAUDITED)
Federal statutory tax benefit	$(22)	$136	$(3,057)	$(895)
State tax expense	1	3	1	1
Stock compensation expense	--	--	2,316	895
Offering costs	--	--	440	--
Meals and entertainment	8	2	4	1
Tax credits	(35)	--	(751)	(214)
Foreign tax, net	--	130	83	115
Valuation allowances	363	254	1,335	241
Other	26	8	(8)	41
Total	$341	$533	$ 363	$ 185

At December 31, 2000, the Company had foreign tax credit carryforwards of approximately $544,000 available to offset future federal income taxes which begin to expire in 2001. The extent to which the credit carryforwards can be used to offset future taxable income and tax liabilities, respectively, may be limited, depending on the extent of ownership changes within any three-year period as provided in the Tax Reform Act of 1986 and the California Conformity Act of 1987.

10. CUSTOMER AND GEOGRAPHIC INFORMATION

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

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
CUSTOMER	1998	1999	2000	2000	2001
				(UNAUDITED)	
A	66%	53%	32%	35%	31%
B	16%	19%	--	--	--
C	--	15%	27%	39%	15%
D	--	--	15%	14%	17%

E	--	--	10%	11%	4%
G	--	--	6%	--	20%

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

	DECEMBER 31,			MARCH 31,
CUSTOMER	1998	1999	2000	2001
				(UNAUDITED)
A	63%	47%	25%	54%
C	--	15%	13%	6%
D	--	23%	24%	17%
E	--	--	13%	1%
F	--	11%	--	--

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

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1998	1999	2000	2000	2001
				(UNAUDITED)	
Japan	5,125	10,684	13,209	2,733	4,974
United States	1,102	1,140	6,235	952	2,208
Europe	--	--	691	9	352

The Company's long-lived assets were located primarily in North America as of December 31, 1999. As of December 31, 2000 and March 31, 2001, long-lived assets related to AISS, located in Germany, totaled $1.8 million and $1.7 million, respectively, of which $1.7 million and $1.5 million relates to acquired intangibles (see Note 2). The majority of the Company's remaining long-lived assets are in the United States.

11. EMPLOYEE BENEFIT PLAN

During 1999, the Company established a 401(k) tax-deferred savings plan, whereby eligible employees may contribute up to 15% of their eligible compensation with a maximum amount subject to IRS guidelines in any calendar year. Company contributions are discretionary; no such Company contributions have been made since inception of this plan.

12. SUBSEQUENT EVENTS

In May 2001, the Company was named as a defendant in a lawsuit claiming, among other things, that it misappropriated trade secrets in connection with hiring an employee. The Company is defending itself against the claims, which it believes to be without merit. The Company does not believe that this litigation, or resolution of this litigation, will have a material negative impact on its

consolidated financial position or results of operations.

On June 28, 2001, the Company entered into a common stock purchase agreement with Applied Materials, Inc., or Applied Materials, under which the Company agreed to sell Applied Materials 500,000 shares of common stock (or such lesser amount of shares having a maximum aggregate purchase price of $10.0 million) in a private placement concurrent with and conditioned upon the sale of shares in the planned initial public offering. The price per share in the concurrent private placement will be equal to the offering price in the planned initial public offering.

On July 6, 2001, the Company amended and restated its articles of incorporation to effect a two-for-three reverse stock split of the Company's common and preferred stock. All share and per share amounts

reflected in the consolidated financial statements have been restated to give effect to the two-for-three reverse stock split.

On July 6, 2001, the Company also amended and restated its articles of incorporation to provide for the automatic conversion of all outstanding Series A and Series B convertible preferred stock upon consummation of a public offering in which the Company receives proceeds equal to or greater than $7,500,000; provided that in the event the public offering price is less than $14.25 per share, the Series B preferred stock will be converted into an aggregate of 499,987 shares of common stock. Based on an assumed initial public offering price of $12.00 per share, the Company expects to record a one time dividend charge of $1,619,000 upon consummation of the planned initial public offering, representing the fair value of additional shares expected to be issued to the Series B convertible preferred stockholders in excess of the shares issuable pursuant to the original terms of the Series B convertible preferred stock. The effects of such additional shares have been reflected in the accompanying unaudited pro forma balance sheet.

On June 12, 2001, the Board of Directors approved, and on July 6, 2001, the shareholders approved, the following actions to occur prior to or concurrent with the effectiveness of the Company's planned initial public offering:

- Reincorporation of the Company in the State of Delaware;

- Increase in the authorized shares of common stock to 75,000,000 shares, par value $0.00015 per share, and creation of a new series of preferred stock with 5,000,000 shares authorized;

- Termination of the 1996 and 1997 Stock Option Plans as to future option grants;

- Adoption of the 2001 Stock Plan -- 3,000,000 shares of common stock will

be reserved for issuance under the 2001 Stock Plan. On January 1 of each year, starting with the year 2002, the number of shares in the reserve will automatically increase by 5% of the total number of shares of common stock that are outstanding at that time; and

- Adoption of the 2001 Employee Stock Purchase Plan -- Under the purchase plan, eligible employees are allowed to have salary withholdings of up to 10% of their compensation to purchase shares of common stock at a price equal to 85% of the lower of the market value of the stock on the first date immediately before the first day of the applicable offering period or the fair market value on the purchase date. The initial offering period commences upon the effective date for the initial public offering of the Company's common stock. For the first offering period, shares of common stock may be purchased at a price equal to 85% of the lower of the price per share in the initial public offering or the market value on the purchase date. The Company has initially reserved 300,000 shares of common stock under this plan, plus an annual increase to be added each January beginning with the year 2002 equal to the lesser of (i) 675,000 shares, or (ii) 2% of the shares of common stock outstanding at that time.

* * * * *

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Applied Integrated Systems & Software Entwicklungs-, Produktions- und Vertriebs GmbH:

We have audited the accompanying balance sheet of Applied Integrated Systems & Software Entwicklungs-, Produktions- und Vertriebs GmbH as of December 31, 1999, and the related statements of income, shareholders' equity, and cash flows for the year ended December 31, 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Applied Integrated Systems & Software Entwicklungs-, Produktions- und Vertriebs GmbH as of December 31, 1999, and the results of its operations and its cash flows for the year ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE GMBH
/s/ Wirtschaftsprufungsgesellschaft

Munich, Germany
July 26, 2000

APPLIED INTEGRATED SYSTEMS AND SOFTWARE GMBH
ENTWICKLUNGS-, PRODUKTIONS- UND VERTRIEBS GMBH

BALANCE SHEETS

	DECEMBER 31, 1999	MARCH 31, 2000
		(UNAUDITED)
ASSETS		
Current assets:		
Cash	DM 377,539	DM 11,858
Accounts receivable	331,700	763,830
Prepaid expenses	1,421	--
Other assets	21,065	18,801
Current deferred taxes	72,129	74,729
Total current assets	803,854	869,218
Equipment, furniture, and fixtures, net	102,389	106,280
Intangible assets, net	14,053	12,391
Other assets	18,144	--
Total assets	DM 938,440	DM 987,889
LIABILITIES & SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Short term portion of long term borrowings	DM 14,069	DM 14,294
Bank overdraft	--	415,741
Accounts payable	118,654	111,726
Accrued taxes	8,154	92,350
Deferred revenue	10,000	12,000
Accrued expenses and other liabilities	433,455	423,740
Total current liabilities	584,332	1,069,851
Long term borrowings	33,620	29,961
Deferred tax liability	31,154	21,432
Shareholders' equity (deficiency):		
Registered capital	51,000	51,000
Less: subscribed capital	(25,500)	(25,500)
Registered capital -- paid in	25,500	25,500
Retained earnings (distributions to shareholders in excess of earnings to date)	263,834	(158,855)
Total shareholders' equity (deficiency)	289,334	(133,355)
Total liabilities and shareholders' equity (deficiency)	DM 938,440	DM 987,889

See notes to financial statements.

APPLIED INTEGRATED SYSTEMS AND SOFTWARE GMBH
ENTWICKLUNGS-, PRODUKTIONS- UND VERTRIEBS GMBH

INCOME STATEMENTS

	YEAR ENDED DECEMBER 31, 1999	THREE MONTHS ENDED MARCH 31, 1999	THREE MONTHS ENDED MARCH 31, 2000
		(UNAUDITED)	
Revenues:			
Services	DM1,914,145	DM 378,322	DM461,922
License	837,962	440,424	125,815
	2,752,107	818,746	587,737
Costs and expenses:			
Cost of services	1,056,259	249,408	283,616
Research and development expenses	510,768	66,659	35,155
Sales and marketing expenses	325,487	78,458	45,087

General and administrative expenses.....	576,654	126,692	131,575
Total costs and expenses.....	2,469,168	521,217	495,433
Operating income.....	282,939	297,529	92,304
Other income.....	775	--	1,096
Interest income.....	4,430	474	1,725
Interest expenses.....	(8,087)	(562)	(6,839)
Income before income taxes.....	280,057	297,441	88,286
Provision for income taxes.....	(97,877)	(161,902)	(42,395)
Net income.....	DM 182,180	DM 135,539	DM 45,891

See notes to financial statements.

APPLIED INTEGRATED SYSTEMS AND SOFTWARE GMBH
ENTWICKLUNGS-, PRODUKTIONS- UND VERTRIEBS GMBH

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)

	REGISTERED CAPITAL - PAID IN	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS (DEFICIENCY)	TOTAL SHAREHOLDERS EQUITY (DEFICIENCY)
Balance, January 1, 1999.....	DM25,500	DM --	DM 201,654	DM 227,154
Net income and total comprehensive income.....			182,180	182,180
Distributions.....			(120,000)	(120,000)
Balance, December 31, 1999.....	25,500	--	263,834	289,334
Net income and total comprehensive income*.....			45,891	45,891
Additional paid in capital resulting from sale of PDF shares to shareholders*.....		70,753		70,753
Distributions*.....		(70,753)	(468,580)	(539,333)
Balance, March 31, 2000*.....	DM25,500	DM --	DM(158,855)	DM(133,355)

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* Unaudited

See notes to financial statements.

APPLIED INTEGRATED SYSTEMS AND SOFTWARE GMBH
ENTWICKLUNGS-, PRODUKTIONS- UND VERTRIEBS GMBH

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	THREE MONTHS ENDED MARCH 31,	
	1999	1999	2000
		(UNAUDITED)	
Operating activities:			
Net income.....	DM 182,180	DM 135,539	DM 45,891
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	140,206	20,237	23,645
Deferred income taxes.....	(47,839)	(13,137)	(2,600)
Changes in operating assets and liabilities:			

Accounts receivable	(211,151)	(399,522)	(432,130)
Prepaid expenses and other assets	25,798	(111,210)	3,685
Accounts payable	31,793	11,024	(6,929)
Other accrued liabilities and income taxes payable	(48,606)	24,309	(2,504)
Deferred revenues	3,800	1,000	2,000
Net cash provided by (used in) operating activities	76,181	(331,760)	(368,942)
Investing activities:			
Equipment additions	(178,473)	(115,598)	(25,874)
Payment to exercise warrants			(20,320)
Net cash used in investing activities	(178,473)	(115,598)	(46,194)
Financing activities:			
Shareholder distributions	(120,000)		(539,333)
Proceeds from borrowings	59,900	59,900	
Repayments of borrowings	(12,211)	(2,233)	(3,434)
Proceeds from sale of PDF stock to shareholders			176,481
Bank overdraft		(270)	415,741
Net cash provided by (used in) financing activities	(72,311)	57,397	49,455
Net decrease in cash	(174,603)	(389,961)	(365,681)
Cash at beginning of period	552,142	552,142	377,539
Cash at end of period	DM 377,539	DM 162,181	DM 11,858
Supplemental cash flow information:			
Cash payments for interest	DM 8,086	DM 562	DM 6,839
Cash payments for income taxes	148,954	27,590	37,238

See notes to financial statements.

APPLIED INTEGRATED SYSTEMS AND SOFTWARE GMBH
ENTWICKLUNGS-, PRODUKTIONS- UND VERTRIEBS GMBH

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1999 AND THREE MONTHS ENDED MARCH 31, 2000
(INFORMATION AS OF MARCH 31, 2000 AND
FOR THE THREE MONTHS ENDED MARCH 31, 1999 AND 2000 IS UNAUDITED)

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

Applied Integrated Systems and Software Entwicklungs-, Produktions- und Vertriebs GmbH (the "Company" or "AISS") was founded on February 24, 1989 and develops software tools for the semiconductor industry.

UNAUDITED INTERIM FINANCIAL INFORMATION

The interim financial information as of March 31, 2000 and for the three months ended March 31, 1999 and 2000 is unaudited and has been prepared on the same basis as the audited financial statements. In the opinion of management, such unaudited financial information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the interim information. The operating results for the three months ended March 31, 2000 are not necessarily indicative of the results that may be expected for the full fiscal year.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Despite management's best effort to establish good faith estimates and assumptions, actual results could differ from those estimates.

REVENUE RECOGNITION

Revenue from services, primarily consulting and research and development arrangements, is recognized as the related services are performed. Software license and maintenance revenue is recognized in accordance with the provisions of Statement of Position No. 97-2 "Software Revenue Recognition." License fees are recognized when an agreement has been signed, the software has been delivered, the license fee is fixed or determinable and collection of the fee is probable and vendor-specific objective evidence of fair value exists to allocate a portion of the total fee to any undelivered elements of the arrangement, or over the license term. Maintenance obligations generally call for the Company to provide technical support and software updates to customers. Maintenance to be provided within one year included in an initial license fee is recognized together with the license fee and the estimated cost of providing such service is accrued. Revenue under other maintenance contracts is deferred and recognized ratably over the term of the maintenance contract, which is generally one year.

COST OF SERVICES

Cost of professional services and maintenance consists primarily of salaries and benefits, including cost of services provided by third party consultants engaged by the Company.

CERTAIN SIGNIFICANT RISKS AND UNCERTAINTIES

The Company operates in the software industry and can be affected by a variety of factors. For example, management of the Company believes that changes in any of the following areas could have a significant negative effect on the Company in terms of its future financial position, results of operations

and cash flows: ability to obtain additional financing; regulatory changes; fundamental changes in the technology underlying software products; market acceptance of the Company's products under development; development of sales channels; litigation or other claims against the Company; the hiring, training and retention of key employees; successful and timely completion of product development efforts; and new product introductions by competitors.

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of account receivables. The Company performs ongoing credit evaluations of its customers.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash, accounts receivable, accounts payable and borrowings approximates fair value due to the short-term nature of these instruments. The fair value of the warrants as of December 31, 1999 was approximately DM170,000.

EQUIPMENT, FURNITURE AND FIXTURES

Equipment, furniture and fixtures are recorded at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives (three to ten years) of the related assets.

OTHER ASSETS

Long-term assets include warrants for the purchase of 300,000 shares of PDF Solutions, Inc. ("PDF") common stock at DM 0.06 per share. These warrants were obtained from PDF in an agreement dated September 17, 1996 related to the use of one of the Company's software products. The warrants vested 25% after one year

and at a rate of one forty-eighth per month thereafter. The value of the warrants was recorded as license revenue of DM 18,144 which approximated the estimated fair value of the warrants at the date of issuance under the Black-Scholes pricing model with the following assumptions: contractual life of 10 years; risk-free interest rate of 6.0%; volatility of 50% and no dividends during the expected term. The vested warrants at December 31, 1999 totaled 243,750 shares which increased to 249,999 in January 2000. In January 2000, the Company exercised the vested warrants (see Note 5). In connection with the acquisition of the Company by PDF on April 27, 2000 (see Note 9), the Company agreed to the cancellation of the remaining 50,001 warrants, of which 18,750 had vested through the date of acquisition.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred. The cost of developing new software products and enhancements are expensed as research and development costs as incurred because the Company believes that establishment of technological feasibility occurs concurrently with the date of general release of related products.

INTANGIBLE ASSETS

Intangible assets represent internal use software and are recorded at cost and are amortized over periods ranging from three to five years. Accumulated amortization was approximately DM19,186 at December 31, 1999.

INCOME TAXES

The Company provides for deferred income taxes resulting from temporary differences between the valuation of assets and liabilities in the financial statements and the carrying amounts for tax purposes. Such differences are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

EARNINGS PER SHARE

The Company is organized as a GmbH and has no tradable shares. Earnings per share has not been calculated.

COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income," requires that an enterprise report, by major components and as a single total, the change in its net assets during the period from nonowner sources. Comprehensive income was equal to net income for all periods presented.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment charge has been recorded in any of the periods presented.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the

derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS 133 is effective for fiscal years beginning after June 15, 2000 and must be applied to instruments issued, acquired or substantively modified after December 31, 1997. The Company does not expect the adoption of the accounting pronouncement to have a material effect on its financial position, results of operations or cash flows.

NOTE 2: EQUIPMENT, FURNITURE AND FIXTURES

Equipment, furniture and fixtures at December 31 consist of:

Equipment, furniture and fixtures	DM 309,065
Accumulated depreciation	(206,676)
	DM 102,389

NOTE 3: BORROWINGS

The Company has a DM 150,000, secured line of credit with a bank. Borrowings under the line of credit are for working capital requirements and other general corporate purposes and bear an interest rate of 9.5 percent. The credit agreement is secured by the shareholders of the Company. At December 31, 1999, the Company did not have any amounts outstanding under the agreement.

The Company borrowed DM 59,900 at approximately 6.4 percent in January 1999 to finance the acquisition of an automobile. The term of the financing was for a term of approximately four years. The required reductions in principle in the next three years are as follows:

2000	DM14,069
2001	14,994
2002	18,626
	DM47,689

NOTE 4: ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities at December 31, 1999 consisted of the following:

Accrued compensation and related benefits	DM362,428
Warranty	50,400
Other	20,627
	DM433,455

NOTE 5: SHAREHOLDERS' EQUITY (DEFICIENCY)

The registered capital of the Company amounted to DM 51,000 as of December 31, 1999, of which DM 25,500 has been paid in by the company's shareholders.

On January 4, 2000, the Company exercised the warrants for shares in PDF Solutions Inc. that were issued on September 17, 1996. At the date the warrants were exercised, the Company paid DM 20,320 for the 249,999 shares. The shareholders of the Company then purchased these warrants from the Company for DM 176,408. The after tax gain related to this related party transaction was recorded as a contribution to additional paid in capital. The additional paid in capital was repaid to the shareholders in March 2000.

NOTE 6: INCOME TAXES

Federal corporation income tax is levied at 40 percent and a solidarity surcharge is levied on the federal corporate tax rate. The solidarity tax rate was 5.50 percent in 1999. Upon distribution of retained earnings to shareholders, the corporation tax rate on the distributed earnings is reduced to 30 percent.

German trade income tax is levied at a rate of approximately 19.7 percent. This tax can be deducted from the corporation tax.

The significant components of the net deferred tax asset at December 31, 1999 which reflect the tax effects of the Company's temporary differences are as follows:

NET DEFERRED TAX ASSETS -- CURRENT:	
Vacation accrual	DM38,102
Warranty accrual	27,004
Deferred revenue	5,358
Other	1,665
	72,129
NET DEFERRED TAX LIABILITY -- NON-CURRENT:	
Capital expenditures reserve	21,432
Warrants	9,722
	31,154
Net deferred tax asset	DM40,975

The provision for income taxes consists of the following:

Current	DM145,716
Deferred	(47,839)
	DM 97,877

The provision for income taxes differs from the amounts computed by applying the Federal corporation income tax rate to income before income taxes,

as follows:

Amounts computed by applying Federal statutory rate.....	DM112,023	40.0%
Trade tax, net of Federal income taxes.....	31,870	11.4%
Solidarity tax.....	3,733	1.3%
Credit for dividend distribution.....	(49,792)	(17.8)%
Other.....	43	--
	DM 97,877	34.9%

APPLIED INTEGRATED SYSTEMS AND SOFTWARE GMBH
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 1999 AND THREE MONTHS ENDED MARCH 31, 2000
(INFORMATION AS OF MARCH 31, 2000 AND
FOR THE THREE MONTHS ENDED MARCH 31, 1999 AND 2000 IS UNAUDITED)

NOTE 7: OPERATING LEASES

The Company leases certain facilities and equipment under noncancelable operating lease arrangements. Rent expense is reflected on a straight-line basis over the term of the lease. Future minimum rental payments at December 31, 1999 under these leases, which expire in the first quarter of 2002, are as follows:

2000.....	DM112,000
2001.....	112,000
2002.....	10,000
Total.....	DM234,000

Total rent expense under all operating leases was approximately DM 91,560 for the year ended December 31, 1999.

NOTE 8: BUSINESS SEGMENT

The Company operates in one industry segment consisting of developing, distribution, and maintenance for software, computer hardware and technical supply. The company's operations are primarily in Germany.

The following customers, a German electronics company and PDF Solutions, Inc., accounted for 53% and 33% of the net revenues of the Company in 1999, respectively.

NOTE 9: SUBSEQUENT EVENT

On April 27, 2000, the Company was acquired by PDF Solutions Inc., a U.S. company, for approximately DM 2,647,375 (US$1,250,000). PDF Solutions provides comprehensive infrastructure technologies and services to improve yield and optimize performance of integrated circuits.

PDF SOLUTIONS, INC.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS

On April 27, 2000, the Company acquired all of the outstanding common stock of Applied Integrated Systems and Software GmbH ("AISS"), a German company, for $1.25 million, consisting of $995,000 in notes payable and $255,000 in cash. AISS develops software and provides yield management services to the

semiconductor industry. The acquisition is accounted for using the purchase method and the Company's consolidated financial statements reflect the results of operations of AISS from the date of acquisition. The aggregate purchase price was allocated to the assets and liabilities acquired based on their fair value at date of acquisition. The total consideration (including costs of acquisition) exceeds the fair value of the net tangible assets and liabilities assumed by $2.0 million, which was allocated: $662,000 to acquired technology, $540,000 to employee workforce and $807,000 to goodwill which are being amortized over a period of four years.

The accompanying unaudited pro forma consolidated financial statements are presented in accordance with Article 11 of Regulation S-X.

The accompanying unaudited pro forma consolidated statements of operations give effect to the acquisition of AISS as if it had occurred on January 1, 2000, by consolidating the results of operations of AISS with PDF for the year ended December 31, 2000.

The unaudited pro forma consolidated information is presented for illustrative purposes only, and is not necessarily indicative of the operating results or financial position that would have occurred if the transaction had been consummated at the dates indicated, nor is it necessarily indicative of future operating results or the financial position of the combined companies.

The unaudited pro forma consolidated financial statements should be read in conjunction with the historical financial statements of the Company and AISS.

PDF SOLUTIONS, INC.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2000

	PDF	AISS(1) JANUARY 1, 2000 TO APRIL 27, 2000	PRO FORMA ADJUSTMENTS	NOTES	PRO FORMA
Revenue:					
Design-to-silicon yield solutions	$15,538,325	$481,508	$ (159,465)	(2)	$15,860,368
Gain share	4,597,000	--	--		4,597,000
Total revenue	20,135,325	481,508	(159,465)		20,457,368
Costs and expenses:					
Cost of design-to-silicon yield solutions	6,915,001	205,930	(76,543)	(2)	7,044,388
Research and development	6,418,173	44,457	(82,922)	(2)	6,379,708
Selling, general and administrative	7,332,857	128,288	163,686	(3)	7,624,831
Offering costs	1,257,617	--	--		1,257,617
Stock-based compensation amortization	7,292,300	--	--		7,292,300
Total costs and expenses	29,215,948	378,675	4,221		29,598,844
Income (loss) from operations	(9,080,623)	102,833	(163,686)		(9,141,476)
Interest income and other	346,895	(331)	(23,216)	(4)	323,348
Income (loss) before taxes	(8,733,728)	102,502	(186,902)		(8,818,128)
Tax provision (benefit)	363,000	29,969	(80,549)	(5)	312,420
Net income (loss)	$(9,096,728)	$ 72,533	$ (106,353)		$(9,130,548)
Pro forma net loss per share -- basic and diluted(6)	$ (1.24)				$ (1.24)
Shares used in computing pro forma basic and diluted net loss per share(6)	7,356,221				7,356,221

See notes to unaudited pro forma consolidated statements of operations.

PDF SOLUTIONS, INC.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS

The following pro forma adjustments have been made to the unaudited pro forma consolidated statements of operations:

1. Amount translated from DM to US dollars using average annual exchange rate of DM1.998/$ for the period January 1, 2000 to April 27, 2000, respectively.

2. Reflects the elimination of sales representing research and development services performed by AISS for the Company.

3. Reflects the amortization of intangible assets totaling $2.0 million resulting from the acquisition on a straight line basis over four years.

4. Reflects interest charges on the notes payable issued in connection with the acquisition at the stated interest rate of 7%.

5. Reflects the net tax benefit of the pro forma adjustments at the statutory tax rate for the respective tax jurisdictions.

6. On July 6, 2001, the Company amended and restated its articles of incorporation to effect a two-for-three reverse stock split of the Company's common and preferred stock. The pro forma net loss per share -- basic and diluted and shares used in computing pro forma basic and diluted net loss per share have been restated to give effect to the two-for-three reverse stock split.

* * * *

[PDF Solutions, Inc. Logo]

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by us in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fee and the Nasdaq National Market listing fee.

	AMOUNT TO BE PAID
SEC registration fee	$ 19,800
NASD filing fee and expenses	10,000
Nasdaq National Market listing fee	95,000
Printing and engraving expenses	200,000
Legal fees and expenses	300,000
Accounting fees and expenses	350,000
Blue Sky qualification fees and expenses	10,000
Transfer Agent and Registrar fees	10,000
Miscellaneous fees and expenses	55,200
Total	1,050,000

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law (the "Delaware Law") authorizes a court to award, or a corporation's Board of Directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Securities Act"). Article IV of our Certificate of Incorporation (Exhibit 3.2 hereto) and Article VI of our Bylaws (Exhibit 3.3 hereto) provide for indemnification of our directors, officers, employees and other agents to the maximum extent permitted by Delaware Law. In addition, we have entered into Indemnification Agreements (Exhibit 10.1 hereto) with our officers and directors. The Underwriting Agreement (Exhibit 1.1) also provides for cross-indemnification among us and the Underwriters with respect to certain matters, including matters arising under the Securities Act.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Since November, 1995 we have sold and issued the following securities:

1. On December 4, 1995, we issued 5,833,331 shares of Series A preferred stock to investors for an aggregate cash consideration of $0.60 per share or $3,500,000.

2. On August 4, 2000, we issued 350,872 shares of Series B preferred stock to investors for an aggregate cash consideration of $14.25 per share or $5,000,000.

3. From inception through March 31, 2001, we have issued warrants to purchase 166,666 shares of common stock at a price of $0.06 per share. These warrants have been exercised and no warrants remain outstanding.

4. From our inception through March 31, 2001, we have issued 6,035,606 options and rights to purchase common stock of PDF with a weighted average exercise price of $1.29 per share to a number of our employees, and directors and consultants.

5. On June 28, 2001, we entered into an agreement with Applied Materials, or Applied Materials, to sell 500,000 shares of our common stock (or such lesser amount of shares having a maximum aggregate purchase price of $10.0 million) to Applied Materials concurrent with and conditioned upon the sale of the shares in the initial public offering at a price per share equal to the initial public offering price.

The issuances of the above securities were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) or Regulation D, or other applicable exemption of such Securities Act as transactions by an issuer not involving any public offering. In addition, certain issuances described in Item 2 were deemed exempt from registration under the Securities Act in reliance upon Rule 701 promulgated under the Securities Act. The recipients of securities in each such transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and warrants issued in such transactions. All recipients had adequate access, through their relationships with us, to information about us.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

See exhibits listed on the Exhibit Index following the signature page of this Form S-1, which is incorporated herein by reference.

(b) Financial Statement Schedules

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of San Jose, State of California on July 9, 2001

PDF SOLUTIONS, INC.

By: /s/ P. STEVEN MELMAN

P. Steven Melman

Chief Financial Officer and Vice President, Finance and Administration

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons on July 9, 2001 in the capacities indicated:

SIGNATURE	TITLE
/s/ JOHN K. KIBARIAN* John K. Kibarian	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ P. STEVEN MELMAN P. Steven Melman	Chief Financial Officer and Vice President, Finance and Administration (Principal Financial and Accounting Officer)
/s/ B.J. CASSIN* B.J. Cassin	Director
/s/ LUCIO L. LANZA* Lucio L. Lanza	Director
/s/ DONALD L. LUCAS* Donald L. Lucas	Director
/s/ KIMON MICHAELS* Kimon Michaels	Director

*By: /s/ P. STEVEN MELMAN
P. Steven Melman
Attorney-In-Fact

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
PDF Solutions, Inc.

We have audited the consolidated financial statements of PDF Solutions, Inc. and its subsidiaries (collectively, the "Company") as of December 31, 1999 and 2000 and for each of the three years in the period ended December 31, 2000 and have issued our report thereon dated January 19, 2001 (July 6, 2001 as to the third paragraph of Note 12); such consolidated financial statements and report are included elsewhere in the Company's Registration Statement on Form S-1. Our audits also included the consolidated financial statement schedule of PDF Solutions, Inc, listed in Item 16(b). This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
January 19, 2001

SCHEDULE II
PDF SOLUTIONS, INC.

VALUATION AND QUALIFYING ACCOUNTS

DATE:	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS/ WRITE-OFFS OF ACCOUNTS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts				
March 31, 2001*	$192,000	$ --	$--	$192,000
December 31, 2000	$144,000	$48,000	$--	$192,000
December 31, 1999	$ 93,000	$51,000	$--	$144,000
December 31, 1998	$ 53,000	$40,000	$--	$ 93,000

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* Unaudited

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
1.1	Form of Underwriting Agreement (subject to negotiation).
3.1	Amended and Restated Certificate of Incorporation of PDF Solutions, Inc.*
3.2	Third Amended and Restated Certificate of Incorporation of PDF Solutions, Inc. (proposed).
3.3	Amended and Restated Bylaws of PDF Solutions, Inc.*
3.4	Amended and Restated Bylaws of PDF Solutions, Inc. (proposed).*
4.1	Specimen Stock Certificate.
4.2	Second Amended and Restated Rights Agreement dated July 6, 2001.
5.1	Opinion of Orrick, Herrington & Sutcliffe LLP regarding the legality of the common stock being registered.
10.1	[Intentionally Deleted]
10.2	[Intentionally Deleted]
10.3	[Intentionally Deleted]
10.4	[Intentionally Deleted]
10.5	[Intentionally Deleted]

10.6	Technology Cooperation Agreement between PDF Solutions, Inc. and Toshiba Corporation.+
10.7	Form of Indemnification Agreement between PDF Solutions, Inc. and each of its Officers and Directors.*
10.8	1996 Stock Option Plan and related agreements.*
10.9	1997 Stock Plan and related agreements.*
10.10	2001 Stock Plan and related agreements.
10.11	2001 Employee Stock Purchase Plan.
10.12	Lease Agreement between PDF Solutions, Inc. and Metropolitan Life Insurance Company dated April 1, 1996.*
10.13	Credit Agreements between PDF Solutions, Inc. and Imperial Bank dated July 6, 1999 and August 12, 1999.*
10.14	Offer letter to P. Steven Melman dated July 9, 1998.*
10.15	Integration Technology Agreement between PDF Solutions, Inc. and Matsushita Electronics Corporation.+
10.16	Software OEM License Agreement between PDF Solutions, Inc. and Cadence Design Systems, Inc.+
10.17	Yield Improvement Agreement between PDF Solutions, Inc. and Toshiba Corporation.+
10.18	Software Site License between PDF Solutions, Inc. and Toshiba Corporation.+
21.1	List of Subsidiaries.*
23.1	Consent of Deloitte & Touche LLP.
23.2	Consent of Deloitte & Touche GmbH.
23.3	Consent of Orrick, Herrington & Sutcliffe LLP (part of Exhibit 5.1).
24.1	Power of Attorney (see page II-3).*

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* Previously filed with Registrant's Registration Statement on Form S-1 (File No. 333-43192) on August 7, 2000.

** Previously filed with Amendment No. 2 to Registrant's Registration Statement on Form S-1 (File No. 333-43192) on September 30, 2000.

\+ Portions of this Exhibit have been omitted pursuant to a request for confidential treatment.

EXHIBIT 1.1

4,500,000 SHARES

PDF SOLUTIONS, INC.

COMMON STOCK PAR VALUE $0.00015 PER SHARE

UNDERWRITING AGREEMENT

July __, 2001

CREDIT SUISSE FIRST BOSTON CORPORATION,
ROBERTSON STEPHENS, INC.
DAIN RAUSCHER INCORPORATED
As Representatives of the Several Underwriters,
c/o Credit Suisse First Boston Corporation,
Eleven Madison Avenue,
New York, N.Y. 10010-3629

Dear Sirs:

1. Introductory. PDF Solutions, Inc., a Delaware corporation ("COMPANY"), proposes to issue and sell 4,500,000 shares ("FIRM SECURITIES") of its Common Stock, par value $0.00015 per share ("SECURITIES") and also proposes to issue and sell to the Underwriters, at the option of the Underwriters, an aggregate of not more than 675,000 additional shares ("OPTIONAL SECURITIES") of its Securities as set forth below. The Firm Securities and the Optional Securities are herein collectively called the "OFFERED SECURITIES." As part of the offering contemplated by this Agreement, _____ (the "DESIGNATED UNDERWRITER") has agreed to reserve out of the Firm Securities purchased by it under this Agreement, up to 225,000 shares, for sale to the Company's directors, officers, employees and other parties associated with the Company (collectively, "PARTICIPANTS"), as set forth in the Prospectus (as defined herein) under the heading "Underwriting" (the "DIRECTED SHARE PROGRAM"). The Firm Securities to be sold by the Designated Underwriter pursuant to the Directed Share Program (the "DIRECTED SHARES") will be sold by the Designated Underwriter pursuant to this Agreement at the public offering price. Any Directed Shares not subscribed for by the end of the business day on which this Agreement is executed will be offered to the public by the Underwriters as set forth in the Prospectus. The Company hereby agrees with the several Underwriters named in Schedule A hereto ("UNDERWRITERS") as follows:

2. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, the several Underwriters that:

(a) A registration statement (No. 333-43192) relating to the Offered Securities ("UNDERLYING SHARES"), including a form of prospectus, has been filed with the Securities and Exchange Commission ("COMMISSION") and either (i) has been declared effective under the Securities Act of 1933 ("ACT") and is not proposed to be amended or (ii) is proposed to be amended by amendment or post-effective amendment. If such registration statement ("INITIAL REGISTRATION STATEMENT") has been declared effective, either (i) an additional registration statement ("ADDITIONAL REGISTRATION STATEMENT") relating to the Offered Securities may have been filed with the Commission pursuant to Rule 462(b) ("RULE 462(b)") under the Act and, if so filed, has become effective upon filing pursuant to such Rule and the Offered Securities all have been duly registered under the Act pursuant to the initial registration statement and, if applicable, the additional

registration statement or (ii) such an additional registration statement is proposed to be filed with the Commission pursuant to Rule 462(b) and will become effective upon filing pursuant to such Rule and upon such filing the Offered

Securities will all have been duly registered under the Act pursuant to the initial registration statement and such additional registration statement. If the Company does not propose to amend the initial registration statement or if an additional registration statement has been filed and the Company does not propose to amend it, and if any post-effective amendment to either such registration statement has been filed with the Commission prior to the execution and delivery of this Agreement, the most recent amendment (if any) to each such registration statement has been declared effective by the Commission or has become effective upon filing pursuant to Rule 462(c) ("RULE 462(c)") under the Act or, in the case of the additional registration statement, Rule 462(b). For purposes of this Agreement, "EFFECTIVE TIME" with respect to the initial registration statement or, if filed prior to the execution and delivery of this Agreement, the additional registration statement means (i) if the Company has advised the Representatives that it does not propose to amend such registration statement, the date and time as of which such registration statement, or the most recent post-effective amendment thereto (if any) filed prior to the execution and delivery of this Agreement, was declared effective by the Commission or has become effective upon filing pursuant to Rule 462(c), or (ii) if the Company has advised the Representatives that it proposes to file an amendment or post-effective amendment to such registration statement, the date and time as of which such registration statement, as amended by such amendment or post-effective amendment, as the case may be, is declared effective by the Commission. If an additional registration statement has not been filed prior to the execution and delivery of this Agreement but the Company has advised the Representatives that it proposes to file one, "EFFECTIVE TIME" with respect to such additional registration statement means the date and time as of which such registration statement is filed and becomes effective pursuant to Rule 462(b). "EFFECTIVE DATE" with respect to the initial registration statement or the additional registration statement (if any) means the date of the Effective Time thereof. The initial registration statement, as amended at its Effective Time, including all information contained in the additional registration statement (if any) and deemed to be a part of the initial registration statement as of the Effective Time of the additional registration statement pursuant to the General Instructions of the Form on which it is filed and including all information (if any) deemed to be a part of the initial registration statement as of its Effective Time pursuant to Rule 430A(b) ("RULE 430A(b)") under the Act, is hereinafter referred to as the "INITIAL REGISTRATION STATEMENT". The additional registration statement, as amended at its Effective Time, including the contents of the initial registration statement incorporated by reference therein and including all information (if any) deemed to be a part of the additional registration statement as of its Effective Time pursuant to Rule 430A(b), is hereinafter referred to as the "ADDITIONAL REGISTRATION STATEMENT". The Initial Registration Statement and the Additional Registration Statement are herein referred to collectively as the "REGISTRATION STATEMENTS" and individually as a "REGISTRATION STATEMENT". The form of prospectus relating to the Offered Securities, as first filed with the Commission pursuant to and in accordance with Rule 424(b) ("RULE 424(b)") under the Act or (if no such filing is required) as included in a Registration Statement, is hereinafter referred to as the "PROSPECTUS". No document has been or will be prepared or distributed in reliance on Rule 434 under the Act.

(b) If the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this Agreement: (i) on the Effective Date of the Initial Registration Statement, the Initial Registration Statement conformed in all respects to the requirements of the Act and the rules and regulations of the Commission ("RULES AND REGULATIONS") and did not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) on the Effective Date of the Additional Registration Statement (if any), each Registration Statement conformed, or will conform, in all respects to the requirements of the Act and the Rules and Regulations and did not include, or will not include, any untrue statement of a material fact and did not omit, or will not omit, to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (iii) on the date of this Agreement, the Initial Registration Statement and, if the Effective Time of the Additional Registration Statement is prior to the execution and delivery of this Agreement, the Additional Registration Statement each conforms, and at the time of filing of the Prospectus pursuant to Rule 424(b) or (if no such filing is required) at the Effective Date of the Additional Registration Statement in which the Prospectus is included, each Registration Statement and the

Prospectus will conform, in all respects to the requirements of the Act and the Rules and Regulations, and neither of such documents includes, or will include, any untrue statement of a material fact or omits, or will omit, to state any material fact required to be stated therein or necessary to make the statements therein not misleading. If the Effective Time of the Initial Registration Statement is subsequent to the execution and delivery of this Agreement: on the Effective Date of the Initial Registration Statement, the Initial Registration Statement and the Prospectus will conform in all respects to the requirements of the Act and the Rules and Regulations, neither of such documents will include any untrue statement of a material fact or will omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and no Additional Registration Statement has been or will be filed. The two preceding sentences do not apply to statements in or omissions from a Registration Statement or the Prospectus based upon written information furnished to the Company by any Underwriter through the Representatives specifically for use therein, it being understood and agreed that the only such information is that described as such in Section 7(b) hereof.

(c) The Company has been duly incorporated and is an existing corporation in good standing under the laws of the State of Delaware, with power and authority (corporate and other) to own its properties and conduct its business as described in the Prospectus; and the Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification.

(d) Each subsidiary of the Company has been duly incorporated and is an existing corporation in good standing under the laws of the jurisdiction of its incorporation, with power and authority (corporate and other) to own its properties and conduct its business as described in the Prospectus; and each subsidiary of the Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification; all of the issued and outstanding capital stock of each subsidiary of the Company has been duly authorized and validly issued and is fully paid and nonassessable; and the capital stock of each subsidiary owned by the Company, directly or through subsidiaries, is owned free from liens, encumbrances and defects.

(e) The Offered Securities and all other outstanding shares of capital stock of the Company have been duly authorized; all outstanding shares of capital stock of the Company are, and, when the Offered Securities have been delivered and paid for in accordance with this Agreement on each Closing Date (as defined below), such Offered Securities will have been, validly issued, fully paid and nonassessable and will conform to the description thereof contained in the Prospectus; and the stockholders of the Company have no preemptive rights with respect to the Securities.

(f) Except as disclosed in the Prospectus, there are no contracts, agreements or understandings between the Company and any person that would give rise to a valid claim against the Company or any Underwriter for a brokerage commission, finder's fee or other like payment in connection with this offering.

(g) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to a Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Act.

(h) The Offered Securities have been approved for listing on The Nasdaq Stock Market's National Market, subject to notice of issuance.

(i) No consent, approval, authorization, or order of, or filing with, any governmental agency or body or any court is required for the consummation of the transactions contemplated by this Agreement

in connection with the issuance and sale of the Offered Securities by the

Company, except such as have been obtained and made under the Act and such as may be required under state securities laws.

(j) The execution, delivery and performance of this Agreement, and the issuance and sale of the Offered Securities will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, any statute, any rule, regulation or order of any governmental agency or body or any court, domestic or foreign, having jurisdiction over the Company or any subsidiary of the Company or any of their properties, or any agreement or instrument to which the Company or any such subsidiary is a party or by which the Company or any such subsidiary is bound or to which any of the properties of the Company or any such subsidiary is subject, or the charter or by-laws of the Company or any such subsidiary, and the Company has full power and authority to authorize, issue and sell the Offered Securities as contemplated by this Agreement.

(k) This Agreement has been duly authorized, executed and delivered by the Company.

(l) Except as disclosed in the Prospectus, the Company and its subsidiaries have good and marketable title to all real properties and all other properties and assets owned by them, in each case free from liens, encumbrances and defects that would materially affect the value thereof or materially interfere with the use made or to be made thereof by them; and except as disclosed in the Prospectus, the Company and its subsidiaries hold any leased real or personal property under valid and enforceable leases with no exceptions that would materially interfere with the use made or to be made thereof by them.

(m) The Company and its subsidiaries possess adequate certificates, authorities or permits issued by appropriate governmental agencies or bodies necessary to conduct the business now operated by them and have not received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit that, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a material adverse effect on the condition (financial or other), business, properties or results of operations of the Company and its subsidiaries taken as a whole ("MATERIAL ADVERSE EFFECT").

(n) No labor dispute with the employees of the Company or any subsidiary exists or, to the knowledge of the Company, is imminent that might have a Material Adverse Effect.

(o) The Company and its subsidiaries own, possess or can acquire on reasonable terms, adequate trademarks, trade names and other rights to inventions, know-how, patents, copyrights, confidential information and other intellectual property (collectively, "INTELLECTUAL PROPERTY RIGHTS") necessary to conduct the business now operated by them, or presently employed by them, and have not received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect. The intellectual property rights of the Company referred to in the prospectus do not, to the Company's knowledge, infringe or conflict with any intellectual property right of any third party.

(p) Except as disclosed in the Prospectus, neither the Company nor any of its subsidiaries is in violation of any statute, any rule, regulation, decision or order of any governmental agency or body or any court, domestic or foreign, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, "ENVIRONMENTAL LAWS"), owns or operates any real property contaminated with any substance that is subject to any environmental laws, is liable for any off-site disposal or contamination pursuant to any environmental laws, or is subject to any claim relating to any environmental laws, which violation, contamination, liability or claim would individually or in the aggregate have a Material Adverse Effect; and the Company is not aware of any pending investigation which might lead to such a claim.

(q) Except as disclosed in the Prospectus, there are no pending actions, suits or proceedings against or affecting the Company, any of its

subsidiaries or any of their respective properties that, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect, or would materially and adversely affect the ability of the Company to perform its obligations under this Agreement, or which are otherwise material in the context of the sale of the Offered Securities; and no such actions, suits or proceedings are threatened or, to the Company's knowledge, contemplated.

(r) The financial statements included in each Registration Statement and the Prospectus present fairly the financial position of the Company and its consolidated subsidiaries as of the dates shown and their results of operations and cash flows for the periods shown, and such financial statements have been prepared in conformity with the generally accepted accounting principles in the United States applied on a consistent basis and the schedules included in each Registration Statement present fairly the information required to be stated therein; and the assumptions used in preparing the pro forma financial statements included in each Registration Statement and the Prospectus provide a reasonable basis for presenting the significant effects directly attributable to the transactions or events described therein, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma columns therein reflect the proper application of those adjustments to the corresponding historical financial statement amounts.

(s) Except as disclosed in the Prospectus, since the date of the latest audited financial statements included in the Prospectus there has been no material adverse change, nor any development or event involving a prospective material adverse change, in the condition (financial or other), business, properties or results of operations of the Company and its subsidiaries taken as a whole, and, except as disclosed in or contemplated by the Prospectus, there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(t) The execution and delivery of the Agreement and Plan of Merger dated as of _____ ___, 2001 (the "Merger Agreement") between PDF Solutions, Inc., a California corporation (the "California Corporation"), and the Company, effecting the reincorporation of the California Corporation under the laws of the State of Delaware, was duly authorized by all necessary corporate action on the part of each of the California Corporation and the Company. Each of the California Corporation and the Company had all corporate power and authority to execute and deliver the Merger Agreement, to file the Merger Agreement with the Secretary of State of California and the Secretary of State of Delaware and to consummate the reincorporation contemplated by the Merger Agreement, and the Merger Agreement at the time of execution and filing constituted a valid and binding obligation of each of the California Corporation and the Company.

(u) The Company is not and, after giving effect to the offering and sale of the Offered Securities and the application of the proceeds thereof as described in the Prospectus, will not be an "investment company" as defined in the Investment Company Act of 1940.

(v) The Company (i) has notified each holder of a currently outstanding option issued under the Company's 1996 Stock Option Plan and 1997 Stock Plan (the "Plans"), and each person who has acquired Securities pursuant to the exercise of any option granted under the Plans that pursuant to the terms of the Plans, none of such options or shares may be sold or otherwise transferred or disposed of for a period of 180 days after the date of the initial public offering of the Offered Securities and (ii) has imposed a stop-transfer instruction with the Company's transfer agent in order to enforce the foregoing lock-up provision imposed pursuant to the Plans.

(w) Except as disclosed in the Prospectus, all outstanding Securities, and all securities convertible into or exercisable or exchangeable for Securities, are subject to valid and binding agreements (collectively, "LOCK-UP AGREEMENTS") that restrict the holders thereof from selling, making any short sale of, granting any option for the purchase of, or otherwise transferring or disposing of, any of such Securities,

or any such securities convertible into or exercisable or exchangeable for Securities, for a period of 180 days after the date of the initial public offering of the Offered Securities without the prior written consent of Credit

Suisse First Boston Corporation.

(x) The Company (i) has notified each stockholder who is party to the First Amended and Restated Rights Agreement dated August 4, 2000 (the "RIGHTS AGREEMENT"), that pursuant to the terms of the Rights Agreement, none of the shares of the Company's capital stock held by such stockholder may be sold or otherwise transferred or disposed of for a period of 180 days after the date of the initial public offering of the Offered Securities and (ii) has imposed a stop-transfer instruction with the Company's transfer agent in order to enforce the foregoing lock-up provision imposed pursuant to the Rights Agreement.

(y) Furthermore, the Company represents and warrants to the Underwriters that (i) the Registration Statement, the Prospectus and any preliminary prospectus comply, and any further amendments or supplements thereto will comply, with any applicable laws or regulations of foreign jurisdictions in which the Prospectus or any preliminary prospectus, as amended or supplemented, if applicable, are distributed in connection with the Directed Share Program, and that (ii) no authorization, approval, consent, license, order, registration or qualification of or with any government, governmental instrumentality or court, other than such as have been obtained, is necessary under the securities law and regulations of foreign jurisdictions in which the Directed Shares are offered outside the United States.

(z) The Company has not offered, or caused the Underwriters to offer, any offered Securities to any person pursuant to the Directed Share Program with the specific intent to unlawfully influence (i) a customer or supplier of the Company to alter the customer's or supplier's level or type of business with the Company or (ii) a trade journalist or publication to write or publish favorable information about the Company or its products.

3. Purchase, Sale and Delivery of Offered Securities. On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company agrees to sell to the Underwriters, and the Underwriters agree, severally and not jointly, to purchase from the Company, at a purchase price of $ per share, the respective numbers of shares of Firm Securities set forth opposite the names of the Underwriters in Schedule A hereto.

The Company will deliver the Firm Securities to the Representatives for the accounts of the Underwriters, against payment of the purchase price in Federal (same day) funds by official bank check or checks or wire transfer to an account at a bank acceptable to Credit Suisse First Boston Corporation ("CSFBC") drawn to the order of the Company at the office of Orrick, Herrington & Sutcliffe LLP ("ORRICK HERRINGTON & SUTCLIFFE"), 1020 Marsh Road, Menlo Park, California 94025, at 10:00 A.M., New York time, on , 2001, or at such other time not later than seven full business days thereafter as CSFBC and the Company determine, such time being herein referred to as the "FIRST CLOSING DATE". For purposes of Rule 15c6-1 under the Securities Exchange Act of 1934, the First Closing Date (if later than the otherwise applicable settlement date) shall be the settlement date for payment of funds and delivery of securities for all the Offered Securities sold pursuant to the offering. The certificates for the Firm Securities so to be delivered will be in definitive form, in such denominations and registered in such names as CSFBC requests and will be made available for checking and packaging at the above office of CSFBC at least 24 hours prior to the First Closing Date.

In addition, upon written notice from CSFBC given to the Company from time to time not more than 30 days subsequent to the date of the Prospectus, the Underwriters may purchase all or less than all of the Optional Securities at the purchase price per Security to be paid for the Firm Securities. The Company agrees to sell to the Underwriters the number of shares of Optional Securities specified in such notice and the Underwriters agree, severally and not jointly, to purchase such Optional Securities. Such Optional Securities shall be purchased for the account of each Underwriter in the same proportion as the number of shares of Firm Securities set forth opposite such Underwriter's name bears to the total number of shares of

Firm Securities (subject to adjustment by CSFBC to eliminate fractions) and may be purchased by the Underwriters only for the purpose of covering over-allotments made in connection with the sale of the Firm Securities. No

Optional Securities shall be sold or delivered unless the Firm Securities previously have been, or simultaneously are, sold and delivered. The right to purchase the Optional Securities or any portion thereof may be exercised from time to time and to the extent not previously exercised may be surrendered and terminated at any time upon notice by CSFBC to the Company.

Each time for the delivery of and payment for the Optional Securities, being herein referred to as an "OPTIONAL CLOSING DATE", which may be the First Closing Date (the First Closing Date and each Optional Closing Date, if any, being sometimes referred to as a "CLOSING DATE"), shall be determined by CSFBC but shall be not later than five full business days after written notice of election to purchase Optional Securities is given. The Company will deliver the Optional Securities being purchased on each Optional Closing Date to the Representatives for the accounts of the several Underwriters against payment of the purchase price therefor in Federal (same day) funds by official bank check or checks or wire transfer to an account at a bank acceptable to CSFBC drawn to the order of the Company, at the above office of Orrick, Herrington & Sutcliffe. The certificates for the Optional Securities being purchased on each Optional Closing Date will be in definitive form, in such denominations and registered in such names as CSFBC requests upon reasonable notice prior to such Optional Closing Date and will be made available for checking and packaging at the above office of CSFBC at a reasonable time in advance of such Optional Closing Date.

4. Offering by Underwriters. It is understood that the several Underwriters propose to offer the Offered Securities for sale to the public as set forth in the Prospectus.

5. Certain Agreements of the Company. The Company agrees with the several Underwriters that:

(a) If the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this Agreement, the Company will file the Prospectus with the Commission pursuant to and in accordance with subparagraph (1) (or, if applicable and if consented to by CSFBC, subparagraph (4)) of Rule 424(b) not later than the earlier of (A) the second business day following the execution and delivery of this Agreement or (B) the fifteenth business day after the Effective Date of the Initial Registration Statement.

The Company will advise CSFBC promptly of any such filing pursuant to Rule 424(b). If the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this Agreement and an additional registration statement is necessary to register a portion of the Offered Securities under the Act but the Effective Time thereof has not occurred as of such execution and delivery, the Company will file the additional registration statement or, if filed, will file a post-effective amendment thereto with the Commission pursuant to and in accordance with Rule 462(b) on or prior to 10:00 P.M., New York time, on the date of this Agreement or, if earlier, on or prior to the time the Prospectus is printed and distributed to any Underwriter, or will make such filing at such later date as shall have been consented to by CSFBC.

(b) The Company will advise CSFBC promptly of any proposal to amend or supplement the initial or any additional registration statement as filed or the related prospectus or the Initial Registration Statement, the Additional Registration Statement (if any) or the Prospectus and will not effect such amendment or supplementation without CSFBC's consent; and the Company will also advise CSFBC promptly of the effectiveness of each Registration Statement (if its Effective Time is subsequent to the execution and delivery of this Agreement) and of any amendment or supplementation of a Registration Statement or the Prospectus and of the institution by the Commission of any stop order proceedings in respect of a Registration Statement and will use its best efforts to prevent the issuance of any such stop order and to obtain as soon as possible its lifting, if issued.

(c) If, at any time when a prospectus relating to the Offered Securities is required to be delivered under the Act in connection with sales by any Underwriter or dealer, any event occurs as a result

of which the Prospectus as then amended or supplemented would include an untrue

statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend the Prospectus to comply with the Act, the Company will promptly notify CSFBC of such event and will promptly prepare and file with the Commission, at its own expense, an amendment or supplement which will correct such statement or omission or an amendment which will effect such compliance. Neither CSFBC's consent to, nor the Underwriters' delivery of, any such amendment or supplement shall constitute a waiver of any of the conditions set forth in Section 6.

(d) As soon as practicable, but not later than the Availability Date (as defined below), the Company will make generally available to its securityholders an earnings statement covering a period of at least 12 months beginning after the Effective Date of the Initial Registration Statement (or, if later, the Effective Date of the Additional Registration Statement) which will satisfy the provisions of Section 11(a) of the Act. For the purpose of the preceding sentence, "AVAILABILITY DATE" means the 45th day after the end of the fourth fiscal quarter following the fiscal quarter that includes such Effective Date, except that, if such fourth fiscal quarter is the last quarter of the Company's fiscal year, "AVAILABILITY DATE" means the 90th day after the end of such fourth fiscal quarter.

(e) The Company will furnish to the Representatives copies of each Registration Statement (four of which will be signed and will include all exhibits), each related preliminary prospectus, and, so long as a prospectus relating to the Offered Securities is required to be delivered under the Act in connection with sales by any Underwriter or dealer, the Prospectus and all amendments and supplements to such documents, in each case in such quantities as CSFBC requests. The Prospectus shall be so furnished on or prior to 3:00 P.M., New York time, on the business day following the later of the execution and delivery of this Agreement or the Effective Time of the Initial Registration Statement. All other documents shall be so furnished as soon as available. The Company will pay the expenses of printing and distributing to the Underwriters all such documents.

(f) The Company will arrange for the qualification of the Offered Securities for sale under the laws of such jurisdictions as CSFBC designates and will continue such qualifications in effect so long as required for the distribution.

(g) During the period of five years hereafter, the Company will furnish to the Representatives and, upon request, to each of the other Underwriters, as soon as practicable after the end of each fiscal year, a copy of its annual report to stockholders for such year; and the Company will furnish to the Representatives (i) as soon as available, a copy of each report and any definitive proxy statement of the Company filed with the Commission under the Securities Exchange Act of 1934 or mailed to stockholders, and (ii) from time to time, such other information concerning the Company as CSFBC may reasonably request.

(h) The Company will pay all expenses incident to the performance of its obligations under this Agreement, for any filing fees and other expenses (including fees and disbursements of counsel) incurred in connection with qualification of the Offered Securities for sale under the laws of such jurisdictions as CSFBC designates and the printing of memoranda relating thereto, for the filing fee incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by the National Association of Securities Dealers, Inc. (the "NASD") of the Offered Securities, for any travel expenses of the Company's officers and employees and any other expenses of the Company in connection with attending or hosting meetings with prospective purchasers of the Offered Securities and for expenses incurred in distributing preliminary prospectuses and the Prospectus (including any amendments and supplements thereto) to the Underwriters.

(i) For a period of 180 days after the date of the initial public offering of the Offered Securities, the Company will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Commission a registration statement under the Act relating to, any additional

shares of its Securities or securities convertible into or exchangeable or exercisable for any shares of its Securities, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing, without the prior written consent of CSFBC, except issuances of Securities pursuant to the conversion or exchange of convertible or exchangeable securities or the exercise of warrants or options, in each case outstanding on the date hereof, grants of employee stock options pursuant to the terms of a plan in effect on the date hereof or issuances of Securities pursuant to the exercise of such options.

(j) The Company agrees to use its best efforts to cause (i) each of its directors, officers and stockholders and (ii) each person who acquires Securities of the Company pursuant to the exercise of any option or right granted under the Option Plan to sign an agreement that restricts such person from selling, making any short sale of, granting any option for the purchase of, or otherwise transferring or disposing of, any of such Securities, or any such securities convertible into or exercisable or exchangeable for Securities, for a period of 180 days after the date of the initial public offering of the Offered Securities without the prior written consent of CSFBC; and the Company will (i) enforce the terms of each such agreement and (ii) issue and impose a stop-transfer instruction with the Company's transfer agent in order to enforce the foregoing lock-up agreements.

(k) The Company will (i) enforce the terms of each Lock-up Agreement, and (ii) issue stop-transfer instructions to the transfer agent for the Securities with respect to any transaction or contemplated transaction that would constitute a breach of or default under the applicable Lock-up Agreement. In addition, except with the prior written consent of CSFBC, the Company agrees (i) not to amend or terminate, or waive any right under, any Lock-up Agreement, or take any other action that would directly or indirectly have the same effect as an amendment or termination, or waiver of any right under any Lock-up Agreement, that would permit any holder of Securities, or any securities convertible into, or exercisable or exchangeable for, Securities, to make any short sale of, grant any option for the purchase of, or otherwise transfer or dispose of, any such Securities or other securities, prior to the expiration of the 180 days after the date of the initial public offering of the Offered Securities and (ii) not to consent to any sale, short sale, grant of an option for the purchase of, or other disposition or transfer of shares of Securities, or securities convertible into or exercisable or exchangeable for Securities, subject to a Lock-up Agreement

(l) In connection with the Directed Share Program, the Company will ensure that the Directed Shares will be restricted to the extent required by the NASD or the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of the effectiveness of the Registration Statement. The Designated Underwriter will notify the Company as to which Participants will need to be so restricted. The Company will direct the transfer agent to place stop transfer restrictions upon such securities for such period of time.

(m) The Company will pay all fees and disbursements of counsel incurred by the Underwriters in connection with the Directed Shares Program and stamp duties, similar taxes or duties or other taxes, if any, incurred by the underwriters in connection with the Directed Share Program.

Furthermore, the Company covenants with the Underwriters that the company will comply with all applicable securities and other applicable laws, rules and regulations in each foreign jurisdiction in which the Directed Shares are offered in connection with the Directed Share Program.

6. Conditions of the Obligations of the Underwriters. The obligations of the several Underwriters to purchase and pay for the Firm Securities on the First Closing Date and the Optional Securities to be purchased on each Optional Closing Date will be subject to the accuracy of the representations and warranties on the part of the Company herein, to the accuracy of the statements of Company officers made pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions precedent:

(a) The Representatives shall have received a letter, dated the date of delivery thereof (which, if the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this

Agreement, shall be on or prior to the date of this Agreement or, if the Effective Time of the Initial Registration Statement is subsequent to the execution and delivery of this Agreement, shall be prior to the filing of the amendment or post-effective amendment to the registration statement to be filed shortly prior to such Effective Time), of Deloitte & Touche LLP confirming that they are independent public accountants within the meaning of the Act and the applicable published Rules and Regulations thereunder and stating to the effect that:

(i) in their opinion the financial statements and schedules examined by them and included in the Registration Statements comply as to form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations;

(ii) they have performed the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in Statement of Auditing Standards No. 71, Interim Financial Information, on the unaudited financial statements included in the Registration Statement;

(iii) on the basis of the review referred to in clause (ii) above, a reading of the latest available interim financial statements of the Company, inquiries of officials of the Company who have responsibility for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that:

(A) the unaudited financial statements included in the Registration Statements do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations or any material modifications should be made to such unaudited financial statements for them to be in conformity with generally accepted accounting principles;

(B) the unaudited consolidated net sales, net operating income, net income and net income per share amounts for the three-month period ended June 30, 2001 included in the Prospectus do not agree with the amounts set forth in the unaudited consolidated financial statements for those same periods or were not determined on a basis substantially consistent with that of the corresponding amounts in the audited statements of income;

(C) at the date of the latest available balance sheet read by such accountants, or at a subsequent specified date not more than three business days prior to the date of this Agreement, there was any change in the capital stock or any increase in short-term indebtedness or long-term debt of the Company and its consolidated subsidiaries or, at the date of the latest available balance sheet read by such accountants, there was any decrease in consolidated net current assets or net assets, as compared with amounts shown on the latest balance sheet included in the Prospectus; or

(D) for the period from the closing date of the latest income statement included in the Prospectus to the closing date of the latest available income statement read by such accountants there were any decreases, as compared with the corresponding period of the previous year and with the period of corresponding length ended the date of the latest income statement included in the Prospectus, in consolidated net revenues, net operating income or in the total or per share amounts of consolidated net income;

except in all cases set forth in clauses (C) and (D) above for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(iv) they have compared specified dollar amounts (or percentages derived from such dollar amounts) and other financial information contained in the Registration Statements (in each case to the extent that such dollar amounts, percentages and other financial information are derived from the general accounting records of the Company and its subsidiaries subject to the internal controls of the Company's accounting system or are derived directly from such records by analysis or computation) with the results obtained from inquiries, a reading of such general accounting records and other procedures specified in

such letter and have found such dollar amounts, percentages and other financial information to be in agreement with such results, except as otherwise specified in such letter.

For purposes of this subsection, (i) if the Effective Time of the Initial Registration Statement is subsequent to the execution and delivery of this Agreement, "REGISTRATION STATEMENTS" shall mean the initial registration statement as proposed to be amended by the amendment or post-effective amendment to be filed shortly prior to its Effective Time, (ii) if the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this Agreement but the Effective Time of the Additional Registration is subsequent to such execution and delivery, "REGISTRATION STATEMENTS" shall mean the Initial Registration Statement and the additional registration statement as proposed to be filed or as proposed to be amended by the post-effective amendment to be filed shortly prior to its Effective Time, and (iii) "PROSPECTUS" shall mean the prospectus included in the Registration Statements.

(b) If the Effective Time of the Initial Registration Statement is not prior to the execution and delivery of this Agreement, such Effective Time shall have occurred not later than 10:00 P.M., New York time, on the date of this Agreement or such later date as shall have been consented to by CSFBC. If the Effective Time of the Additional Registration Statement (if any) is not prior to the execution and delivery of this Agreement, such Effective Time shall have occurred not later than 10:00 P.M., New York time, on the date of this Agreement or, if earlier, the time the Prospectus is printed and distributed to any Underwriter, or shall have occurred at such later date as shall have been consented to by CSFBC. If the Effective Time of the Initial Registration Statement is prior to the execution and delivery of this Agreement, the Prospectus shall have been filed with the Commission in accordance with the Rules and Regulations and Section 5(a) of this Agreement. Prior to such Closing Date, no stop order suspending the effectiveness of a Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or, to the knowledge of the Company or the Representatives, shall be contemplated by the Commission.

(c) Subsequent to the execution and delivery of this Agreement, there shall not have occurred (i) any change, or any development or event involving a prospective change, in the condition (financial or other), business, properties or results of operations of the Company and its subsidiaries taken as one enterprise which, in the judgment of a majority in interest of the Underwriters including the Representatives, is material and adverse and makes it impractical or inadvisable to proceed with completion of the public offering or the sale of and payment for the Offered Securities; (ii) any downgrading in the rating of any debt securities or preferred stock of the Company by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g) under the Act), or any public announcement that any such organization has under surveillance or review its rating of any debt securities or preferred stock of the Company (other than an announcement with positive implications of a possible upgrading, and no implication of a possible downgrading, of such rating); (iii) any material suspension or material limitation of trading in securities generally on the New York Stock Exchange, or any setting of minimum prices for trading on such exchange, or any suspension of trading of any securities of the Company on any exchange or in the over-the-counter market; (iv) any banking moratorium declared by U.S. Federal or New York authorities; or (v) any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by Congress or any other substantial national or international calamity or emergency if, in the judgment of a majority in interest of the Underwriters including the Representatives, the effect of any such outbreak, escalation, declaration, calamity or emergency makes it impractical or inadvisable to proceed with completion of the public offering or the sale of and payment for the Offered Securities.

(d) The Representatives shall have received an opinion, dated such Closing Date, of Orrick, Herrington & Sutcliffe, counsel for the Company, to the effect that:

(i) The Company has been duly incorporated and is an existing corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own its properties and conduct its business as described in the Prospectus; and the Company is duly qualified to do business as

a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification;

(ii) The Offered Securities delivered on such Closing Date and all other outstanding shares of the Common Stock of the Company have been duly authorized and validly issued, are fully paid and nonassessable and conform to the description thereof contained in the Prospectus; and the stockholders of the Company have no preemptive rights with respect to the Securities;

(iii) There are no contracts, agreements or understandings known to such counsel between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Act;

(iv) The Company is not and, after giving effect to the offering and sale of the Offered Securities and the application of the proceeds thereof as described in the Prospectus, will not be an "investment company" as defined in the Investment Company Act of 1940.

(v) No consent, approval, authorization or order of, or filing with, any governmental agency or body or any court is required for the consummation of the transactions contemplated by this Agreement in connection with the issuance or sale of the Offered Securities by the Company, except such as have been obtained and made under the Act and such as may be required under state securities laws;

(vi) The execution, delivery and performance of this Agreement and the issuance and sale of the Offered Securities will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, any statute, any rule, regulation or order of any governmental agency or body or any court having jurisdiction over the Company or any subsidiary of the Company or any of their properties, or any agreement or instrument to which the Company or any such subsidiary is a party or by which the Company or any such subsidiary is bound or to which any of the properties of the Company or any such subsidiary is subject, or the charter or by-laws of the Company or any such subsidiary, and the Company has full power and authority to authorize, issue and sell the Offered Securities as contemplated by this Agreement;

(vii) The Initial Registration Statement was declared effective under the Act as of the date and time specified in such opinion, the Additional Registration Statement (if any) was filed and became effective under the Act as of the date and time (if determinable) specified in such opinion, the Prospectus either was filed with the Commission pursuant to the subparagraph of Rule 424(b) specified in such opinion on the date specified therein or was included in the Initial Registration Statement or the Additional Registration Statement (as the case may be), and, to the best of the knowledge of such counsel, no stop order suspending the effectiveness of a Registration Statement or any part thereof has been issued and no proceedings for that purpose have been instituted or are pending or contemplated under the Act, and each Registration Statement and the Prospectus, and each amendment or supplement thereto, as of their respective effective or issue dates, complied as to form in all material respects with the requirements of the Act and the Rules and Regulations; such counsel have no reason to believe that any part of a Registration Statement or any amendment thereto, as of its effective date or as of such Closing Date, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus or any amendment or supplement thereto, as of its issue date or as of such Closing Date, contained any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; the descriptions in the Registration Statements and Prospectus of statutes, legal and governmental proceedings and contracts and other documents are accurate and fairly present the information required to be shown; and such counsel do not know of any legal or governmental proceedings required to be described in a Registration Statement or the

Prospectus which are not described as required or of any contracts or documents of a character required to be described in a Registration Statement or the Prospectus or to be filed as exhibits to a Registration Statement which are not described and filed as required; it being understood that such counsel need express no opinion as to the financial statements or other financial data contained in the Registration Statements or the Prospectus; and

(viii) This Agreement has been duly authorized, executed and delivered by the Company.

(ix) The execution and delivery of the Merger Agreement, effecting the reincorporation of the California Corporation under the laws of the State of Delaware, was duly authorized by all necessary corporate action on the part of each of the California Corporation and the Company.

(e) The Representatives shall have received from Wilson Sonsini Goodrich & Rosati, counsel for the Underwriters, such opinion or opinions, dated such Closing Date, with respect to the incorporation of the Company, the validity of the Offered Securities delivered on such Closing Date, the Registration Statements, the Prospectus and other related matters as the Representatives may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(f) The Representatives shall have received a certificate, dated such Closing Date, of the President or any Vice President and a principal financial or accounting officer of the Company in which such officers, to the best of their knowledge after reasonable investigation, shall state that: the representations and warranties of the Company in this Agreement are true and correct; the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to such Closing Date; no stop order suspending the effectiveness of any Registration Statement has been issued and no proceedings for that purpose have been instituted or are contemplated by the Commission; the Additional Registration Statement (if any) satisfying the requirements of subparagraphs (1) and (3) of Rule 462(b) was filed pursuant to Rule 462(b), including payment of the applicable filing fee in accordance with Rule 111(a) or (b) under the Act, prior to the time the Prospectus was printed and distributed to any Underwriter; and, subsequent to the date of the most recent financial statements in the Prospectus, there has been no material adverse change, nor any development or event involving a prospective material adverse change, in the condition (financial or other), business, properties or results of operations of the Company and its subsidiaries taken as a whole except as set forth in or contemplated by the Prospectus or as described in such certificate.

(g) The Representatives shall have received a letter, dated such Closing Date, of Deloitte & Touche LLP which meets the requirements of subsection (a) of this Section, except that the specified date referred to in such subsection will be a date not more than three days prior to such Closing Date for the purposes of this subsection.

(h) On or prior to the date of this Agreement, the Representatives shall have received lockup letters from each of the executive officers, directors and holders of capital stock and securities exercisable for or convertible into capital stock of the Company.

The Company will furnish the Representatives with such conformed copies of such opinions, certificates, letters and documents as the Representatives reasonably request. CSFBC may in its sole discretion waive on behalf of the Underwriters compliance with any conditions to the obligations of the Underwriters hereunder, whether in respect of an Optional Closing Date or otherwise.

7. Indemnification and Contribution. (a) The Company will indemnify and hold harmless each Underwriter, its partners, directors and officers and each person, if any, who controls such Underwriter within the meaning of Section 15 of the Act, against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue

statement or alleged untrue statement of any material fact contained in any Registration Statement, the Prospectus, or any amendment or supplement thereto, or any related preliminary prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement in or omission or alleged omission from any of such documents in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives specifically for use therein, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in subsection (b) below.

The Company agrees to indemnify and hold harmless the Designated Underwriter and each person, if any, who controls the Designated Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act (the "DESIGNATED ENTITIES"), from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) (i) caused by any untrue statement or alleged untrue statement of a material fact contained in any material prepared by or with the consent of the Company for distribution to Participants in connection with the Directed Share Program or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; (ii) caused by the failure of any Participant to pay for and accept delivery of Directed Shares that the Participant agreed to purchase; or (iii) related to, arising out of, or in connection with the Directed Share Program, other than losses, claims, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted from the bad faith or gross negligence of the Designated Entities.

(b) Each Underwriter will severally and not jointly indemnify and hold harmless the Company, its directors and officers and each person, if any who controls the Company within the meaning of Section 15 of the Act, against any losses, claims, damages or liabilities to which the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement, the Prospectus, or any amendment or supplement thereto, or any related preliminary prospectus, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representatives specifically for use therein, and will reimburse any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred, it being understood and agreed that the only such information furnished by any Underwriter consists of the following information in the Prospectus furnished on behalf of each Underwriter: the concession and reallowance figures appearing in the fourth paragraph under the caption "Underwriting."

(c) Promptly after receipt by an indemnified party under this Section of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under subsection (a) or (b) above, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under subsection (a) or (b) above. In case any such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified

party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. Notwithstanding anything contained herein to the contrary, if indemnity may be sought pursuant to the last paragraph in Section 7(a) hereof in respect of such action or proceeding, then in addition to such separate firm for the indemnified parties, the indemnifying party shall be liable for the reasonable fees and expenses of not more than one separate firm (in addition to any local counsel) for the Designated Underwriter for the defense of any losses, claims, damages and liabilities arising out of the Directed Share Program, and all persons, if any, who control the Designated Underwriter within the meaning of either Section 15 of the Act or Section 20 of the Exchange Act. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement (i) includes an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action and (ii) does not include a statement as to, or an admission of, fault, culpability or a failure to act by or on behalf of an indemnified party.

(d) If the indemnification provided for in this Section is unavailable or insufficient to hold harmless an indemnified party under subsection (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in subsection (a) or (b) above (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) The obligations of the Company under this Section shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each director of the Company, to each officer of the Company

who has signed a Registration Statement and to each person, if any, who controls the Company within the meaning of the Act.

8. Default of Underwriters. If any Underwriter or Underwriters default in their obligations to purchase Offered Securities hereunder on either the First or any Optional Closing Date and the aggregate number of shares of Offered Securities that such defaulting Underwriter or Underwriters agreed but failed to purchase does not exceed 10% of the total number of shares of Offered Securities that the Underwriters are obligated to purchase on such Closing Date, CSFBC may make arrangements satisfactory to the Company for the purchase of such Offered Securities by other persons, including any of the Underwriters, but if no such arrangements are made by such Closing Date, the non-defaulting Underwriters shall be obligated severally, in proportion to their respective commitments hereunder, to purchase the Offered Securities that such defaulting Underwriters agreed but failed to purchase on such Closing Date. If any Underwriter or Underwriters so default and the aggregate number of shares of Offered Securities with respect to which such default or defaults occur exceeds 10% of the total number of shares of Offered Securities that the Underwriters are obligated to purchase on such Closing Date and arrangements satisfactory to CSFBC and the Company for the purchase of such Offered Securities by other persons are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Company, except as provided in Section 9 (provided that if such default occurs with respect to Optional Securities after the First Closing Date, this Agreement will not terminate as to the Firm Securities or any Optional Securities purchased prior to such termination). As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter under this Section. Nothing herein will relieve a defaulting Underwriter from liability for its default.

9. Survival of Certain Representations and Obligations. The respective indemnities, agreements, representations, warranties and other statements of the Company or its officers and of the several Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation, or statement as to the results thereof, made by or on behalf of any Underwriter, the Company or any of their respective representatives, officers or directors or any controlling person, and will survive delivery of and payment for the Offered Securities. If this Agreement is terminated pursuant to Section 8 or if for any reason the purchase of the Offered Securities by the Underwriters is not consummated, the Company shall remain responsible for the expenses to be paid or reimbursed by it pursuant to Section 5 and the respective obligations of the Company and the Underwriters pursuant to Section 7 shall remain in effect, and if any Offered Securities have been purchased hereunder the representations and warranties in Section 2 and all obligations under Section 5 shall also remain in effect. If the purchase of the Offered Securities by the Underwriters is not consummated for any reason other than solely because of the termination of this Agreement pursuant to Section 8 or the occurrence of any event specified in clause (iii), (iv) or (v) of Section 6(c), the Company will reimburse the Underwriters for all out-of-pocket expenses (including fees and disbursements of counsel) reasonably incurred by them in connection with the offering of the Offered Securities.

10. Notices. All communications hereunder will be in writing and, if sent to the Underwriters, will be mailed, delivered or telegraphed and confirmed to the Representatives, c/o Credit Suisse First Boston Corporation, Eleven Madison Avenue, New York, N.Y. 10010-3629, Attention: Transactions Advisory Group, or, if sent to the Company, will be mailed, delivered or telegraphed and confirmed to it at 333 West San Carlos Street, Suite 700, San Jose, California 95110, Attention: John K. Kibarian; provided, however, that any notice to an Underwriter pursuant to Section 7 will be mailed, delivered or telegraphed and confirmed to such Underwriter.

11. Successors. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers and directors and controlling persons referred to in Section 7, and no other person will have any right or obligation hereunder.

12. Representation of Underwriters. The Representatives will act for the several Underwriters in connection with this financing, and any action under this Agreement taken by the Representatives jointly or by CSFBC will be binding upon all the Underwriters.

13. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Agreement.

14. APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

The Company hereby submits to the non-exclusive jurisdiction of the Federal and state courts in the Borough of Manhattan in The City of New York in any suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

If the foregoing is in accordance with the Representatives' understanding of our agreement, kindly sign and return to the Company one of the counterparts hereof, whereupon it will become a binding agreement between the Company and the several Underwriters in accordance with its terms.

Very truly yours,

PDF SOLUTIONS, INC.

John K. Kibarian,
President and Chief Executive Officer

By _____

The foregoing Underwriting Agreement is
hereby confirmed and accepted as of the date
first above written.

CREDIT SUISSE FIRST BOSTON CORPORATION,
ROBERTSON STEPHENS, INC.
DAIN RAUSCHER INCORPORATED

Acting on behalf of themselves and as the Representatives of
the several Underwriters

BY CREDIT SUISSE FIRST BOSTON CORPORATION

By _____
Managing Director

SCHEDULE A

UNDERWRITER	NUMBER OF FIRM SECURITIES
Credit Suisse First Boston Corporation.....	
Robertson Stephens, Inc.....	
Dain Rauscher Incorporated.....	

Total.....	4,500,000

EXHIBIT 3.2

THIRD AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF PDF SOLUTIONS, INC.

The undersigned, John Kibarian and Peter Cohn, hereby certify that:

1. They are the duly elected and acting President and Secretary, respectively, of PDF Solutions, Inc., a Delaware corporation.

2. The Certificate of Incorporation of this corporation was originally filed with the Secretary of State of Delaware on July 19, 2000 under the name of PDF Solutions, Inc., the First Amended and Restated Certificate of Incorporation of this corporation was filed with the Secretary of State of Delaware on August 4, 2000 and the Second Amended and Restated Certificate of Incorporation was filed with the Secretary of State of Delaware on July 9, 2001.

3. The Certificate of Incorporation of this corporation shall be amended and restated to read in full as follows:

"ARTICLE I

The name of this corporation is PDF Solutions, Inc. (the "Corporation").

ARTICLE II

The address of the Corporation's registered office in the State of Delaware is 1013 Centre Road, City of Wilmington, County of New Castle. The name of its registered agent at such address is Corporation Service Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE IV

(A) The Corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the Corporation is authorized to issue is 75,000,000 shares, each with a par value of $0.00015 per share. 70,000,000 shares shall be Common Stock and 5,000,000 shares shall be Preferred Stock.

(B) The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized, by filing a certificate pursuant to the applicable law of the state of Delaware and within the limitations and restrictions stated in this Certificate of Incorporation, to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock and the number of shares constituting any such series and the designation thereof, or any of them; and to increase or decrease the number of shares of any series subsequent to the issuance of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares

of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

ARTICLE V

The number of directors of the Corporation shall be fixed from time to time by a bylaw or amendment thereof duly adopted by the Board of Directors.

ARTICLE VI

On or prior to the date on which the Corporation first provides notice of an annual meeting of the stockholders, the Board of Directors of the Corporation shall divide the directors into three classes, as nearly equal in number as reasonably possible, designated Class I, Class II and Class III, respectively. Directors shall be assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors. At the first annual meeting of stockholders or any special meeting in lieu thereof, the terms of the Class I directors shall expire and Class I directors shall be elected for a full term of three years. At the second annual meeting of stockholders or any special meeting in lieu thereof, the terms of the Class II directors shall expire and Class II directors shall be elected for a full term of three years. At the third annual meeting of stockholders or any special meeting in lieu thereof, the terms of the Class III directors shall expire and Class III directors shall be elected for a full term of three years. At each succeeding annual meeting of stockholders or special meeting in lieu thereof, directors elected to succeed the directors of the class whose terms expire at such meeting shall be elected for a full term of three years.

Notwithstanding the foregoing provisions of this Article VI, each director shall serve until his or her successor is duly elected and qualified or until his or her death, resignation, or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal, or other causes shall be filled by either (i) the affirmative vote of the holders of a majority of the voting power of the then-outstanding shares of voting stock of the Corporation entitled to vote generally in the election of directors (the "Voting Stock") voting together as a single class; or (ii) by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Subject to the rights of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the number of directors shall, unless the Board of Directors determines by resolution that any such newly created directorship shall be filled by the stockholders, be filled only by the affirmative vote of the directors then in office, even though less than a quorum of the Board of Directors, or by a sole remaining director. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. Any director, or the entire Board of Directors, may be removed from office, with or without cause, by the holders of a majority of the Voting Stock.

ARTICLE VII

In the election of directors, each holder of shares of any class or series of capital stock of the Corporation shall be entitled to one vote for each share held. No stockholder will be permitted to cumulate votes at any election of directors.

ARTICLE VIII

No action shall be taken by the stockholders of the Corporation other than at an annual or special meeting of the stockholders, upon due notice and in accordance with the provisions of the Bylaws of the Corporation (the "Bylaws"), and no action shall be taken by the stockholders by written consent.

ARTICLE IX

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

ARTICLE X

(A) Except as otherwise provided in the Bylaws, the Bylaws may be altered or amended or new Bylaws adopted by the affirmative vote of at least 66 2/3% of the voting power of all of the then-outstanding shares of the voting stock of the Corporation entitled to vote. The Board of Directors of the Corporation is expressly authorized to adopt, amend or repeal Bylaws.

(B) The directors of the Corporation need not be elected by written ballot unless the Bylaws so provide.

(C) Advance notice of stockholder nominations for the election of directors or of business to be brought by the stockholders before any meeting of the stockholders of the Corporation shall be given in the manner provided in the Bylaws.

ARTICLE XI

Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the bylaws of the Corporation.

ARTICLE XII

The Corporation shall have perpetual existence.

ARTICLE XIII

(A) To the fullest extent permitted by the General Corporation Law of Delaware, as the same may be amended from time to time, a director of the Corporation shall not be personally

liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the General Corporation Law of Delaware is hereafter amended to authorize, with the approval of a corporation's stockholders, further reductions in the liability of a corporation's directors for breach of fiduciary duty, then a director of the Corporation shall not be liable for any such breach to the fullest extent permitted by the General Corporation Law of Delaware, as so amended.

(B) Any repeal or modification of the foregoing provisions of this Article XIII shall not adversely affect any right or protection of a director of the Corporation with respect to any acts or omissions of such director occurring prior to such repeal or modification.

ARTICLE XIV

(A) To the fullest extent permitted by applicable law, the Corporation is also authorized to provide indemnification of (and advancement of expenses to) such agents (and any other persons to which Delaware law permits the Corporation to provide indemnification) through Bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the General Corporation Law of Delaware, subject only to limits created by applicable Delaware law (statutory or non-statutory), with respect to actions for breach of duty to a corporation, its stockholders, and others.

(B) Any repeal or modification of any of the foregoing provisions of this Article XIV shall not adversely affect any right or protection of a director, officer, agent or other person existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such director, officer or agent occurring prior to such repeal or modification."

* * *

The foregoing Amended and Restated Certificate of Incorporation has been duly adopted by this Corporation's Board of Directors and stockholders in accordance with the applicable provisions of Section 228, 242 and 245 of the General Corporation Law of the State of Delaware.

Executed at Menlo Park, on the ____ day of July, 2001.

John Kibarian, President

Peter Cohn, Secretary

1

EXHIBIT 4.1

COMMON STOCK COMMON STOCK

[PDF/SOLUTIONS LOGO]

THIS CERTIFICATE IS TRANSFERABLE IN CANTON, MA OR NEW YORK, NY

INCORPORATED UNDER THE LAWS OF THE STATE OF CALIFORNIA

SEE REVERSE FOR STATEMENTS RELATING
TO RIGHTS, PREFERENCES,
PRIVILEGES AND RESTRICTIONS, IF ANY

CUSIP 693282 10 5

THIS CERTIFIES THAT

is the record holder of

FULLY PAID AND NONASSESSABLE SHARES OF THE COMMON STOCK, NO PAR VALUE, OF

PDF SOLUTIONS, INC.

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

[SEAL]

/s/ PETER COHN

SECRETARY

/s/ JOHN KACHIG KIBARIAN

PRESIDENT AND CHIEF
EXECUTIVE OFFICER

COUNTERSIGNED AND REGISTERED:
EQUISERVE TRUST COMPANY, N.A.
TRANSFER AGENT AND REGISTRAR

By: /s/ [SIGNATURE ILLEGIBLE]

AUTHORIZED SIGNATURE

2

COMMON STOCK COMMON STOCK

[PDF SOLUTIONS, LOGO]

THIS CERTIFICATE IS TRANSFERABLE IN CANTON, MA OR NEW YORK, NY

INCORPORATED UNDER THE LAWS OF THE STATE OF CALIFORNIA

SEE REVERSE FOR STATEMENTS RELATING TO
RIGHTS, PREFERENCES, PRIVILEGES
AND RESTRICTIONS, IF ANY

CUSIP 693282 10 5

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY PAID AND NONASSESSABLE SHARES OF THE COMMON STOCK,
NO PAR VALUE, OF

PDF SOLUTIONS, INC.

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

[SEAL]

/s/ PETER COHN
SECRETARY

/s/ JOHN KACHIG KIBARIAN
PRESIDENT AND CHIEF EXECUTIVE OFFICER

COUNTERSIGNED AND REGISTERED:
EQUISERVE TRUST COMPANY, N.A.
TRANSFER AGENT AND REGISTRAR

By: /s/ [SIGNATURE ILLEGIBLE]
AUTHORIZED SIGNATURE

A statement of the rights, preferences, privileges and restrictions granted to or imposed upon the respective classes or series of shares and upon the holders thereof as established, from time to time, by the Articles of Incorporation of the Corporation and by any certificate of determination, and the number of shares constituting each class and series and the designations thereof, may be obtained by the holder hereof upon written request and without charge from the Secretary of the Corporation at its corporate headquarters.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	--	as tenants in common	UNIF GIFT MIN ACT	--	.....Custodian..... (Cust) (Minor) under Uniform Gifts to Minors Act..... (State)
TEN ENT	--	as tenants by the entireties			
JT TEN	--	as joint tenants with right of survivorship and not as tenants in common	UNIF TRF MIN ACT	--	.....Custodian (until age.....) (Cust) .....under Uniform Transfers (Minor) to Minors Act..... (State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED,_____hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

_____
(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

_____

_____

_____ Shares
of the common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____ Attorney
to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated_____

X_____

X_____

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

Signature(s) Guaranteed

By_____
THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

EXHIBIT 4.2

SECOND AMENDED AND RESTATED RIGHTS AGREEMENT

THIS SECOND AMENDED AND RESTATED RIGHTS AGREEMENT (the "Agreement") is entered into as of July 6, 2001, by and among PDF Solutions, Inc., a California corporation (the "Company"), the holders of shares of Series A Preferred Stock (the "Series A Purchasers"), the holders of Series B Preferred Stock (the "Series B Purchasers") (the Series A Purchasers and Series B Purchasers are referred to herein collectively as the "Preferred Purchasers,"), certain other shareholders listed on Exhibit B hereto (the "Founders") and Applied Materials, Inc., a Delaware corporation ("Applied"), (Applied, the Founders, the Series A Purchasers and the Series B Purchasers are referred to herein collectively as the "Purchasers" or the "Investors").

RECITALS

WHEREAS, the Company, the Series A Purchasers, the Series B Purchasers and the Founders have entered into a First Amended and Restated Registration Rights Agreement dated as of August 4, 2000 (the "Rights Agreement"). The Company, the Founders, and a majority of the holders of Series A Preferred Stock and Series B Preferred Stock desire to amend and restate in its entirety the Rights Agreement in accordance with Section 3.7 thereof.

WHEREAS, the Company and Applied have entered into a Stock Purchase Agreement dated as of June 28, 2001 (the "Purchase Agreement"), pursuant to which the Company shall sell, and Applied shall acquire, shares of the Company's common stock, $0.0001 par value per share (the "Common Stock").

WHEREAS, a condition to Applied's obligations under the Purchase Agreement is that the Company and Applied shall enter into this Agreement in order to provide Applied with (i) certain rights to register certain shares of the Company's Common Stock held by Applied. The Company desires to induce Applied to purchase shares of Common Stock pursuant to the Purchase Agreement by agreeing to the terms and conditions set forth herein.

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL PROMISES AND COVENANTS HEREINAFTER SET FORTH, THE PARTIES AGREE that effective and contingent upon execution of this Agreement by the Company and the holders of a majority of the Registrable Securities, as that term is defined in the Rights Agreement, not including any shares held by the Founders, and upon closing of the IPO (as that term is defined in the Purchase Agreement), the Rights Agreement is hereby amended and restated in its entirety to read as set forth in this Agreement, and the Company and the Investors hereby agree to be bound by the provisions hereof as the sole agreement of the Company and the Investors with respect to registration rights of the Company's securities and certain other rights, as set forth herein;

AND FURTHER AGREE AS FOLLOWS:

SECTION 1

Restrictions on Transferability; Registration Rights

1.1 Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

"Applied Shares" shall mean the 250,000 shares of Common Stock referred to in Section 6(a)(i) of the Purchase Agreement issued to Applied as of the date hereof.

"Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

"Common Shares" shall mean all shares of Common Stock issued to the Founders as of the date hereof.

"Conversion Shares" shall means the Common Stock issued or issuable upon conversion of the Preferred Shares as defined herein.

"Holder" shall mean any Investor holding Registrable Securities and any person holding Registrable Securities to whom the rights under this Agreement have been transferred in accordance with Section 1.14 hereof.

"Initiating Holders" shall mean Holders in the aggregate of not less than fifty percent (50%) of the Registrable Securities as defined for purposes of that particular section.

"Major Purchaser" shall mean any Investor (together with its affiliates) holding more than 100,000 shares of Registrable Securities, as adjusted to reflect any stock split, stock dividend, recapitalization, or similar event, or any Common Stock otherwise issued or issuable with respect to the Common Shares, Conversion Shares or Preferred Shares.

"Preferred Shares" shall mean shares of the Series A Preferred and Series B Preferred Stock outstanding as of the date hereof.

The terms "register," "registered" and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

"Registration Expenses" shall mean all expenses incurred by the Company in complying with Sections 1.5, 1.6 and 1.7 of this Agreement, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, blue sky fees and expenses, and the expense of any special audits

incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).

"Registrable Securities" means (i) the Common Shares except that all such Common Shares shall not be included in the definition of Registrable Securities for the purposes of Sections 1.5, 1.7 and 3.7; (ii) the Applied Shares except that all such Applied Shares shall not be included in the definition of Registrable Securities for the purposes of Section 2.1; (iii) the Conversion Shares; and (iv) any Common Stock of the Company issued or issuable in respect of the Common Shares, Preferred Shares or Conversion Shares or other securities issued or issuable with respect to the Preferred Shares, Conversion Shares or Common Shares upon any stock split, stock dividend, recapitalization, or similar event, or any Common Stock otherwise issued or issuable with respect to the Common Shares, Conversion Shares or Preferred Shares; provided, however, that shares of Common Stock or other securities shall only be treated as Registrable Securities if and so long as they have not been (A) sold to or through a broker or dealer or underwriter in a public distribution or a public securities transaction, or (B) sold in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act under Section 4(1) thereof so that all transfer restrictions and restrictive legends with respect thereto are removed upon the consummation of such sale.

"Restricted Securities" shall mean the securities of the Company required to bear the legend set forth in Section 1.3 of this Agreement.

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar federal statute and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Selling Expenses" shall mean all underwriting discounts, selling commissions and stock transfer taxes applicable to the securities registered by the Holders and all fees and disbursements of counsel for the Holders (except as provided by Section 1.9).

1.2 Restrictions. The Preferred Shares, the Conversion Shares and the Common Shares shall not be sold, assigned, transferred or pledged except upon the conditions specified in this Agreement, which conditions are intended to ensure compliance with the provisions of the Securities Act. The Investors will

cause any proposed purchaser, assignee, transferee or pledgee of the Preferred Shares, the Conversion Shares or the Common Shares to agree to take and hold such securities subject to the provisions and upon the conditions specified in this Agreement.

1.3 Restrictive Legend. Each certificate representing (i) the Preferred Shares, (ii) the Conversion Shares, (iii) the Common Shares and (iv) any other securities issued in respect of the securities referenced in clauses (i), (ii) and (iii) upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall (unless otherwise permitted by the provisions of Section 1.4 below) be stamped or otherwise imprinted with legends in the following form (in addition to any legend required under applicable state securities laws):

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECU-

RITIES ACT OF 1933. SUCH SHARES MAY NOT BE SOLD, TRANSFERRED OR PLEDGED IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL (WHICH MAY BE COUNSEL FOR THE COMPANY) REASONABLY ACCEPTABLE TO IT STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT."

Each Investor and Holder consents to the Company making a notation on its records and giving instructions to any transfer agent of the Restricted Securities in order to implement the restrictions on transfer established in this Section 1.

1.4 Notice of Proposed Transfers. The holder of each certificate representing Restricted Securities, by acceptance thereof, agrees to comply in all respects with the provisions of this Section 1. Prior to any proposed sale, assignment, transfer or pledge of any Restricted Securities, unless there is in effect a registration statement under the Securities Act covering the proposed transfer, the holder thereof shall give written notice to the Company of such holder's intention to effect such transfer, sale, assignment or pledge. Each such notice shall describe the manner and circumstances of the proposed transfer, sale, assignment or pledge in sufficient detail, and shall be accompanied at such holder's expense by either (i) an unqualified written opinion of legal counsel who shall, and whose legal opinion shall be, reasonably satisfactory to the Company, addressed to the Company, to the effect that the proposed transfer of the Restricted Securities may be effected without registration under the Securities Act, or (ii) a "no action" letter from the Commission to the effect that the transfer of such securities without registration will not result in a recommendation by the staff of the Commission that action be taken with respect thereto, whereupon the holder of such Restricted Securities shall be entitled to transfer such Restricted Securities in accordance with the terms of the notice delivered by the holder to the Company. The Company will not require such a legal opinion or "no action" letter (a) in any transaction in compliance with Rule 144, (b) in any transaction in which an Investor which is a corporation distributes Restricted Securities after six (6) months after the purchase thereof solely to its majority-owned subsidiaries or affiliates for no consideration, or (c) in any transaction in which an Investor which is a partnership distributes Restricted Securities after six (6) months after the purchase thereof solely to partners thereof for no consideration, provided that each transferee agrees in writing to be subject to the terms of this Section 1.4. Each certificate evidencing the Restricted Securities transferred as above provided shall bear, except if such transfer is made pursuant to Rule 144, the appropriate restrictive legend set forth in Section 1.3 above, except that such certificate shall not bear such restrictive legend if, in the opinion of counsel for such holder and the Company, such legend is not required in order to establish compliance with any provisions of the Securities Act.

1.5 Requested Registration.

(a) Request for Registration. In case the Company shall receive from Initiating Holders a written request that the Company effect any qualification, compliance or registration the reasonably anticipated aggregate price to the public of which net of underwriting discounts and commissions,

would exceed $7,500,000, the Company shall:

(i) promptly give written notice of the proposed registration, qualification or compliance to all other Holders; and

(ii) as soon as practicable, use its best efforts to effect such registration, qualification or compliance (including, without limitation, the execution of an undertaking to file post-effective amendments, appropriate qualification under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act and any other governmental requirements or regulations) as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any Holder or Holders joining in such request as are specified in a written request received by the Company within twenty (20) days after receipt of such written notice from the Company; provided, however, that the Company shall not be obligated to take any action to effect any such registration, qualification or compliance pursuant to this Section 1.5:

(1) In any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(2) Prior to the earlier of (i) six (6) months following the Company's initial public offering or (ii) July 31, 2003;

(3) During the period ending on the date three (3) months immediately following the effective date of any registration statement pertaining to securities of the Company (other than a registration of securities in a Rule 145 transaction or with respect to an employee benefit plan);

(4) After the Company has effected two (2) such registrations pursuant to this subparagraph 1.5(a), such registrations have been declared or ordered effective and the securities offered pursuant to such registrations have been sold; or

(5) If the Company shall furnish to such Holders a certificate, signed by the President of the Company, stating that in the good faith judgment of the Board of Directors it would be seriously detrimental to the Company or its shareholders for a registration statement to be filed in the near future, then the Company's obligation to use its best efforts to register, qualify or comply under this Section 1.5 shall be deferred for a single period not to exceed one hundred-twenty (120) days from the date of receipt of written request from the Initiating Holders.

Subject to the foregoing clauses (1) through (5), the Company shall file a registration statement covering the Registrable Securities so requested to be registered as soon as practicable after receipt of the request or requests of the Initiating Holders.

(b) Underwriting. In the event that a registration pursuant to Section 1.5 is for a registered public offering involving an underwriting, the Company shall so advise the Holders as part of the notice given pursuant to Section 1.5(a)(i). The right of any Holder to registration pursuant to Section 1.5 shall be conditioned upon such Holder's participation in the underwriting arrangements required by this Section 1.5 and the inclusion of such Holder's Registrable Securities in the underwriting, to the extent requested, to the extent provided in this Agreement.

The Company shall (together with all Holders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by a majority in interest of the Initiating Holders (which managing underwriter

shall be reasonably acceptable to the Company). Notwithstanding any other provision of this Section 1.5, if the managing underwriter advises the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then the Company shall so advise all Holders of Registrable Securities and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among all Holders thereof in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by such Holders at the time of filing the registration statement. No Registrable Securities excluded from the underwriting by reason of the underwriter's marketing limitation shall be included in such registration. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to any Holder to the nearest 100 shares.

If any Holder of Registrable Securities disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to the Company and the managing underwriter. The Registrable Securities and/or other securities so withdrawn shall also be withdrawn from registration, and such Registrable Securities shall not be transferred in a public distribution prior to one hundred eighty (180) days after the effective date of such registration.

1.6 Company Registration.

(a) Notice of Registration. If at any time or from time to time, the Company shall determine to register any of its securities, either for its own account or the account of a security holder or holders other than (i) a registration relating solely to employee benefit plans, or (ii) a registration relating solely to a Commission Rule 145 transaction, the Company will:

(i) promptly give to each Holder written notice thereof; and

(ii) include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting involved in such registration, all the Registrable Securities specified in a written request or requests received within twenty (20) days after receipt of such written notice from the Company by any Holder, but only to the extent that such inclusion will not diminish the number of securities included by the Company or by holders of the Company's securities who have demanded such registration.

(b) Underwriting. If the registration of which the Company gives notice is for a registered public offering involving an underwriting, the Company shall so advise the Holders

as a part of the written notice given pursuant to Section 1.6(a)(i). In such event, the right of any Holder to registration pursuant to Section 1.6 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company and the other holders distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by the Company (or by the holders who have demanded such registration). Notwithstanding any other provision of this Section 1.6, if the managing underwriter determines that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriter may limit the Registrable Securities to be included in such registration to a minimum of 30% of the total shares to be included in such underwriting or, in the case of the Company's initial public offering, exclude them entirely. The Company shall so advise all Holders and the other holders distributing their securities through such underwriting pursuant to piggyback registration rights similar to this Section 1.6, and the number of shares of Registrable Securities and other securities that may be included in the registration and underwriting shall be first allocated among all Preferred Purchasers and Applied in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by such Preferred Purchasers and Applied at the time of filing the registration statement, and after satisfaction of the requirements of the Preferred Purchasers and Applied, the remaining shares that may be included in the registration and underwriting shall be allocated among the Founders in

proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by such Founders at the time of filing of the registration statement. To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to any Holder or other holder to the nearest 100 shares. If any Holder or other holder disapproves of the terms of any such underwriting, he or she may elect to withdraw therefrom by written notice to the Company and the managing underwriter. Any securities withdrawn from such underwriting shall be withdrawn from such registration, and shall not be transferred in a public distribution prior to one hundred eighty (180) days after the effective date of the registration statement relating thereto (the "Lock-Up Period"); provided, however, that if such registration is not the Company's initial public offering such Lock-Up Period shall be one hundred twenty (120) days unless the managing underwriter determines that marketing factors require a longer period in which case the Lock-Up period shall be specified by the managing underwriter but shall not exceed one hundred eighty (180) days.

(c) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 1.6 prior to the effectiveness of such registration, whether or not any Holder has elected to include securities in such registration.

1.7 Registration on Form S-3.

(a) If Initiating Holders request that the Company file a registration statement on Form S-3 (or any successor form to Form S-3) for a public offering of shares of the Registrable Securities, the reasonably anticipated aggregate price to the public of which, net of underwriting discounts and commissions, would exceed $1,000,000, and the Company is a

registrant entitled to use Form S-3 to register the Registrable Securities for such an offering, the Company shall use its best efforts to cause such Registrable Securities to be registered for the offering on such form; provided, however, that the Company shall not be required to effect more than one registration pursuant to this Section 1.7(a) in any twelve (12) month period. The Company will (i) promptly give written notice of the proposed registration to all other Holders, and (ii) as soon as practicable, use its best efforts to effect such registration (including, without limitation, the execution of an undertaking to file post-effective amendments, appropriate qualification under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act and any other governmental requirements or regulations) as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any Holder or Holders joining in such request as are specified in a written request received by the Company within twenty (20) days after receipt of such written notice from the Company. The substantive provisions of Section 1.5(b) shall be applicable to each registration initiated under this Section 1.7(a).

(b) Notwithstanding the foregoing, the Company shall not be obligated to take any action pursuant to this Section 1.7: (i) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act, (ii) during the period ending on a date three (3) months following the effective date of a registration statement (other than with respect to a registration statement relating to a Rule 145 transaction, an offering solely to employees or any other registration which is not appropriate for the registration of Registrable Securities), or (iii) if the Company shall furnish to such Holder a certificate signed by the President of the Company stating that, in the good faith judgment of the Board of Directors, it would be seriously detrimental to the Company or its shareholders for registration statements to be filed in the near future, then the Company's obligation to use its best efforts to file a registration statement shall be deferred for a single period not to exceed one hundred twenty (120) days from the receipt of the request to file such registration by such Holder or Holders.

(c) Notwithstanding Section 1.7(a) above and subject to Section

1.7(b)(i) above, if during the period between (i) the first anniversary of the closing of the Company's (d) initial public offering and (ii) the second anniversary of the closing of the Company's initial public offering, Applied requests that the Company file a registration statement on Form S-3 (or any successor form to Form S-3) for a public offering of shares of the Registrable Securities, the reasonably anticipated aggregate price to the public of which, net of underwriting discounts and commissions, would exceed $1,000,000, and the Company is a registrant entitled to use Form S-3 to register the Registrable Securities for such an offering, the Company shall use its best efforts to cause such Registrable Securities to be registered for the offering on such form; provided, however, that the Company shall not be required to effect more than one registration pursuant to this Section 1.7(c); and further, provided that, if the Company makes a good faith determination that any such offering would be detrimental to any other filed or pending offering, the requirement to register Applied Shares pursuant to this Section 1.7(c) shall be waived to the extent, and only to the extent, as to those Applied Shares as are permitted to be included in such other

offering. The Company will, as soon as practicable, use its best efforts to effect such registration (including, without limitation, the execution of an undertaking to file post-effective amendments, appropriate qualification under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act and any other governmental requirements or regulations) as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request within twenty (20) days after receipt of such written notice. In the event that a registration pursuant to this Section 1.7(c) is for a registered public offering involving an underwriting, the Company and Applied shall enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by the Company and reasonably acceptable to Applied.

1.8 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not enter into any agreement granting any holder or prospective holder of any securities of the Company registration rights with respect to such securities unless such holder derives its rights as an additional Holder hereunder, or such shares or securities are entitled to be included in registrations only to the extent that the inclusion of such securities will not diminish the amount of Holder's Registrable Securities that are included.

1.9 Expenses of Registration. All Registration Expenses incurred in connection with any registration pursuant to Sections 1.5, 1.6 or 1.7 and the reasonable cost of one special legal counsel to represent all of the Holders together in any such registration shall be borne by the Company, provided that the Company shall not be required to pay the Registration Expenses of any registration proceeding begun pursuant to Section 1.5, the request of which has been subsequently withdrawn by the Initiating Holders. In such case, the Holders of Registrable Securities to have been registered shall bear all such Registration Expenses pro rata on the basis of the number of shares to have been registered unless the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 1.5. Notwithstanding the foregoing, however, if at the time of the withdrawal, the Holders have learned of a material adverse change in the condition, business or prospects of the Company from that known to the Holders at the time of their request, of which the Company had knowledge at the time of the request, then the Holders shall not be required to pay any of said Registration Expenses or to forfeit the right to one demand registration.

1.10 Registration Procedures. In the case of each registration, qualification or compliance effected by the Company pursuant to this Section 1, the Company will keep each Holder advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. At its expense the Company will:

(a) Prepare and file with the Commission a registration statement with respect to such securities and use its best efforts to cause such registration statement to become and remain effective for at least one hundred eighty (120) days or until the distribution described in the registration statement has been completed. The Company shall not be required to file, cause

to become effective or maintain the effectiveness of any registration statement that contemplates

a distribution of securities on a delayed or continuous basis pursuant to Rule 415 under the Securities Act; and

(b) Furnish to the Holders participating in such registration and to the underwriters of the securities being registered such reasonable number of copies of the registration statement, preliminary prospectus, final prospectus and such other documents as such underwriters may reasonably request in order to facilitate the public offering of such securities.

1.11 Indemnification.

(a) The Company will indemnify each Holder, each of its officers and directors and partners, and each person controlling such Holder within the meaning of Section 15 of the Securities Act, with respect to which registration, qualification or compliance has been effected pursuant to this Section 1, and each underwriter, if any, and each person who controls any underwriter within the meaning of Section 15 of the Securities Act, against all expenses, claims, losses, damages or liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, commenced or threatened, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, or any violation by the Company of any rule or regulation promulgated under the Securities Act applicable to the Company in connection with any such registration, qualification or compliance, and the Company will reimburse each such Holder, each of its officers and directors, and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating, preparing or defending any such claim, loss, damage, liability or action, provided that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission or alleged untrue statement or omission, made in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Holder, controlling person or underwriter and stated to be specifically for use therein.

(b) Each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration, qualification or compliance is being effected, indemnify the Company, each of its directors and officers, each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the Company or such underwriter within the meaning of Section 15 of the Securities Act, and each other such Holder, each of its officers and directors and each person controlling such Holder within the meaning of Section 15 of the Securities Act, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein

not misleading, and will reimburse the Company, such Holders, such directors, officers, persons, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by an instrument

duly executed by such Holder and stated to be specifically for use therein; provided, however, that the liability of a Holder for indemnification under this Section 1.11(b) shall not exceed the net proceeds from the offering received by such Holder.

(c) Each party entitled to indemnification under this Section 1.11 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 1 unless the failure to give such notice is materially prejudicial to an Indemnifying Party's ability to defend such action. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

1.12 Information by Holder. The Holder or Holders of Registrable Securities included in any registration shall furnish to the Company such information regarding such Holder or Holders, the Registrable Securities held by them and the distribution proposed by such Holder or Holders as the Company may request in writing and as shall be required in connection with any registration, qualification or compliance referred to in this Section 1.

1.13 Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Restricted Securities to the public without registration, after such time as a public market exists for the Common Stock of the Company, the Company agrees to use its best efforts to:

(a) Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after the effective date that the Company becomes subject to the reporting requirements of the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act");

(b) File with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

(c) So long as an Investor owns any Restricted Securities, to furnish to the Investor forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents of the Company and other information in the possession of or reasonably obtainable by the Company as an Investor may reasonably request in availing itself of any rule or regulation of the Commission allowing an Investor to sell any such securities without registration.

1.14 Transfer of Registration Rights. The rights to cause the Company to register securities granted Investors under Sections 1.5, 1.6 and 1.7 may be assigned to a transferee or assignee in connection with any transfer or assignment of Registrable Securities by an Investor (together with any affiliate); provided, that (a) such transfer may otherwise be effected in accordance with applicable securities laws, (b) notice of such assignment is given to the Company, and (c) such transferee or assignee (i) is an affiliate of such Investor or a constituent partner (including limited partners) of such Investor, or (ii) acquires from such Investor the lesser of (a) 100,000 or more

shares of Restricted Securities (as appropriately adjusted for stock splits and the like) or (b) all of the Restricted Securities then owned by such Investor.

1.15 Standoff Agreement. Each Holder agrees in connection with the initial public offering of the Company's securities that, upon request of the Company or the underwriters managing any underwritten initial public offering of the Company's securities, not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any Registrable Securities (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred eighty (180) days from the effective date of such registration) as may be requested by the Company or such managing underwriters; provided, however, that the officers and directors of the Company who own stock of the Company also agree to such restrictions.

1.16 Termination of Rights. No Holder shall be entitled to exercise any right provided for in this Section 1:

(a) after five (5) years following the consummation of the sale of securities pursuant to a registration statement filed by the Company under the Act in connection with the initial firm commitment underwritten offering of its securities to the general public, or

(b) on or after the closing of a public offering of the Common Stock of the Company when all shares of the Holder's Registrable Securities may be sold under Rule 144 during any 90-day period; provided, however, that the provisions of this subsection (b) shall not apply where the Holder owns more than two percent (2%) of the Company's outstanding stock until such time as such Holder owns less than two percent (2%) of the outstanding stock; provided, however, that the rights of Applied set forth in Section 1.7(c) shall terminate only after two (2) years following the consummation of the sale of securities pursuant to a registration

statement filed by the Company under the Act in connection with the initial firm commitment underwritten offering of its securities to the general public.

SECTION 2

Right of Participation

2.1 Purchasers' Right of Participation.

(a) Right of Participation. Subject to the terms and conditions contained in this Section 2.1, the Company hereby grants to each Major Purchaser the right of participation to purchase its Pro Rata Portion of any New Securities (as defined in subsection 2.1(b)) which the Company may, from time to time, propose to sell and issue. A Major Purchaser's "Pro Rata Portion" for purposes of this Section 2.1 is the ratio that (x) the sum of the number of shares of the Company's Common Stock then held by such Major Purchaser and the number of shares of the Company's Common Stock issuable upon conversion of the Preferred Stock then held by such Major Purchaser, bears to (y) the sum of the total number of shares of the Company's Common Stock then outstanding, the number of shares of the Company's Common Stock issuable upon the exercise of any issued and outstanding rights, options or warrants, and the number of shares of the Company's Common Stock issuable upon conversion of the then outstanding Preferred Stock.

(b) Definition of New Securities. Except as set forth below, "New Securities" shall mean any shares of capital stock of the Company, including Common Stock and Preferred Stock, whether authorized or not, and rights, options or warrants to purchase said shares of Common Stock or Preferred Stock, and securities of any type whatsoever that are, or may become, convertible into said shares of Common Stock or Preferred Stock. Notwithstanding the foregoing, "New Securities" does not include (i) the Common Shares, the Preferred Shares or the Conversion Shares, (ii) securities offered to the public generally pursuant to a registration statement under the Securities Act, (iii) securities issued pursuant to the acquisition of another corporation by the Company by merger, purchase of substantially all of the assets or shares or other reorganization whereby the Company or its shareholders own not less than a majority of the voting power of the surviving or successor corporation, (iv) shares of the Company's Common Stock or related options or warrants convertible into or

exercisable for such Common Stock issued to employees, officers and directors of, and consultants to, the Company, pursuant to any arrangement approved by the Board of Directors of the Company, (v) shares of the Company's Common Stock or related options or warrants convertible into or exercisable for such Common Stock issued to customers and vendors of the Company pursuant to any arrangement unanimously approved by the Board of Directors of the Company; (vi) shares of the Company's Common Stock or related options convertible into or exercisable for such Common Stock issued to banks, commercial lenders, lessors and other financial institutions in connection with the borrowing of money or the leasing of equipment by the Company, (vii) stock issued pursuant to any rights or agreements, including, without limitation, convertible securities, options and warrants, provided that the Company shall have complied with the rights of participation established by this Section 2.1 with respect to the initial sale or grant by the Company of such

rights or agreements, or (viii) shares of capital stock issued in connection with any stock split, stock dividend or recapitalization by the Company.

(c) Notice of Right. In the event the Company proposes to undertake an issuance of New Securities, it shall give each Purchaser written notice of its intention, describing the type of New Securities and the price and terms upon which the Company proposes to issue the same. Each Purchaser shall have twenty (20) days from the date of receipt of any such notice to agree to purchase shares of such New Securities (up to the amount referred to in subsection 2.1(a)), for the price and upon the terms specified in the notice, by giving written notice to the Company and stating therein the quantity of New Securities to be purchased.

(d) Exercise of Right. If any Purchaser exercises its right of participation under this Agreement, the closing of the purchase of the New Securities with respect to which such right has been exercised shall take place within ninety (90) calendar days after the Purchaser gives notice of such exercise, which period of time shall be extended in order to comply with applicable laws and regulations. Upon exercise of such right of participation, the Company and the Purchaser shall be legally obligated to consummate the purchase contemplated thereby and shall use their best efforts to secure any approvals required in connection therewith.

(e) Lapse and Reinstatement of Right. In the event a Purchaser fails to exercise the right of participation provided in this Section 2.1 within said twenty (20) day period, the Company shall have ninety (90) days thereafter to sell or enter into an agreement (pursuant to which the sale of New Securities covered thereby shall be closed, if at all, within sixty (60) days from the date of said agreement) to sell the New Securities not elected to be purchased by such Purchaser at the price and upon the terms no more favorable to the purchasers of such securities than specified in the Company's notice. In the event the Company has not sold the New Securities or entered into an agreement to sell the New Securities within said ninety (90) day period (or sold and issued New Securities in accordance with the foregoing within sixty (60) days from the date of said agreement), the Company shall not thereafter issue or sell any New Securities without first offering such securities to the Purchasers in the manner provided above.

(f) Assignment. The right of the Purchasers to purchase any part of the New Securities may be assigned in whole or in part to any partner, subsidiary, affiliate or shareholder of a Purchaser, or other persons or organizations who acquire the lesser of (i) 100,000 or more shares of Restricted Securities (as adjusted for stock splits and the like) or (ii) all of the Restricted Securities then owned by such Purchaser.

2.2 Termination of Participation Right. The rights of participation granted under Section 2.1 of this Agreement shall terminate on and be of no further force or effect upon the earlier of (i) the consummation of the Company's sale of its Common Stock in an underwritten public offering pursuant to an effective registration statement filed under the Securities Act immediately subsequent to which the Company shall be obligated to file annual and quarterly reports with the Commission pursuant to Section 13 or 15(d) of the Exchange Act or (ii) the registration by the Company of a class of its equity securities under Section 12(b) or 12(g) of the Exchange Act.

SECTION 3

Miscellaneous

3.1 Assignment. Except as otherwise provided in this Agreement, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties to this Agreement.

3.2 Third Parties. Nothing in this Agreement, express or implied, is intended to confer upon any party, other than the parties to this Agreement, and their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

3.3 Governing Law. This Agreement shall be governed by and construed under the laws of the State of California in the United States of America without giving effect to the conflicts of laws principles thereof.

3.4 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

3.5 Notices. Any notice required or permitted by this Agreement shall be in writing and shall be sent by prepaid registered or certified mail, return receipt requested, or otherwise delivered by hand or by messenger addressed to the other party at the address shown below or at such other address for which such party gives notice under this Agreement. Such notice shall be deemed to have been given when delivered if delivered personally, or, if sent by mail, at the earlier of its receipt or three (3) days after deposit in the mail.

3.6 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, portions of such provisions, or such provisions in their entirety, to the extent necessary, shall be severed from this Agreement, and the balance of this Agreement shall be enforceable in accordance with its terms.

3.7 Amendment and Waiver. Any provision of this Agreement may be amended or waived with the written consent of the Company and the Holders of at least a majority of the outstanding shares of the Registrable Securities, so long as the effect is to treat all Holders equally. Any amendment or waiver that adversely affects any rights specific to Applied hereunder shall require the written consent of the Company and Applied. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each Holder of Registrable Securities and the Company. In addition, the Company may waive performance of any obligation owing to it, as to some or all of the Holders of Registrable Securities, or agree to accept alternatives to such performance, without obtaining the consent of any Holder of Registrable Securities. In the event that an underwriting agreement is entered into between the Company and any Holder, and such underwriting agreement contains terms differing from this Agreement, as to any such Holder the terms of such underwriting agreement shall govern.

3.8 Effect of Amendment or Waiver. The Investors and their successors and assigns acknowledge that by the operation of Section 3.7 of this Agreement the holders of a majority of the outstanding Registrable Securities, acting in conjunction with the Company, will have the right and power to diminish or eliminate any or all rights or increase any or all obligations pursuant to this Agreement; provided that the rights and obligations of Applied may not be adversely affected without its consent in accordance with Section 3.7 above.

3.9 Rights of Holders. Each holder of Registrable Securities shall have the absolute right to exercise or refrain from exercising any right or rights that such holder may have by reason of this Agreement, including, without limitation, the right to consent to the waiver or modification of any obligation under this Agreement, and such holder shall not incur any liability to any other

holder of any securities of the Company as a result of exercising or refraining from exercising any such right or rights.

3.10 Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to any party to this Agreement, upon any breach or default of the other party, shall impair any such right, power or remedy of such non-breaching party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, or by law or otherwise afforded to any holder, shall be cumulative and not alternative.

3.11 Aggregation of Stock. All Registrable Securities held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

COMPANY:

PDF SOLUTIONS, INC.,
a California corporation

By:

John K. Kibarian, President and Chief Executive Officer

FOUNDERS:

JOHN K. KIBARIAN

KIMON MICHAELS

THOMAS COBOURN

HOWARD READ

SERIES A AND SERIES B HOLDERS:

U.S. VENTURE PARTNERS IV, L.P.

By: Presidio Management Group IV, L.P.
Its General Partner

By:

Name:
Title:

2180 Sand Hill Road, Suite 300

Menlo Park, CA 94025

SECOND VENTURES II, L.P.

By: Presidio Management Group IV, L.P.
Its General Partner

By:

Name:
Title:

2180 Sand Hill Road, Suite 300
Menlo Park, CA 94025

U.S.V.P. ENTREPRENEUR PARTNERS II, L.P.
A Delaware Limited Partnership

By: Presidio Management Group IV, L.P.
Its General Partner

By:

Name:
Title:

2180 Sand Hill Road, Suite 300
Menlo Park, CA 94025

2180 ASSOCIATES FUND

By:

Name:
Title:

2180 Sand Hill Road, Suite 300
Menlo Park, CA 94025

TELOS VENTURE PARTNERS, L.P.

By:

Name:
Title:

2350 Mission College Blvd., Suite 1070
Santa Clara, CA 95054

THE CASSIN FAMILY TRUST U/D/T/
DTD 1/31/96, BRENDAN J. AND ISABEL
B. CASSIN, TRUSTEES

By:

Name:
Title:

3000 Sand Hill Road, Building 3, Suite 210
Menlo Park, CA 94025

CASSIN FAMILY PARTNERS,
A CALIFORNIA LIMITED PARTNERSHIP

By:

Name:
Title:

3000 Sand Hill Road, Building 3, Suite 210
Menlo Park, CA 94025

VLG INVESTMENTS 1995

By:

Name:
Title:

c/o Venture Law Group
2800 Sand Hill Road
Menlo Park, CA 94025

CRAIG W. JOHNSON

Craig W. Johnson

c/o Venture Law Group
2800 Sand Hill Road
Menlo Park, CA 94025

PETER COHN

Peter Cohn

c/o 1020 Marsh Road
Menlo Park, CA 94025

PETER COHN, AS TRUSTEE OR THE
SUCCESSOR TRUSTEE OR TRUSTEES
U/A/D JUNE 29, 1995, AS AMENDED,
CREATING THE PETER COHN REVOCABLE TRUST

By:

Peter Cohn
Trustee

1020 Marsh Road
Menlo Park, CA 94025

ORRICK, HERRINGTON & SUTCLIFFE LLP

By:

Peter Cohn
Partner

1020 Marsh Road
Menlo Park, CA 94025

RICHARD M. LUCAS FOUNDATION

By:

Name:
Title:

3000 Sand Hill Road, Suite 3-210
Menlo Park, CA 94025

ST. MARY'S COLLEGE OF CALIFORNIA

By:

Name:
Title:

1928 St Mary's Road
Moraga, CA 94556

ST. FRANCIS GROWTH FUND

By:

Name:
Title:

San Francis High School
1885 Miramonte Avenue
Mountain View, CA 94049

LARRY YOSHIDA

Larry Yoshida

Address:

DONALD L. LUCAS PROFIT SHARING TRUST

By:

Name:
Title:

Attn: Donald L. Lucas
3000 Sand Hill Road, #3-210
Menlo Park, CA 94025
(650) 854-4223

RWI GROUP IV, L.P.
By: RWI GROUP LLC
Its General Partner

By:

Name:
Title:

Attn: Donald A. Lucas
720 University Ave., # 103
Palo Alto, CA 94301
(650) 833-4980

BRIAN BURR

Brian Burr

c/o 1020 Marsh Road
Menlo Park, CA 94025

TETON CAPITAL COMPANY,
A CALIFORNIA LIMITED PARTNERSHIP

By:

Name:
Title:

Attn: Donald L. Lucas
3000 Sand Hill Road, #3-210
Menlo Park, CA 94025
(650) 854-4223

THE RYDE REVOCABLE TRUST

DATED 12/15/94

By:

Magnus Ryde
Trustee

39 Windchester Drive
Atherton, CA 94027
(650) 329-9638

APPLIED:

APPLIED MATERIALS, INC.,
a Delaware corporation

By:_____

_____(name)_____, _____(title)_____

EXHIBIT 5.1

July 9, 2001

PDF Solutions, Inc.
333 West San Carlos Street
Suite 700
San Jose, CA 95110

Re: PDF Solutions, Inc.
Registration Statement on Form S-1

Ladies and Gentlemen:

At your request, we are rendering this opinion in connection with a proposed sale by PDF Solutions, Inc., a Delaware corporation (the "Company") of up to 5,175,000 shares of common stock, $0.00015 par value (the "Common Stock").

We have examined instruments, documents, and records which we deemed relevant and necessary for the basis of our opinion hereinafter expressed. In such examination, we have assumed the following: (a) the authenticity of original documents and the genuineness of all signatures; (b) the conformity to the originals of all documents submitted to us as copies; and (c) the truth, accuracy, and completeness of the information, representations, and warranties contained in the records, documents, instruments, and certificates we have reviewed.

Based on such examination, we are of the opinion that the 5,175,000 shares of Common Stock to be issued and sold by the Company (of which up to 675,000 shares are to be issued to cover over-allotments, if any), are duly authorized and will be, when issued against payment of the purchase price therefor, legally issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion as an exhibit to the above-referenced Registration Statement and to the use of our name wherever it appears in said Registration Statement, including the Prospectus constituting a part thereof, as originally filed or as subsequently amended or supplemented. In giving such consent, we do not consider that we are "experts" within the meaning of such term as used in the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission issued thereunder, with respect to any part of the Registration Statement, including this opinion as an exhibit or otherwise.

Very truly yours,

/s/ ORRICK, HERRINGTON & SUTCLIFFE LLP

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EXHIBIT 10.6

CONFIDENTIAL TREATMENT
PDF SOLUTIONS, INC. HAS REQUESTED
THAT THE MARKED PORTIONS OF THIS
DOCUMENT BE ACCORDED CONFIDENTIAL
TREATMENT PURSUANT TO RULE 406 UNDER
THE SECURITIES ACT OF 1933, AS AMENDED.

PROJECT: TOSHIBA -
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TECHNOLOGY COOPERATION AGREEMENT

This Technology Cooperation Agreement dated as of ********** (this "AGREEMENT") is entered into by and between Toshiba Corporation, a corporation organized under the laws of Japan ("TOSHIBA") having its principal place of business at 1-1 Shibaura 1-chome, Minato-ku, Tokyo 105-8001, Japan, and PDF Solutions, Inc., a corporation organized under the laws of California ("PDF") having its principal place of business at 333 West San Carlos Street, Suite 1200, San Jose, California, U.S.A..

1. YIELD IMPROVEMENT SERVICES.

1.1 PROVISION OF SERVICES. During the term of this Agreement, PDF will provide to Toshiba development work and services with respect to integrated circuit yield management issues. The services and the Deliverables to be delivered as a result thereof (the "PROJECT") are described in detail on a statement of work (the "STATEMENT OF WORK") attached hereto as Exhibit A. The Statement of Work shall be governed by the terms of this Agreement, and specifies:

(a) Deliverables. The specific deliverables (the "DELIVERABLES") to be delivered under the Project and relevant milestones for delivering the Deliverables;

(b) Team Structure. The team members from PDF and Toshiba who are to work on the Project and the expected time contributions for each such member;

(c) Tools. The required data, tools, hardware, software, materials, access to personnel and facilities, and other materials required for

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effectively completing the Project;

(d) Location. The geographic location where each component of the Project will be completed;

(e) Fees and Expenses. The amount and structure of PDF's Fees (as defined below) payable upon delivery of the Deliverables and Expenses (as defined below).

1.2 TOSHIBA INTELLECTUAL PROPERTY. Toshiba will provide PDF on a timely basis with such Intellectual Property (as defined in Section 3.1) and such other data and materials as PDF shall reasonably require in order to perform the Project and/or prepare the Deliverables as defined in the Statement of Work.

1.3 DELIVERABLES. In performing the Project, PDF shall develop and/or make for Toshiba the Deliverables in accordance with any schedules set forth in the Statement of Work. The Deliverables shall meet in all material respects the description of the Deliverable (the "DELIVERABLE DESCRIPTION") set forth in the Statement of Work.

1.4 ACCEPTANCE. Upon delivery of any Deliverable by PDF to Toshiba, Toshiba shall examine the Deliverable to determine whether it reasonably conforms to the Deliverable Description. If the Deliverable does not reasonably conform to such Deliverable Description, Toshiba shall have fifteen (15) days from the date of delivery thereof to reject such Deliverable and specify in writing why it does not reasonably conform to such Deliverable Description. Upon such rejection the parties shall work together to determine what needs to be done to bring such Deliverable up to such Deliverable Description. If the Deliverable does not meet the Deliverable Description, PDF shall exercise reasonable efforts to correct promptly such nonconformity of the Deliverable with the Deliverable Description and redeliver the Deliverable to Toshiba upon completion of such correction within one month following the parties' agreement referenced in the preceding sentence but only if there are no limitations outside of PDF's control. If there are limitations outside PDF's control, PDF and Toshiba will negotiate in good faith a time for delivery of the Deliverable. If a rejection of the Deliverable is not received by PDF within fifteen (15) days after any delivery or redelivery of a Deliverable under this Section 1.4, the Deliverable shall be deemed accepted. "ACCEPTANCE" (including with correlative meaning the term "ACCEPT") shall mean any acceptance under this Section 1.4. Toshiba agrees to deliver a notice of Acceptance (the "NOTICE OF ACCEPTANCE") upon its decision to Accept any Deliverable hereunder within such fifteen (15) days following such delivery or redelivery.

2. FEES AND EXPENSES.

2.1 SERVICES FEES AND EXPENSES. Upon delivery of each of the respective Deliverables provided by PDF hereunder, Toshiba shall pay to PDF the fees specified to the extent and in the manner set forth in the Statement of Work ("FEES"), and shall reimburse PDF for its out-of-pocket expenses incurred in carrying out its obligations under this Agreement including, but not limited to, travel, hotel, meal, document

production, equipment and other expenses directly related to the services performed hereunder further subject to the terms and conditions set forth in the Statement of Work ("EXPENSES"). In no event shall the Expenses for which Toshiba shall be liable hereunder exceed any limitation on Expenses specified in the Statement of Work without written agreement from Toshiba. PDF shall use reasonable and diligent efforts to deliver the Deliverables hereunder within the estimated expenses and time schedule specified in the Statement of Work.

2.2 PAYMENTS. All payments by Toshiba hereunder shall be made by wire transfer to the bank account to be designated by PDF. If required by applicable law, Toshiba shall withhold and pay any taxes and assessments levied or imposed by any Japanese tax or other governmental body resulting from the services or the Deliverables to be provided by PDF to Toshiba and the payment to be made by Toshiba to PDF hereunder, including without limitation all personal property taxes on any of the foregoing and any taxes or amounts in lieu of any of the foregoing paid or payable by PDF, other than taxes based on PDF's net income. Toshiba shall promptly and timely effect the payment of any such taxes so withheld to the appropriate tax or other governmental authorities. Upon payment of such taxes so withheld, Toshiba shall, as promptly as possible, send to PDF an official tax receipt, tax payment certificate or other evidence issued by the applicable tax or governmental authorities. The parties acknowledge that PDF

shall be obligated to pay any such tax at the reduced withholding income tax rate rather than the ordinary rate by filing "Application Form for Income Tax Convention between the United States and Japan" with the Japanese tax authorities. If applicable, Toshiba shall send PDF the application form immediately after the execution of this Agreement for PDF's signature and PDF shall promptly sign it and return it to Toshiba so that Toshiba may file it with the applicable Japanese tax authorities on behalf of PDF.

3. OWNERSHIP.

3.1 SOLELY DEVELOPED INTELLECTUAL PROPERTY. Each party shall solely own any Intellectual Property solely developed by such party or the employee(s) of such party, whether before, during or after the term of this Agreement. For the purposes of this Agreement, "INTELLECTUAL PROPERTY" shall mean the Confidential Information (as defined in Section 6), patent and patent applications, copyrights, trade secrets, know how, rights of authorship, and any other intellectual property rights recognized by the law of any country or jurisdiction of the world.

3.2 JOINTLY DEVELOPED INTELLECTUAL PROPERTY. Any Intellectual Property jointly developed by the employees of both parties in connection with or as a result of the services provided by PDF hereunder shall be jointly-owned by PDF and Toshiba; provided, however, that any such Intellectual Property so jointly developed by PDF and Toshiba which consists of, effects or results in any improvement, enhancement or derivative work of PDF's software and methodologies including problem solving processes and practices shall be solely owned by PDF but subject to the license provided in Section 3.4; provided, further, that any such Intellectual Property so jointly developed by PDF and Toshiba in the manner embodied in Toshiba's product designs, products,

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fabrication facilities or fabrication processes shall be owned solely by Toshiba. Each party shall have the right to use, exercise, disclose and license to third parties such jointly developed Intellectual Property that is not solely owned by the other party without accounting to or the consent of the other party.

3.3 TOSHIBA LICENSE. Toshiba hereby grants to PDF a non-exclusive, royalty-free license to use and practice the Intellectual Property provided by Toshiba hereunder, in order for PDF to perform the Project and develop or prepare the Deliverables solely during the term of this Agreement.

3.4 PDF LICENSE. PDF shall grant to Toshiba and its Subsidiaries a non-exclusive, irrevocable, worldwide and fully-paid license (with the right of Toshiba to sublicense to any Subsidiary) to use, have used for Toshiba and/or its Subsidiaries ("HAVE-USED RIGHTS"), copy for internal use, modify and/or enhance the Deliverables as set forth in the Statement of Work and any PDF-owned methodologies or practices that Toshiba shall observe in the ordinary course of the provision of services by PDF under this Agreement (collectively, the "LICENSED PROPERTY") which license, sublicense, have-used rights or other rights shall only be for any purpose in connection with sales, development, manufacture, fabrication, and/or use of products of Toshiba and/or its Subsidiaries, but only to the extent PDF has the right to grant such license; provided that such have-used rights with respect to any Specified Deliverable (as defined in Paragraph (a) of the Statement of Work) shall only be permitted (a) if the have-used rights are solely for the purpose of establishing Toshiba's Products on the applicable process at the fabrication facility of the partner of Toshiba which is granted such have-used rights and for no other purpose or use, and (b) once the Product on the applicable process is established at such partner's fabrication facility, such partner must return or destroy all copies of the Deliverables and have an appropriate officer of such partner certify that all copies of such Specified Deliverable have been returned or destroyed; provided, further, that such license shall not extend to any software or tools used by PDF in connection with or during the course of such services or to any

software manuals or documents relating to such software or tools; provided, further, that Toshiba shall be bound by and shall cause its Subsidiaries, sublicensees or have-used or other partners to be bound by the confidentiality obligations contained in Section 6; provided, further, that Toshiba shall not disclose, license, sublicense or make available on a have-used basis any such Licensed Property to any third party other than as a part of the third party's sale, development, manufacturing, fabrication and/or use of semiconductor products in connection with Toshiba technology or Toshiba products. Toshiba understands that PDF will not disclose to Toshiba certain proprietary methods or trade secrets in connection with the services to be rendered by PDF hereunder. To this end, PDF retains the right to take industry standard measures to keep such proprietary methods or trade secrets from Toshiba.

3.5 NO OTHER OWNERSHIP. Except as otherwise set forth in this Section 3, neither this Agreement nor performance of the Project shall give either PDF or Toshiba any ownership, interest in or rights to the Intellectual Property owned or provided by the other party.

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3.6 DEFINITION OF SUBSIDIARY. For the purpose of this Agreement and the Statement of Work, the term "SUBSIDIARY" of any party shall mean any corporation or other entity more than fifty percent (50%) of the Voting Stock of which is beneficially owned or controlled, directly or indirectly, by such party; provided that such corporation, company or other entity shall be deemed to be a Subsidiary only so long as such ownership or control exists. "VOTING STOCK" of any entity shall mean any stock or other equity interest entitled to vote for the election of directors or any equivalent governing body of such entity. Notwithstanding the above, ********** ********** shall be deemed a Subsidiary of Toshiba under this Agreement for so long as Toshiba continues to hold ********** of the voting stock of **********.

4. TERM AND TERMINATION.

4.1 COMMENCEMENT. This Agreement shall commence as of the date first set forth above and shall continue in force until completion of the Project, unless sooner terminated as provided in this Section 4.

4.2 TERMINATION.

(a) If either party defaults in the performance of any material obligation hereunder the non-defaulting party may give the defaulting party written notice of such default within twenty (20) days following the non-defaulting party's discovery of such default. If the defaulting party fails to cure such default within forty-five (45) days (or such other time period as the parties shall mutually agree) after the defaulting party's receipt of such notice of default, then the non-defaulting party, at its option, may, terminate this Agreement by giving the defaulting party written notice of termination of this Agreement within ten days following the end of such 45 day period. If such notice of default or notice of termination is not given within such period, then the default shall no longer constitute cause for termination of this Agreement.

(b) Either party may terminate this Agreement effective upon written notice to the other party in the event the other party becomes the subject of a voluntary or involuntary petition in bankruptcy or any proceeding relating to insolvency, or assignment for the benefit creditors, if that petition or proceeding is not dismissed within sixty (60) days after filing. Such written notice of termination must be delivered no later than ten (10) days following the expiration of such 60-day period. If such notice of termination is not given within such 10-day period, then the default shall no longer constitute cause for termination of this Agreement.

(c) Either party may terminate this Agreement effective upon written notice to the other party in the event that the other party is merged with or

into, or all or substantially all or the other party's assets are sold to, a third party corporation or other entity, unless such acquiring corporation or entity expressly agrees to assume the other party's obligations under this Agreement. Such written notice of termination must be delivered no later than ten (10) days following the consummation of such transaction. If

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such notice of termination is not given within such 10-day period, then the default shall no longer constitute cause for termination of this Agreement.

(d) Toshiba shall be entitled to terminate this Agreement upon forty-five (45) days prior written notice if (i) Toshiba reasonably rejects the Deliverables due to their material nonconformity with the Deliverable Description set forth in the Statement of Work (and clearly and properly specifies the reason for such nonconformity), the Acceptance procedure set forth in Section 1.4 shall have been exhausted without an Acceptance, and PDF does not reasonably cure such material nonconformity within forty-five (45) days following the final written rejection of such Deliverable, or (ii) Toshiba reasonably and in good faith judges that the expected progress for the services to be performed by PDF necessary to deliver the Deliverables hereunder cannot be achieved within the mutually agreed time frame, and within ten (10) days following such notice PDF cannot reasonably establish that such progress can be achieved. This Agreement may then be terminated by a written notice of termination delivered within ten (10) days following the applicable foregoing forty-five (45) day period. If such written notice of termination is not given within such 10-day period, then the default under this Section 4.2(d) shall no longer constitute cause for termination of this Agreement.

4.3 TERMINATION OF RIGHTS. Upon expiration or termination of this Agreement, all rights and licenses granted and all obligations undertaken hereunder shall forthwith terminate except the following:

(a) Any and all licenses granted by PDF to Toshiba and its Subsidiaries under this Agreement as to previously delivered, Accepted and paid for Deliverables shall survive the expiration or termination of this Agreement unless this Agreement is terminated by PDF in accordance with the provisions of Section 4.2(a), (b) or (c) in which case none of such licenses shall survive and all copies of such Deliverables shall be returned to PDF.

(b) If Toshiba terminates this Agreement for the reason as stated in Section 4.2, Toshiba shall pay to PDF, within thirty (30) days after the date of termination, (i) the actual amount of unreimbursed Expenses incurred by PDF through the date of termination by Toshiba, (ii) the amount of the Deliverables Fees with respect to Deliverables delivered or otherwise accrued, and unpaid through the date of termination, (iii) the Incentive Fee if the Incentive Fee remains unpaid; provided that payment of such Fees and Expenses shall be subject to the provisions of Section 2.

(c) If Toshiba terminates this Agreement for the reason specified in Section 4.2, Toshiba shall pay to PDF:

(i) the amount of any unpaid Product Fees accrued prior to the date of termination; and

(ii) the amount of any future Product Fees in accordance with Paragraph (e)(iii) of the Statement of Work with respect to any Product that incorporates

any Deliverable delivered by PDF to Toshiba which Product Fees shall be payable through the term of payment specified in such Paragraph (e)(iii); provided that Product Fees to be accrued and paid following a date of termination shall terminate only if the basis for termination of this Agreement shall be (A) an involuntary bankruptcy under Section 4.2(b) or (B) the material default under PDF's confidentiality obligations under Section 6 of this Agreement;

provided that payment of such Product Fees under this Section 4.3(c) shall be subject to the provisions of Section 2.

(d) The provisions of Sections 2 (including by reference Toshiba's obligations to pay Fees and Expenses set forth in the Statement of Work but subject to Section 4.3(b) and (c)), 3.1, 3.2, 3.4 (with respect to Deliverables delivered by PDF to Toshiba and Accepted and paid for by Toshiba), 4, 6, 7, 8.4, 8.7 and 8.8 shall survive any expiration or termination of this Agreement.

5. INDEPENDENT CONTRACTORS. The relationship of PDF and Toshiba established by this Agreement is that of independent contractors, and nothing contained in this Agreement shall be construed to (i) give either party the power to direct or control the day-to-day activities of the other, (ii) constitute the parties as agents, partners, joint venturers, co-owners or otherwise as participants in a joint or common undertaking, or (iii) allow either party to create or assume any obligation on behalf of the other for any purpose whatsoever.

6. CONFIDENTIALITY. Except as otherwise provided herein, each party agrees, at all times during the term of this Agreement and for 5 years after receipt of Confidential Information, to hold in strictest confidence (and to cause its Subsidiaries to hold in strictest confidence), and not to use, except for the purposes contemplated herein, or to disclose to any person, firm or corporation without written authorization of the other party, any Confidential Information of the disclosing party. As used in this Agreement, "CONFIDENTIAL INFORMATION" means any proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, yield data or other information disclosed by one party to the other, which is marked as "Confidential," and/or orally or in other tangible form identified as confidential at the time of disclosure and confirmed as Confidential Information in writing within thirty (30) days of its initial disclosure, provided that any methodologies, practices or procedures used by PDF and observed by Toshiba shall constitute "Confidential Information" within the meaning of this Agreement without any such notification. Confidential Information does not include any of the foregoing items which have become publicly known and made generally available through no wrongful act of the receiving party, or which is already known by the receiving party as evidenced by the receiving party's files immediately prior to such disclosure, or which the receiving party proves was independently developed, prior to the receiving party's receipt of such Confidential Information, by employees or other representatives of such receiving party who have not had access to such information or the ideas or theories underlying such Confidential Information. Except as otherwise agreed by both parties, PDF shall return to

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Toshiba all Confidential Information of Toshiba owned by Toshiba and not licensed to PDF or jointly owned by PDF and Toshiba and copies thereof, within thirty (30) days after completion of the Project or after expiration or termination of this Agreement. Except as otherwise agreed by both parties, Toshiba shall return to PDF all Confidential Information of PDF owned by PDF and

not licensed to Toshiba or jointly owned by PDF and Toshiba and copies thereof, within thirty (30) days after completion of the Project or after expiration or termination of this Agreement.

7. WARRANTY. PDF warrants to Toshiba that PDF's Intellectual Property utilized by PDF in performing the Project does not infringe any patent, copyright, trade secret, and any other proprietary rights of any third party. EXCEPT FOR THE FOREGOING, NOTHING UNDER THIS AGREEMENT, OR THE STATEMENT OF WORK OR PROJECT SHALL BE DEEMED TO BE A WARRANTY OR REPRESENTATION AS TO THE OUTCOME OF ANY PROJECT OR THE EFFICACY OF ANY RECOMMENDATIONS MADE BY PDF. NOTHING UNDER THIS AGREEMENT OR THE STATEMENT OF WORK SHALL BE DEEMED TO CREATE ANY LIABILITY ON THE PART OF PDF WITH RESPECT TO THE OUTCOME OF A PROJECT OR ANY ACTIONS TAKEN BY TOSHIBA AS A CONSEQUENCE OF PDF'S RECOMMENDATIONS.

8. MISCELLANEOUS.

8.1 AMENDMENTS AND WAIVERS. Any term of this Agreement or any Statement of Work may be amended or waived only with the written consent by the representatives of the parties.

8.2 SOLE AGREEMENT. This Agreement and the Statement of Work constitute the sole agreement of the parties and supersede all oral negotiations and prior writings with respect to the subject matter hereof.

8.3 NOTICES. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon receipt, when delivered personally or by an internationally-recognized delivery service (such as Federal Express or DHL), or after being deposited in the U.S. mail as certified or registered mail with postage prepaid, if such notice is addressed to the party to be notified at such party's address as set forth above or as subsequently modified by written notice.

8.4 CHOICE OF LAW. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California, without giving effect to the principles of conflict of laws.

8.5 SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of this Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of this Agreement shall be enforceable in

accordance with its other terms.

8.6 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

8.7 ARBITRATION. The parties shall attempt in good faith to resolve any dispute arising under this Agreement. If the parties are unable to resolve dispute within a reasonable period then the dispute shall be finally settled by binding arbitration (a) if brought by Toshiba, in San Jose, California, in accordance with the Commercial Rules of the American Arbitration Association and, (b) if brought by PDF, in Tokyo, Japan in accordance with the rules of the International Chamber of Commerce. In either case such arbitration shall be conducted by one arbitrator appointed in accordance with said rules. The arbitrator shall apply California law, without reference to rules of conflicts of law or rules of statutory arbitration, to the resolution of any dispute. Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Notwithstanding the foregoing, the parties may apply to any court of competent jurisdiction for preliminary or interim equitable relief, or to compel arbitration in accordance with this paragraph, without breach of this arbitration provision.

8.8 EXPORT CONTROL. Neither party shall, directly or indirectly export or re-export any technical data or information or data received from the other party hereunder or the direct products thereof to any destination prohibited or

restricted by export control regulations of Japan and the United States, including U.S. Export Administration Regulations, without proper authorization from the appropriate governmental authorities. In addition, the parties agree that no technology furnished to the other will be used for any purpose to develop and/or manufacture nuclear, chemical or biological weapons and/or missiles.

8.9 NON-SOLICITATION. Toshiba shall not solicit or influence or attempt to influence any person employed by PDF to terminate or otherwise cease his or her employment with PDF or become an employee of Toshiba or any competitor of PDF. A company's status as a competitor of PDF shall be determined by PDF in its sole discretion.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

PDF SOLUTIONS, INC.	TOSHIBA CORPORATION
By: /s/ P. Steven Melman	By: /s/ Koichi Suzuki
P. Steven Melman	Koichi Suzuki, VP
Title: Chief Financial Officer	Title: Group Executive Semiconductor Group

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STATEMENT OF WORK

****
***
****

This Statement of Work is made between PDF Solutions, Inc. ("PDF") and Toshiba Corporation ("TOSHIBA") pursuant to and attached as an exhibit to that certain Technology Cooperation Agreement dated as of ********** (the "AGREEMENT") between PDF and Toshiba. All terms and conditions contained in this Statement of Work are subject to the terms and conditions set forth in the Agreement. The date of commencement of services under this Agreement was ********** (the "ENGAGEMENT COMMENCEMENT DATE").

(a) DELIVERABLES

PDF will provide Toshiba with development work and other consulting services to assist Toshiba in (a) ********** of Toshiba's ********** processes referred to as ********** (and derivatives thereof) for use with the specific ********** ("**********") or any other device that Toshiba selects to use to verify the ********** and ********** Processes (a "**********"), (b) effecting the transfer of the ********** and ********** ********** from Toshiba's *****

facility to its ********** facility, and (c) improving the ********** ***** of ****** manufactured utilizing the ********** (the "**********"), ****** manufactured utilizing the ********** (the "**********"), and any other devices manufactured utilizing the ********** or the ********** such as ********** manufactured utilizing the ********** (the "**********"), ********** manufactured utilizing the ********** (the "**********"), ********** manufactured utilizing the ********** (the "**********"), **********manufactured utilizing the ********** (the "**********"). The **********, the **********, the **********, the **********, the **********, the **********, and each other Toshiba product manufactured utilizing the ********** and the ********** are each individually referred to as a "PRODUCT" and are collectively referred to as the "PRODUCTS". The parties acknowledge and agree that a device (such as **********) manufactured on ********** is a different product than such device (**********, respectively) manufactured on the **********. During the engagement Toshiba engineers will be invited to be part of the team and work at the direction of the PDF engineers in conducting the data gathering and analyses necessary to carry out PDF's holistic yield improvement methodology.

In order to ensure that the work of the team will result in actions and subsequent measurable improvements in **********, the team will report its recommendations directly to a management steering committee consisting of the set of Toshiba managers who are necessary to make all decisions regarding the Product (the "TOSHIBA MANAGEMENT GROUP").

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In providing the Services to Toshiba, PDF, working with Toshiba engineers, will recommend specific actions to be taken to improve ********** ***** of each Product. Where determined by PDF to be necessary, PDF will present a business case stating the expected size of the potential yield improvements, the likely cost of making the improvements and the relative likelihood of success.

The objective of the Project and the result of the activities above will be to deliver the following Deliverables:

DELIVERABLES

No.	Description	Payment	Anticipated Delivery Date
1.	Detailed Project Plan and Schedule.	$********	**********
2.	********** ********.	$********	**********
3.	********** **********	$********	**********
4.	**********.	$********	**********
5.	********** **********	$********	**********
6.	**********.	$********	**********
7.	********** **********.	$********	**********
8.	********** **********	$********	**********

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For the purpose of this Agreement, "SPECIFIED DELIVERABLES" (for example, as used in Section 3.4 of the Agreement) shall mean Deliverable Numbers 2, 3, 4, 5, 6 and 7.

The parties acknowledge that the Analysis Software comprising a part of the Deliverables requires the use of pdFab, pdEx and/or other PDF software products that PDF separately sells or licenses (the "UNDERLYING SOFTWARE"). This Analysis Software consists solely of the specifically and custom designed Analysis Software applicable to Toshiba, and specifically excludes any of the Underlying Software. Any licensee , sublicensee or other user of the Analysis Software must have appropriate licenses to use such Underlying Software. No license, sublicense or other right to use or other right in any Underlying Software is granted under this Agreement and Statement of Work.

PDF will present the findings to the Toshiba Management Group during pre-arranged review meetings. The purpose of these review meetings will be for the Toshiba Management Group to review recommendations, seek clarifications where necessary and decide which yield improvement actions to take.

Within ******** following the delivery of any Deliverable listed above, Toshiba will deliver to PDF such test data and other data and materials as shall be reasonably necessary to enable PDF to prepare and deliver the next Deliverable (the "TOSHIBA DELIVERABLES").

(b) TEAM STRUCTURE

The team is structured to divide the decision-making, project leadership and analysis management between three bodies in the form of "TEAM STRUCTURE" in the form attached to this Statement of Work as Exhibit C.

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Toshiba will establish a Steering Committee (the "STEERING COMMITTEE") which will consist of (a) ********** and any other Toshiba manager who is necessary in order for yield improvement decisions to be made, and (b) ********** or another senior executive of PDF. Toshiba and PDF will make all such personnel available for performance under the Agreement and this Statement of Work. The Steering Committee will be limited to four representatives of Toshiba and one representative of PDF in order to allow decisions to be reached in a timely fashion but will have sufficient authority to make the relevant decisions. The Steering Committee is responsible for giving the team its charter, deciding which yield improvement actions to take and who in the Toshiba organization will be responsible for carrying out the improvement.

Project leadership responsibility will be shared by ******** (the

"TOSHIBA PROJECT LEADER"), on behalf of Toshiba, and ********** (the "PDF PROJECT LEADER"), on behalf of PDF. The Toshiba Project Leader and the PDF Project Manager will consult with ********** of PDF as they together shall deem necessary and appropriate. Their primary responsibility will be to ensure that the team is making good progress toward delivery of the work chartered by the Steering Committee. In order to maximize the likelihood that the team is making good progress, the Toshiba Project Leader and the PDF Project Leader will monitor the team's work on a weekly basis and help reduce any organizational obstacles which may impede the team's progress.

The day-to-day analyses will be conducted by a **********Team ******** of engineers from Toshiba and PDF. A PDF Engagement Manager will manage the activities of the ****. The PDF Engagement Manager will be responsible for directing all team members in their analyses as well as aggregating and synthesizing the results of all the analyses conducted by the entire team. The PDF Engagement Manager will be available for all communications at reasonable times with the project leaders. In addition, the PDF Engagement Manager will be the principal point of contact for any questions that Toshiba personnel not on the **** may have during the course of the engagement.

In addition to the PDF Engagement Manager, PDF will make a total of ********** available to this engagement. PDF may staff additional engineers during critical points during the term of this Agreement.

Also, ********** Toshiba engineers will be asked to participate actively with the ****. Toshiba team members should be assigned to one of the Subgroups and be skilled at one of the principal analytical streams of the PDF yield improvement methodology. They will be placed on the Team and Subgroups after approval by PDF for the purpose of gathering data and conducting analyses to improve yield on the Product. The Toshiba team members will work at the direction of a PDF engineer responsible for one of the Subgroups and principal analytical streams of the engagement.

(c) TOOLS

Toshiba will provide PDF with office space and other typical business resources reasonably requested from time to time by PDF. In particular, Toshiba will provide PDF with secure office space large enough to accommodate up to ** PDF personnel in addition to Toshiba engineers assigned to work on the ****. Toshiba will provide PDF with office equipment reasonably requested by PDF from time to time including **** international access Facsimile machine and line and a photo copier. Toshiba will provide PDF with 24-hour access to the team office so work can continue at night and on weekends.

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Toshiba will provide PDF with computing resources that PDF reasonably deems necessary to **********. The details of such request will be sent in a separate document to the Toshiba Project Leader but in general, Toshiba will provide **** engineering workstations connected to both the Toshiba network and the Internet. Toshiba will also provide such other accessories as PDF shall reasonably request including a removable data storage device, such as a tape drive, and a printer.

(d) LOCATION

The Project will be conducted by Toshiba's and PDF's personnel at Toshiba's ****** ******** in ********** and Toshiba's ********** in **********, and by PDF's personnel at PDF's facilities. In certain cases, PDF may require Toshiba engineers to work at the PDF facility in San Jose, California. PDF engineers may also work in ******** and ******** factory when the engagement manager believes this is necessary to achieve progress. If Toshiba shall provide PDF employees with an English version of the employee

rules and regulations in force at the Toshiba facilities, then PDF employees shall comply with such rules and regulations in all material respects in an equivalent manner as other Toshiba employees generally. Any failure to comply with such rules and regulations shall not constitute a default of a material obligation constituting a basis for termination of this Agreement unless (A) Toshiba has repeatedly given notices of such failure to PDF and PDF has repeatedly failed to remedy such noncompliance as specified in such notices, (B) Toshiba shall notify PDF in writing that failure to cure such repeated non compliance within ******** shall constitute a basis for termination of the Agreement and PDF shall fail to remedy such non compliance, and (C) Toshiba gives final notice of termination within ********** following such ******** period. PDF shall take all reasonable steps necessary to ensure that all employees resident at or visiting a Toshiba facility shall treat as confidential in accordance with Section 6 all material information of a proprietary nature observed by or disclosed to such employee, and shall comply in all material respects with the all export control obligations contained in Section 8.8.

(e) FEES AND EXPENSES.

Toshiba will pay PDF Fees consisting of three components: (1) the Deliverables Fees, (2) the Incentive Fee and (3) the Product Fees, each as defined below:

(i) DELIVERABLES FEES. Toshiba will pay PDF a fixed fee upon delivery of each of the Deliverables equal to the "Payment" with respect to each such Deliverable specified under (a) above (the "DELIVERABLES FEES"). Toshiba acknowledges that PDF delivered Deliverable No. 1 to Toshiba on ********** and hereby Accepts Deliverable No. 1. Upon Acceptance by Toshiba of each other Deliverable, PDF will submit to Toshiba an invoice specifying the

Deliverable delivered and the Deliverable Fee due. Toshiba shall pay the Deliverable Fees within ***** days following the date of the invoice. Payment shall be made in accordance with the provisions of Section 2.2 of the Agreement. If Toshiba shall fail to deliver a Toshiba Deliverable with respect to a PDF Deliverable within the time period specified in the last paragraph of Paragraph (a) of this Statement of Work and as a result, the delivery of the Deliverable by PDF is delayed by more than six weeks after the "Anticipated Delivery Date" referenced in the table in Paragraph (a) of this Statement of Work above, then the parties hereby agree that such Deliverable shall be deemed to have been delivered by PDF upon PDF's delivery of such Deliverable to the extent developed through such date, Toshiba shall be obligated to deliver the respective Deliverable Fee, and upon payment of such Deliverable Fee and delivery of the applicable Toshiba Deliverable, PDF shall complete delivery of the Deliverable; provided that if Toshiba shall wish to modify or alter the Toshiba Deliverable, then the parties shall work together in good faith to mutually agree upon a substitute Toshiba Deliverable in which case, if appropriate, the Deliverable specifications, the Deliverable Fees, time for delivery of Deliverables and due date for completion of Deliverables necessary to satisfy the requirements to receive the Incentive Fee, and the Product Fees applicable to such altered Deliverables shall be appropriately adjusted as well.

(ii) INCENTIVE FEE. PDF shall deliver to Toshiba an analysis report and shall work with Toshiba with the objective of enabling Toshiba to achieve an average yield of ***** shippable die per wafer (based on a die size of ***** square millimeters or smaller), over all lots (excluding lots deemed adversely affected by material operational errors such as equipment malfunctions, misprocessing (such as operating the recipe not in accordance with the specifications) and other similar reasons) of the ********** meeting the Functional Tests and Specifications (as defined below) for which production is completed during any two-week period of Mass Production commencing on or prior to ********** (the last date that two weeks of Mass Production can be completed to achieve the Incentive Fee is referred to as the "INCENTIVE FEE DATE"). Such average number of shippable die per wafer referenced in the

preceding sentence, as adjusted pursuant to the last sentence of this Paragraph (e)(ii), shall be referred to as the (the "INCENTIVE TARGET YIELD"). Upon Toshiba achieving the Incentive Target Yield on or prior to the Incentive Fee Date as described above, Toshiba shall be obligated to pay PDF an incentive fee equal to ******** (the "INCENTIVE FEE"); provided, however, that the Incentive Target Yield shall not be considered achieved and Toshiba shall have no obligation to pay the Incentive Fee unless Toshiba shall have achieved (in the manner provided above) the Incentive Target Yield on or prior to the Incentive Fee Date. In the event the Functional Tests and Specifications for the ********** change then the Incentive Target Yield will be appropriately adjusted to account for the change in specifications.

Upon commencement of Mass Production of the ********** Toshiba will provide PDF with regular, ongoing data as to the yield on the wafers for such Product to enable PDF to assess the average yield on the wafers for such Product for any two-week period commencing on or prior to ********** and will provide PDF with such average yield every two-weeks. Upon achievement of the Incentive Target Yield, Toshiba will notify PDF and PDF will submit to Toshiba an invoice for the Incentive Fee. Toshiba shall pay the Incentive Fee within thirty (30) days following the date of the invoice. Payment shall be made in accordance with the provisions of Section 2.2 of the Agreement.

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PDF's failure to deliver the materials necessary to enable Toshiba to achieve the Incentive Target Yield referenced above on or prior to the Incentive Fee Date shall not constitute a basis for termination of the Agreement under Section 4 of the Agreement.

(iii) PRODUCT FEES. Toshiba will pay PDF a separate Quarterly fee with respect to each separate Product (as defined in the first paragraph in Paragraph (a) of this Statement of Work above) manufactured ** **** ******* *** **** ***** ********** ******** ** ***** **** ******* is manufactured (the "PRODUCT FEES"). If Toshiba determines to ******** * ******* ** ******* ********** ******** ******** ***** ** ******* ** ****, upon Toshiba's request PDF shall assist in assessing such facility's yield ramp methodologies and process transfer data if such facility is to receive ***** of the scheduled production of such Product. If PDF's services in designing new procedures (including without limitation development of test structures, TEGs, analysis models, or other similar services) are necessary to help achieve the targeted yield ** **** ***** ********** ******** ******** ******** shall not be covered by this Agreement but shall be provided pursuant to a separate agreement to be agreed upon between PDF and either Toshiba or the owner of such other facility. The Product Fees shall be calculated separately *** **** ********** ******** ** ***** **** Product is produced, provided that all ********** ********** with respect to which PDF provides services or advice under an agreement with PDF (including this Agreement) shall ********** ** ********** *** ******** **** ******** ********** for purposes of such calculation so long as PDF agrees to include such ******** as a part of such **********. No Product Fees shall be payable with respect to any ******** ***** ** ** ********** ***** ***** ***** ******** ******** *** **** **** ***** ** *** ***** ****** ** ***** ** **** Product produced. In making such calculations and paying such amounts, the foregoing terms (and certain other terms) are defined as follows:

"AVERAGE UNIT SALES PRICE" for any Product during any Quarter shall mean the Net Sales of such Product during such Quarter divided by the total number of units of such Product sold during such Quarter which comprise such Net Sales.

"BASE NUMBER OF SHIPPABLE DIE PER WAFER" for any Product during any Quarter shall mean a number of die per wafer to be determined by agreement between PDF and Toshiba. With respect to the **********, Base Number of Shippable Die Per Wafer shall initially be **** shippable die per wafer (based on a die size of ***** square millimeters or smaller), subject to adjustment pursuant to a ramp schedule to be mutually agreed

upon in writing between Toshiba and PDF before **********. Such ramp schedule shall adjust the Base Number of Shippable Die per Wafer no more frequently than quarterly. For each other Product, within 30 days following the first tape out of such Product, PDF and Toshiba shall meet and agree upon what shall constitute such Base Number of Shippable Die per Wafer for such Product. The adjustments to the Base Number of Shippable Die per Wafer established in the ramp schedule for the ******** Product and with respect to any other Product shall be mutually agreed upon and shall be based upon analysis of the following factors: (a) the defect limited yield used from Toshiba's targets; (b) an estimation of the parametric yield based on static timing analysis and other design factors; (c) an estimation of the typical

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systematic yield based on Toshiba and industry typical yield improvement rates for systematic yield; and (d) the profitability of the Product. The Base Number of Shippable Die Per Wafer for any Product shall be the same for all fabrication facilities.

"FIRST QUALIFYING MONTH" for any Product shall mean the calendar month beginning on the later of (a) the first day of the calendar month immediately following the calendar month in which Mass Production units of such Product are first sold to Customers (unless such first sale occurs on the first day of a calendar month in which case the First Qualifying Month shall commence on the date of such first sale) or (b) **********.

"FUNCTIONAL TESTS AND PERFORMANCE SPECIFICATIONS" for any Product shall mean the functional tests and performance specifications at wafer probe test and at die sort test, as the case may be, as are specified for qualification by the client of Toshiba with respect to such Product, or such other less stringent functional tests and performance specifications that such client shall accept, or such other functional tests and performance specifications as are otherwise mutually agreed upon by Toshiba and PDF.

"NET SALES" for any Product during any Quarter shall mean the actual gross sales of such Product (a) by Toshiba to any customer, distributor or other third party; and (b) by any such customer, distributor or other third party which is controlling, controlled by or under common control ("AFFILIATED") with Toshiba to any other person; during such Quarter, less returns of such Product during such Quarter. Any sales by an affiliated customer, distributor or other third party shall be reduced by the amount paid for such product to Toshiba by such affiliated customer, distributor or other third party under clause (a) above so as to avoid double counting of sales by such parties. Such amounts shall be determined in accordance with generally accepted accounting principles consistently applied. All persons to whom sales of Products are made under clauses (a) and (b) above or otherwise are collectively referred to as "CUSTOMERS."

"MASS PRODUCTION" units shall mean units of a Product that are sold to Customers in mass commercial quantities for use in commercial systems (and not merely for evaluation) or otherwise than for commercial use.

"NUMBER OF QUALIFYING UNITS" for any Product during any Quarter shall mean the amount, if any, by which (a) the total

number of units of such Product which are produced during such Quarter which meet the Functional Tests and Performance Specifications for such Product upon completion of the die sort test (hereinafter referred to as "PRODUCED"), exceeds (b) the Base Number of Shippable Die Per Wafer for such Product during such Quarter multiplied by the total number of wafers from which die for such Product are produced during such Quarter. (This explicitly excludes zero-yielding wafers since zero-yielding wafers are indicative of operational problems like equipment malfunctions or

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misprocessing; not process or design related problems which PDF has the ability to affect.)

"QUARTER" with respect to any Product shall mean each successive three month period commencing on the later of ********** or the First Qualifying Month for such Product.

Amount of Product Fee. The Product Fee for each Product shall be calculated with respect to each Quarter and shall equal the product of:

(a) the product fee multiplier of ******, multiplied by,

(b) the Average Unit Sales Price for such product in such Quarter, multiplied by,

(c) the Number of Qualifying Units in such Quarter.

The Product Fee for all Products at all fabrication facilities shall collectively not exceed ********** in the aggregate.

Calculation of Product Fee. The Product Fee for each Product (as defined in the first paragraph in Paragraph (a) of this Statement of Work above) will be calculated with respect to each such Product for each Quarter commencing with the First Qualifying Month for such Product, and for each additional Quarter thereafter for an aggregate of *** consecutive Quarters (or *** months) (each, the "PRODUCT PAYMENT PERIOD"). The First Qualifying Month and the Product Payment Period shall be calculated separately for each separate Product (as defined above). In the event of a suspension in the production of such Product or the reduction of quantities of production of such Product to less than Mass Production quantities for any reason, the Product Payment Period for which the Product Fee is being calculated and the calculation of the Base Number of Die Per Wafer shall be extended for a period of time equal to the period during which production is suspended or such commercial quantities are not being produced. Notwithstanding the foregoing, no Product Payment Period shall extend beyond, and no Product Fee shall be calculated or payable with respect to any period after, **********.

Payment of Product Fee. The Product Fee will be paid for each Product with respect to each successive Quarter commencing with the Quarter beginning with the First Qualifying Month and continuing through the end of the Product Payment Period. Toshiba will make such payment to PDF within forty-five (45) days following the last day of each such Quarter with respect to which the Product Fee is determined. Payment will be delivered in accordance with the provisions of Section 2.3 of the Agreement.

Verification. Within thirty (30) days following the end of each Quarter, Toshiba will provide PDF with a report containing the following information with respect to each Product during such Quarter:

(a) the "Net Sales";

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(b) the total number of units sold which comprise such Net Sales;

(c) the "Average Sales Price;"

(d) the total number of units which are produced during such Quarter which meet the applicable Functional Tests and Performance Specifications upon completion of the wafer probe test;

(e) the "Base Number of Shippable Die Per Wafer;"

(f) the total number of wafers from which Mass Production Units are produced during such Quarter; and

(g) the "Number of Qualifying Units."

Upon the reasonable request of PDF but no more often than once in any year, PDF may have its independent auditors inspect the accuracy of Toshiba's reports. If there are inconsistencies found in PDF's favor, Toshiba agrees to pay the difference within thirty (30) days of the finding. Any information contained in the report and the results of the inspection shall be considered Confidential Information under Section 6 of the Agreement.

(iv) EXPENSES.

Toshiba will reimburse PDF for all Expenses incurred by PDF in performing the services, delivering the Deliverables and fulfilling its obligations under the Project. The Expenses will be billed to Toshiba at PDF's cost and will not exceed an average of ******** per calendar quarter without the written consent of Toshiba. PDF will submit to Toshiba invoices specifying the Expenses and Toshiba will pay the Deliverable Fees within thirty (30) days following the date of the invoice. Invoices will be submitted to Toshiba no more frequently than a monthly basis. Payments of invoices for PDF's expenses will be made in accordance with the provisions of Section 2.2 of the Agreement. Notwithstanding the foregoing if PDF is entitled to receive reimbursement of the same travel, lodging and other similar expenses from both Toshiba and other customers, then PDF will allocate any expenses that are for the benefit of both Toshiba and such other customers, among Toshiba and such other customers on a basis that PDF shall determine is fair, just and equitable to Toshiba and such other customers taking into account all relevant factors.

(v) VERIFICATION.

Toshiba will provide PDF access to all other relevant information and documentation (or will provide PDF with copies of all relevant documentation) necessary to confirm and verify the Deliverables Fees, the Incentive Fee and Product Fees payable to PDF hereunder.

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PROJECT: TOSHIBA -
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AMENDMENT NO. 1
TO
TECHNOLOGY COOPERATION AGREEMENT

This Amendment No. 1 to the Technology Cooperation Agreement (the "AMENDMENT") is made as of the ********** by and between Toshiba Corporation, a corporation organized under the laws of Japan ("TOSHIBA") having its principal place of business at 1-1 Shibaura 1-chome, Minato-ku, Tokyo 105-8001, Japan, and PDF Solutions, Inc., a corporation organized under the laws of California ("PDF") having its principal place of business at 333 West San Carlos Street, Suite 1200, San Jose, California, U.S.A.

RECITALS

WHEREAS, on **********, Toshiba and PDF entered into a Technology Cooperation Agreement (the "AGREEMENT") relating to the provision of services by PDF to Toshiba.

WHEREAS, the Agreement contained a Statement of Work which detailed the specific obligations of PDF and Toshiba with respect to the Project; and

WHEREAS, the schedule for the mass production of the products covered by the Agreement has been delayed by certain circumstances, and the parties desire to amend the Statement of Work to change the terms and conditions relating to the Incentive Fee and the Product Fee sections in the Statement of Work to more accurately reflect the parties' intentions.

NOW THEREFORE, in consideration of the mutual promises, covenants and conditions contained herein, the adequacy of which is hereby acknowledged, the parties hereto mutually agree as follows:

1. Definitions. All capitalized terms unless defined elsewhere in this Amendment shall have the meanings ascribed to them in the Agreement

2. Statement of Work. Paragraphs (e)(ii) and e(iii) of the Statement of Work are hereby amended and restated their entirety as follows:

"(ii) INCENTIVE FEE. PDF shall deliver to Toshiba analysis reports and shall work with Toshiba with the objective of enabling Toshiba to achieve the First, Second and Third Incentive Target Yield (each as defined below) (collectively, the "INCENTIVE TARGET YIELDS"). Upon Toshiba achieving any of the First, Second or Third Incentive Target Yields, Toshiba shall pay PDF the First, Second or Third Incentive Fee (each as defined below), respectively, which Fees shall total ******** (collectively, the "INCENTIVE FEES"). The Incentive Fees and Incentive Target Yields shall be determined as follows:

* CONFIDENTIAL TREATMENT REQUESTED. CONFIDENTIAL PORTION HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

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(a) FIRST INCENTIVE FEE. Toshiba shall pay PDF ******** (the "FIRST INCENTIVE FEE") upon achieving a yield of *** shippable die (based on a die size of **** square millimeters or smaller) on any single wafer of the ********** Product produced and meeting the Functional Tests and Specifications (as defined below) measured at wafer probe test at any time on or prior to ********** (the "FIRST INCENTIVE TARGET YIELD");

(b) SECOND INCENTIVE FEE. Toshiba shall pay PDF ******** (the "SECOND INCENTIVE FEE") upon achieving an average yield of ****** shippable die per wafer (based on a die size of **** square millimeters or smaller), on any single lot of wafers of the ******** Product meeting the Functional Tests and Specifications measured at wafer probe test or prior to ************ (the "SECOND INCENTIVE TARGET YIELD"); and

(c) THIRD INCENTIVE FEE. Toshiba shall pay PDF ******** (the "THIRD INCENTIVE FEE") upon achieving an average yield of **** shippable die per wafer (based on a die size of **** square millimeters or smaller), over all lots (excluding lots deemed adversely affected by material operational errors such as equipment malfunctions, misprocessing (such as operating the recipe not in accordance with the specifications) and other similar reasons) of the ************ Product meeting the Functional Tests and Specifications measured at final test for which production is completed during any two-week period of Mass Production commencing on or prior to ************ (the last date that two weeks of Mass Production can be completed to achieve the Third Incentive Fee is referred to as the "INCENTIVE FEE DATE") (the "THIRD INCENTIVE TARGET YIELD");

provided, however, that no Incentive Target Yield shall be considered achieved and Toshiba shall have no obligation to pay the Incentive Fee corresponding to achievement of such Incentive Target Yield unless Toshiba shall have achieved (in the manner provided above) such Incentive Target Yield on or prior to the Incentive Fee Date. In the event the Functional Tests and Specifications for the ************ Product change then the respective Incentive Target Yields will be appropriately adjusted to account for the change in specifications.

Upon commencement of Mass Production of the ************ Product Toshiba will provide PDF with regular, ongoing data as to the yield on the wafers for such Product on a periodic basis to enable PDF to assess each Incentive Target Yield. Upon achievement of each Incentive Target Yield, Toshiba will notify PDF and PDF will submit to Toshiba an invoice for the respective Incentive Fee. Toshiba shall pay each Incentive Fee within thirty (30) days following the date of the invoice. Payment shall be made in accordance with the provisions of Section 2.2 of the Agreement.

PDF's failure to deliver the materials necessary to enable Toshiba to achieve the Incentive Target Yields referenced above on or prior to the respective Incentive Fee Dates shall not constitute a basis for termination of the Agreement under Section 4 of the Agreement.

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(iii) PRODUCT FEES. Toshiba will pay PDF a separate Quarterly fee with respect to each separate Product (as defined in the first paragraph in Paragraph (a) of this Statement of Work above) manufactured at each Toshiba and each other fabricator's facility at which such Product is manufactured (the "PRODUCT FEES"). If Toshiba determines to **
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**********. If PDF's services in designing new procedures (including without limitation development of test structures, TEGs, analysis models, or other similar services) are necessary to help achieve the targeted yield **********
********** then such services shall not be covered by this Agreement but shall be provided pursuant to a separate agreement to be agreed upon between PDF and **********. The Product Fees shall be calculated separately for ********** at which such Product is produced, provided that all fabrication facilities with respect to

which PDF provides services or advice under an agreement with PDF (including this Agreement) shall collectively be considered one facility (the "PRIMARY FACILITY") for purposes of such calculation so long as PDF agrees to include such facility as a part of such Primary Facility. No Product Fees shall be payable with respect to any facility owned by an unaffiliated third party which facility accounts for less than 25% of the total number of units of such Product produced. In making such calculations and paying such amounts, the foregoing terms (and certain other terms) are defined as follows:

"AVERAGE NUMBER OF SHIPPABLE DIE PER WAFER" for any Product during any Quarter shall mean the average number of shippable die per wafer (based on a die size of **** square millimeters or smaller), over all lots (excluding engineering lots and lots deemed adversely affected by material operational errors such as equipment malfunctions, misprocessing (such as operating the recipe not in accordance with the specifications) and other similar reasons) of such Product during such Quarter meeting the Functional Tests and Specifications measured at final test for which production is completed during such Quarter.

"BASE NUMBER OF SHIPPABLE DIE PER WAFER" for any Product during any Quarter shall mean a number of die per wafer to be determined by agreement between PDF and Toshiba.

(a) With respect to the ******** Product, Base Number of Shippable Die Per Wafer shall initially be **** shippable die per wafer in the Quarter commencing ******** through **********, *** shippable die per wafer in the Quarter commencing ********** through ********** and *** shippable die per wafer in the Quarter commencing ********** through ********** and thereafter (based on a die size of **** square millimeters or smaller).

(b) With respect to the Base Number of Shippable Die Per Wafer for the ******* Product, the Base Number of Shippable Die per Wafer shall be

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mutually agreed upon by the parties within *** days of the date of execution of the Amendment.

(c) For each other Product, within *** days following the first tape out of such Product, PDF and Toshiba shall meet and agree upon what shall constitute such Base Number of Shippable Die per Wafer for such Product. The adjustments to the Base Number of Shippable Die per Wafer established in the ramp schedule for the ********** Product and with respect to any other Product shall be mutually agreed upon and shall be based upon analysis of the following factors: **********
****
****
****
****
****
****
****

"CURRENT WAFER PRICE" shall mean the following:

(a) With respect to ********** Products, the "Current Wafer Price" in the Quarter commencing ********** though ********** shall be ********. Such price shall be reduced by ******** percent in the Quarter commencing ********** through **********. On a quarterly basis thereafter determined one week prior to the commencement of such Quarter, the price will be

adjusted to reflect then current market prices for such wafers and other relevant market conditions, provided that such reductions shall not exceed ********** percent in any consecutive 12-month period. If market prices for such wafers vary more than plus or minus ********** in any consecutive 12-month period, the parties agree to re-examine the prices and to make alterations accordingly, as mutually agreed upon.

(b) With respect to ******** Products, the "Current Wafer Price" in the Quarter commencing ******** though ******** shall be ********. Such price shall be reduced by ******** percent in the Quarter commencing ********** through **********. On a quarterly basis thereafter determined one week prior to the commencement of such Quarter, the price will be adjusted to reflect then current market prices for such wafers and other relevant market conditions, provided that such reductions shall not exceed ********** percent in any consecutive 12-month period. If market prices for such wafers vary more than plus or minus ********** in any consecutive 12-month period, the parties agree to re-examine the prices and to make alterations accordingly, as mutually agreed upon.

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"FIRST QUALIFYING MONTH" for any Product shall mean the calendar month beginning on the later of (a) the first day of the calendar month immediately following the calendar month in which Mass Production units of such Product are first sold to Customers (unless such first sale occurs on the first day of a calendar month, the First Qualifying Month shall commence on the date of such first sale) or (b) **********.

"FUNCTIONAL TESTS AND PERFORMANCE SPECIFICATIONS" for any Product shall mean the functional tests and performance specifications at wafer probe test, at die sort test and at final test, as the case may be, as are specified for qualification by the client of Toshiba with respect to such Product, or such other less stringent functional tests and performance specifications that such client shall accept, or such other functional tests and performance specifications as are otherwise mutually agreed upon by Toshiba and PDF.

"MASS PRODUCTION" units shall mean units of a Product that are sold to Customers in mass commercial quantities for use in commercial systems (and not merely for evaluation) or otherwise than for commercial use, and/or when the final mark set has been approved for mass production.

"QUARTER" with respect to any Product shall mean each successive three month period commencing on the later of ********** or the First Qualifying Month for such Product.

Amount of Product Fee. The Product Fee for each Product shall be calculated with respect to each Quarter and shall equal the product of:

(a) the Current Wafer Price for such Product during such Quarter multiplied by *****;

(b) multiplied by *****;

(c) multiplied by the difference determined by (x) the quotient of the Average Number of Shippable Die per Wafer divided by the Base Number of Shippable Die per Wafer for such Product during such Quarter minus (y) one (1);

(d) multiplied by the number of Mass Production wafers for such Product during such Quarter.

The Product Fee for all Products at all fabrication facilities shall collectively not exceed ******** in the aggregate.

Calculation of Product Fee. The Product Fee for each Product (as defined in the first paragraph in Paragraph (a) of this Statement of Work above) will be calculated with respect to each such Product for each Quarter commencing with the First Qualifying Month for such

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Product, and for each additional Quarter thereafter for an aggregate of 8 consecutive Quarters (or 24 months) (each, the "PRODUCT PAYMENT PERIOD"). The First Qualifying Month and the Product Payment Period shall be calculated separately for each separate Product (as defined above). In the event of a suspension in the production of such Product or the reduction of quantities of production of such Product to less than Mass Production quantities for any reason, the Product Payment Period for which the Product Fee is being calculated and the calculation of the Base Number of Die Per Wafer shall be extended for a period of time equal to the period during which production is suspended or such commercial quantities are not being produced. Notwithstanding the foregoing, no Product Payment Period shall extend beyond, and no Product Fee shall be calculated or payable with respect to any period after, **********.

Payment of Product Fee. The Product Fee will be paid for each Product with respect to each successive Quarter commencing with the Quarter beginning with the First Qualifying Month and continuing through the end of the Product Payment Period. Toshiba will make such payment to PDF within *** days following the last day of each such Quarter with respect to which the Product Fee is determined. Payment will be delivered in accordance with the provisions of Section 2.3 of the Agreement.

Verification. Within thirty (30) days following the end of each Quarter, Toshiba will provide PDF with a report containing the following information with respect to each Product during such Quarter:

(a) the Average Number of Shippable Die per Wafer (including method of calculating such number);

(b) the total number of units which are produced which meet the applicable Functional Tests and Performance Specifications upon completion of the wafer probe test; and

(c) the total number of Mass Production wafers produced.

Upon the reasonable request of PDF but no more often than once in any year, PDF may have its independent auditors inspect the accuracy of Toshiba's reports and the underlying data. If there are inconsistencies found in PDF's favor, Toshiba agrees to pay the difference within thirty (30) days of the finding. Any information contained in the report and the results of the inspection shall be considered Confidential Information under Section 6 of the Agreement.

3. Counterparts. This Amendment may be executed in any number of counterparts, all of which together shall constitute one instrument.

[SIGNATURE PAGE FOLLOWS]

The parties hereto have executed this Amendment as of the date first set forth above.

PDF SOLUTIONS, INC.	TOSHIBHA
By: /s/ John K. Kibarian	By: /s/ Shigen Komats
Title: President & CEO	Title: Vice President Micro & Custom LSI Division Semiconductor Company

EXHIBIT 10.10

PDF SOLUTIONS, INC.

2001 STOCK PLAN

EFFECTIVE AS OF [DATE OF INITIAL PUBLIC OFFERING], 2001

PDF SOLUTIONS, INC.

2001 STOCK PLAN

EFFECTIVE AS OF [DATE OF INITIAL PUBLIC OFFERING], 2001

SECTION 1. INTRODUCTION.

The Company's Board of Directors adopted the PDF Solutions, Inc. 2001 Stock Plan on June 12, 2001 (the "Adoption Date"), and the Company's stockholders approved the Plan on [APPROVAL DATE]. The Plan is effective on the date of our initial public offering.

The purpose of the Plan is to promote the long-term success of the Company and the creation of shareholder value by offering Key Employees an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, and to encourage such selected persons to continue to provide services to the Company and to attract new individuals with outstanding qualifications.

The Plan seeks to achieve this purpose by providing for Awards in the form of Stock Purchase Rights granting Restricted Stock and Options which may be Incentive Stock Options or Nonstatutory Stock Options.

The Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware (except its choice-of-law provisions). Capitalized terms shall have the meaning provided in Section 2 unless otherwise provided in this Plan or the applicable Stock Option Agreement or Restricted Stock 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. For purposes of determining an individual's "Service," this definition shall include any entity other than a Subsidiary, if the Company, a Parent and/or one or more Subsidiaries own not less than 50% of such entity.

(b) "AWARD" means any award of an Option or Stock Purchase Right under the Plan.

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

(d) "CHANGE IN CONTROL" except as may otherwise be provided in a Stock Option Agreement or Restricted Stock Agreement, means the occurrence of any of the following:

(i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization;

(ii) The sale, transfer or other disposition of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board, as a result of which fewer that one-half of the incumbent directors are directors who either (i) had been directors of the Company on the date 24 months prior to the date of the event that may constitute a Change in Control (the "original directors") or (ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the aggregate of the original directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved;

(iv) Any transaction as a result of which any person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing at least 20% of the total voting power represented by the Company's then outstanding voting securities. For purposes of this Paragraph (iii), the term "person" shall have the same meaning as when used in sections 13(d) and 14(d) of the Exchange Act but shall exclude:

(A) A trustee or other fiduciary holding securities under an employee benefit plan of the Company or a subsidiary of the Company;

(B) A corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company; and

(C) The Company; or

(v) A complete liquidation or dissolution of the Company.

(e) "CODE" means the Internal Revenue Code of 1986, as amended.

(f) "COMMITTEE" means a committee consisting of one or more members of the Board that is appointed by the Board (as described in Section 3) to administer the Plan.

(g) "COMMON STOCK" means the Company's common stock.

(h) "COMPANY" means PDF Solutions, Inc.

(i) "CONSULTANT" means an individual who performs bona fide services to the Company, a Parent, a Subsidiary or an Affiliate other than as an Employee or Director or Non-Employee Director.

(j) "DIRECTOR" means a member of the Board who is also an Employee.

(k) "DISABILITY" means that the Key Employee 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.

(l) "EMPLOYEE" means any individual who is a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

(m) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(n) "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.

(o) "FAIR MARKET VALUE" means the market price of Shares, determined by the Committee as follows:

(i) If the Shares were traded on a stock exchange on the date in question, then the Fair Market Value shall be equal to the last trading price reported by the applicable composite transactions report for such date;

(ii) If the Shares were traded over-the-counter on the date in question and were classified as a national market issue, then the Fair Market Value shall be equal to the last trading price quoted by the NASDAQ system for such date;

(iii) If the Shares were traded over-the-counter on the date in question but were not classified as a national market issue, then the Fair Market Value shall be equal to the mean between the last reported representative bid and asked prices quoted by the NASDAQ system for such date; and

(iv) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported in the Wall Street Journal. Such determination shall be conclusive and binding on all persons.

(p) "GRANT" means any grant of an Award under the Plan.

(q) "INCENTIVE STOCK OPTION" or "ISO" means an incentive stock option described in Code section 422(b).

(r) "KEY EMPLOYEE" means an Employee, Director, Non-Employee Director or Consultant who has been selected by the Committee to receive an Award under the Plan.

(s) "NON-EMPLOYEE DIRECTOR" means a member of the Board who is not an Employee.

(t) "NONSTATUTORY STOCK OPTION" or "NSO" means a stock option that is not an ISO.

(u) "OPTION" means an ISO or NSO granted under the Plan entitling the Optionee to purchase Shares.

(v) "OPTIONEE" means an individual, estate or other entity that holds an Option.

(w) "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 fifty percent (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.

(x) "PARTICIPANT" means an individual or estate or other entity that holds an Award.

(y) "PLAN" means this PDF Solutions, Inc. 2001 Stock Incentive Plan as it may be amended from time to time.

(z) "RESTRICTED STOCK" means a Share awarded under the Plan pursuant to a Stock Purchase Right.

(aa) "RESTRICTED STOCK AGREEMENT" means the agreement described in Section 8 evidencing Restricted Stock that may be purchased following the Award of a Stock Purchase Right.

(bb) "SECURITIES ACT" means the Securities Act of 1933, as amended.

(cc) "SERVICE" means service as an Employee, Director, Non-Employee Director or Consultant.

(dd) "SHARE" means one share of Common Stock.

(ee) "STOCK OPTION AGREEMENT" means the agreement described in Section 6 evidencing each Grant of an Option.

(ff) "STOCK PURCHASE RIGHT" means the right to acquire Restricted Stock pursuant to Section 8.

(gg) "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 fifty percent (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.

(hh) "10-PERCENT SHAREHOLDER" means an individual who owns more than ten percent (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 section 424(d) of the Code shall be applied.

SECTION 3. ADMINISTRATION.

(a) COMMITTEE COMPOSITION. A Committee appointed by the Board shall administer the Plan. The Board shall designate one of the members of the Committee as chairperson. If no Committee has been approved, the entire Board shall constitute the Committee. Members of the 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.

With respect to officers or directors subject to Section 16 of the Exchange Act, the Committee shall consist of those individuals who shall satisfy the requirements of Rule 16b-3 (or its successor) under the Exchange Act with respect to Awards granted to persons who are officers or directors of the Company under Section 16 of the Exchange Act. Notwithstanding the previous sentence, failure of the Committee to satisfy the requirements of Rule 16b-3 shall not invalidate any Awards granted by such Committee.

The Board may also appoint one or more separate committees of the Board, each composed of one or more directors of the Company who need not qualify under Rule 16b-3, who may administer the Plan with respect to Key Employees who are not considered officers or directors of the Company under Section 16 of the Exchange Act, may grant Awards under the Plan to such Key Employees and may determine all terms of such Awards.

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

(b) AUTHORITY OF THE COMMITTEE. Subject to the provisions of the Plan,

the Committee shall have full authority and discretion to take any actions it deems necessary or advisable for the administration of the Plan. Such actions shall include:

(i) selecting Key Employees who are to receive Awards under the Plan;

(ii) determining the type, number, vesting requirements and other features and conditions of such Awards;

(iii) interpreting the Plan; and

(iv) making all other decisions relating to the operation of the Plan.

The Committee may adopt such rules or guidelines, as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

(c) INDEMNIFICATION. Each member of the Committee, or of the Board, 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 Stock Option Agreement or Restricted Stock 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 Certificate 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. ELIGIBILITY.

(a) GENERAL RULES. Only Employees, Directors, Non-Employee Directors and Consultants shall be eligible for designation as Key Employees by the Committee.

(b) INCENTIVE STOCK OPTIONS. Only Key Employees who are common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs. In addition, a Key Employee who is a 10-Percent Shareholder shall not be eligible for the grant of an ISO unless the requirements set forth in section 422(c)(5) of the Code are satisfied.

(c) NON-EMPLOYEE DIRECTOR OPTIONS. Non-Employee Directors shall also be eligible to receive Options as described in this Section 4(c) from and after the date the Board has determined to implement this provision.

(i) Each eligible Non-Employee Director elected or appointed after the effective date of the Company's initial public offering shall automatically be granted an NSO to purchase 30,000 Shares (after giving effect to the June 2001 stock split) (subject to adjustment under Section 9) as a result of his or her initial election or appointment as a Non-Employee Director. Upon the conclusion of each regular annual meeting of the Company's stockholders following his or her initial appointment, each eligible Non-Employee Director who will continue serving as a member of the Board and who received an initial grant thereafter shall receive an NSO to purchase 7,500 Shares (after giving effect to the June 2001 stock split) (subject to adjustment under Section 9). All NSOs granted pursuant to this Section 4 shall vest and become exercisable provided the individual is serving as a director of the Company as of the vesting date as follows: 25% one year

from the date of grant, then in 36 equal monthly installments commencing on the date one month and one year after the date of grant.

(ii) All NSOs granted to Non-Employee Directors under this Section 4(c) shall become exercisable in full in the event of Change in Control with respect to the Company.

(iii) The Exercise Price under all NSOs granted to a Non-Employee Director under this Section 4(c) shall be equal to one hundred percent (100%) of the Fair Market Value of a Share of Common Stock on the date of grant, payable in one of the forms described in Section 7.

(iv) All NSOs granted to a Non-Employee Director under this Section 4(c) shall terminate on the earlier of:

(1) The 10th anniversary of the date of grant; or

(2) The date ninety (90) days after the termination of such Non-Employee Director's Service for any reason.

SECTION 5. SHARES SUBJECT TO PLAN.

(a) BASIC LIMITATION. The stock issuable under the Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares reserved for Awards under the Plan shall not exceed 3,000,000 Shares (after giving effect to the June 2001 stock split).

(b) ANNUAL ADDITION. Beginning with the first fiscal year of the Company beginning after the Effective Date, on the first day of each fiscal year, Shares will be added to the Plan equal to the lesser of (i) 3,000,000 Shares (after giving effect to the June 2001 stock split), (ii) five percent (5%) of the outstanding shares in the last day of the prior fiscal year, or (iii) such lesser number of Shares as may be determined by the Board in its sole discretion.

(c) ADDITIONAL SHARES. If Awards are forfeited or terminate for any other reason before being exercised, then the Shares underlying such Awards shall again become available for Awards under the Plan.

(d) LIMITS ON OPTIONS. No Key Employee shall receive Options to purchase Shares during any fiscal year covering in excess of 1,000,000 Shares (after giving effect to the June 2001 stock split), or 2,000,000 Shares (after giving effect to the June 2001 stock split) in the first fiscal year of a Key Employee's employment with Company.

(e) LIMITS ON STOCK PURCHASE RIGHTS. No Key Employee shall receive an Award of Stock Purchase Rights during any fiscal year covering in excess of 500,000 Shares (after giving effect to the June 2001 stock split), or

1,000,000 Shares (after giving effect to the June 2001 stock split) in the first fiscal year of a Key Employee's employment with Company.

SECTION 6. TERMS AND CONDITIONS OF OPTIONS.

(a) STOCK OPTION AGREEMENT. Each Grant under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. 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. A Stock Option Agreement may provide that new Options will be granted automatically to the Optionee when he or she exercises the prior

Options. The Stock Option Agreement shall also 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 and shall provide for the adjustment of such number in accordance with Section 9.

(c) EXERCISE PRICE. An Option's Exercise Price shall be established by the Committee and set forth in a Stock Option Agreement. The Exercise Price of an ISO shall not be less than 100% of the Fair Market Value (110% for 10-Percent Shareholders) of a Share on the date of Grant. In the case of an NSO, a Stock Option Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the NSO is outstanding.

(d) EXERCISABILITY AND TERM. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO shall in no event exceed ten (10) years from the date of Grant. An ISO that is granted to a 10-Percent Shareholder shall have a maximum term of five (5) years. No Option can be exercised after the expiration date provided in the applicable Stock Option Agreement. A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. A Stock Option Agreement may permit an Optionee to exercise an Option before it is vested, subject to the Company's right of repurchase over any Shares acquired under the unvested portion of the Option (an "early exercise"), which right of repurchase shall lapse at the same rate the Option would have vested had there been no early exercise. In no event shall the Company be required to issue fractional Shares upon the exercise of an Option.

(e) 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. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such Option.

(f) TRANSFERABILITY OF OPTIONS. Except as otherwise provided in the applicable Stock Option Agreement and then only to the extent permitted by applicable law, 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 lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

(g) NO RIGHTS AS STOCKHOLDER. An Optionee, or a transferee of an Optionee, shall have no rights as a stockholder with respect to any Common Stock covered by an Option until such person becomes entitled to receive such Common Stock by filing a notice of exercise and paying the Exercise Price pursuant to the terms of such Option.

(h) RESTRICTIONS ON TRANSFER. Any Shares issued upon exercise of an Option shall be subject to such rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. 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.

SECTION 7. PAYMENT FOR OPTION SHARES.

(a) GENERAL RULE. The entire Exercise Price of Shares issued upon exercise of Options shall be payable in cash at the time when such Shares are purchased, except as follows:

(i) In the case of an ISO granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described in this Section 7.

(ii) 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 7.

(b) SURRENDER OF STOCK. To the extent that this Section 7(b) is applicable, payment for all or any part of the Exercise Price may be made with Shares which have already been owned by the Optionee for such duration as shall be specified by the Committee. Such Shares shall be valued at their Fair Market Value on the date when the new Shares are purchased under the Plan.

(c) PROMISSORY NOTE. To the extent that this Section 7(c) is applicable, payment for all or any part of the Exercise Price may be made with a full-recourse promissory note.

(d) OTHER FORMS OF PAYMENT. To the extent that this Section 7(d) is applicable, payment may be made in any other form that is consistent with applicable laws, regulations and rules.

SECTION 8. TERMS AND CONDITIONS FOR AWARDS OF STOCK PURCHASE RIGHTS.

(a) TIME, AMOUNT AND FORM OF AWARDS. Awards under this Section 8 may be granted in the form of Stock Purchase Rights pursuant to which Restricted Stock will be awarded to a Key Employee. Such Rights may also be awarded in combination with NSOs, and such an Award may provide that the Restricted Stock will be forfeited in the event that the related NSOs is exercised.

(b) AGREEMENTS. Each Award of a Stock Purchase Right under the Plan shall be evidenced by a Restricted Stock Agreement between the Participant and the Company. Such Awards 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 the applicable Agreement. The provisions of the various Agreements entered into under the Plan need not be identical.

(c) PAYMENT FOR RESTRICTED STOCK. Restricted Stock may be issued pursuant to the Award of a Stock Purchase Right with or without cash consideration under the Plan.

(d) VESTING CONDITIONS. Each Award of Restricted Stock shall become vested, in full or in installments, upon satisfaction of the conditions specified in the applicable Agreement. An Agreement may provide for accelerated vesting in the event of the Participant's death, Disability or retirement or other events.

(e) ASSIGNMENT OR TRANSFER OF RESTRICTED STOCK. Except as provided in Section 13, or in a Restricted Stock Agreement, or as required by applicable law, an Award granted under this Section 8 shall not 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. However, this Section 8(e) shall not preclude a Participant from designating a beneficiary who will receive any outstanding Restricted Stock in the event of the Participant's death, nor shall it preclude a transfer of Restricted Stock by will or by the laws of descent and distribution.

(f) TRUSTS. Neither this Section 8 nor any other provision of the Plan shall preclude a Participant from transferring or assigning Restricted Stock to (a) the trustee of a trust that is revocable by such Participant alone, both at the time of the transfer or assignment and at all times thereafter prior to such Participant's death, or (b) the trustee of any other trust to the extent approved in advance by the Committee in writing. A transfer or assignment of Restricted Stock from such trustee to any person other than such Participant shall be permitted only to the extent approved in advance by the Committee in writing, and Restricted Stock held by such trustee shall be subject to all of the conditions and

restrictions set forth in the Plan and in the applicable Restricted Stock Agreement, as if such trustee were a party to such Agreement.

(g) VOTING AND DIVIDEND RIGHTS. The holders of Restricted Stock acquired pursuant to a Stock Purchase Right awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Restricted Stock Agreement, however, may require that the holders of Restricted Stock invest any cash dividends received in additional Restricted Stock. Such additional Restricted Stock shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid. Such additional Restricted Stock shall not reduce the number of Shares available under Section 5.

SECTION 9. 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, reorganization, merger, liquidation, spin-off or a similar occurrence, the Committee shall make such adjustments as it, in its reasonable discretion, deems appropriate in order to prevent the dilution or enlargement of rights hereunder in one or more of:

(i) the number of Shares available for future Awards and the per person Share limits under Section 5;

(ii) the number of Shares covered by each outstanding Award; or

(iii) the Exercise Price under each outstanding Option.

(b) PARTICIPANT RIGHTS. Except as provided in this Section 9, 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.

SECTION 10. EFFECT OF A CHANGE IN CONTROL.

(a) MERGER OR REORGANIZATION. In the event that the Company is a party to a merger or other reorganization, outstanding Awards shall be subject to the 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.

(b) ACCELERATION. Except as otherwise provided in the applicable Stock Option Agreement or Restricted Stock Agreement, in the event that a Change in Control occurs with respect to the Company and the applicable agreement of merger or reorganization provides for assumption or continuation of Awards pursuant to Section 10(a), no acceleration of vesting shall occur. In the event that a Change in Control occurs with respect to the Company and there is no assumption or continuation of Awards pursuant to Section 10(a), all Awards shall vest and become immediately exercisable.

SECTION 11. LIMITATIONS ON RIGHTS.

(a) RETENTION RIGHTS. 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 Parents and 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 Certificate of Incorporation and Bylaws and a written employment agreement (if any).

(b) STOCKHOLDERS' RIGHTS. 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 a stock certificate for such Shares. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such certificate is issued, except as expressly provided in Section 9.

(c) REGULATORY REQUIREMENTS. Any other provision of the Plan notwithstanding, the obligation of the Company to issue Shares 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 pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

SECTION 12. WITHHOLDING TAXES.

(a) GENERAL. A Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations 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. If a public market for the Company's Shares exists, the Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations 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. Such Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. In no event may the Company allow Shares to be withheld in an amount that exceeds the minimum statutory withholding rates for federal and state tax purposes, including payroll taxes. 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 Securities and Exchange Commission.

SECTION 13. DURATION AND AMENDMENTS.

(a) TERM OF THE PLAN. The Plan, as set forth herein, shall become effective on the date of its adoption by the Board, subject to the

approval of the Company's stockholders. No Options shall be exercisable until such stockholder approval is obtained. In the event that the stockholders fail to approve the Plan within twelve (12) months after its adoption by the Board, any Awards made shall be null and void and no additional Awards shall be made. The Plan shall terminate on the date that is ten (10) years after its adoption by the Board and may be terminated on any earlier date pursuant to Section 13(b).

(b) RIGHT TO AMEND OR TERMINATE THE PLAN. The Board may amend or terminate the Plan at any time and for any reason. The termination of the Plan, or any amendment thereof, shall not affect 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 required by applicable laws, regulations or rules.

GRANT NO. _____

PDF SOLUTIONS, INC.

2001 STOCK PLAN

INCENTIVE STOCK OPTION AGREEMENT

PDF Solutions, Inc. (the "Company"), hereby grants an Option to purchase shares of its common stock (the "Shares") to the Optionee named below. The terms and conditions of the Option are set forth in this cover sheet, in the attachment and in the Company's 2001 Stock Plan (the "Plan").

Date of Option Grant: _____, 2001

Name of Optionee: _____

Optionee's Social Security Number: _____-____-_____

Number of Shares Covered by Option: _____

Exercise Price per Share: $_____.___

Vesting Start Date: _____, 2001

Vesting Schedule:

Subject to all the terms of the attached Agreement, your right to purchase Shares under this Option vests as to ONE-FOURTH (1/4) of the total number of Shares covered by this Option, as shown above, on the one-year anniversary of the Vesting Start Date. Thereafter, the number of Shares which you may purchase under this Option shall vest at the rate of ONE-FORTY-EIGHTH (1/48) per month on the 1st day of each of the THIRTY-SIX (36) MONTHS following the month of the one-year anniversary of the Vesting Start Date. The resulting aggregate number of vested Shares will be rounded to the nearest whole number. No additional Shares will vest after your Service has terminated for any reason.

BY SIGNING THIS COVER SHEET, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED IN THE ATTACHED AGREEMENT AND IN THE PLAN, A COPY OF WHICH IS ALSO ENCLOSED.

Optionee:_____
(Signature)

Company:_____
(Signature)

Title:_____

Attachment

PDF SOLUTIONS, INC.

2001 STOCK PLAN

STOCK OPTION AGREEMENT

THE PLAN AND OTHER AGREEMENTS	The text of the Plan is incorporated in this Agreement by reference. Certain capitalized terms used in this Agreement are defined in the Plan. This Agreement and the Plan constitute the entire understanding between you and the Company regarding this Option. Any prior agreements, commitments or negotiations concerning this Option are superseded.
INCENTIVE STOCK OPTION	This Option is intended to be an Incentive Stock Option under section 422 of the Internal Revenue Code and will be interpreted accordingly. If you cease to be an employee of the Company, a Subsidiary or of a Parent but continue to provide Service, this Option will be deemed a Nonstatutory Stock Option on the 90th day after you cease to be an employee. In addition, to the extent that all or part of this Option exceeds the $100,000 rule of section 422(d) of the Code, this Option or the lesser excess part will be treated as a Nonstatutory Stock Option.
VESTING	This Option is only exercisable before it expires and then only with respect to the vested portion of the Option. This Option will vest according to the Vesting Schedule on the attached cover sheet.
TERM	Your Option will expire in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Date of Option Grant, as shown on the cover sheet. Your Option will expire earlier if your Service terminates, as described below.
REGULAR TERMINATION	If your Service terminates for any reason, other than death, Disability or Cause, as defined below, then your Option will expire at the close of business at Company headquarters on the 90th day after your termination date.
TERMINATION FOR CAUSE	If your Service is terminated for Cause, as determined by the Board in its sole discretion, then you shall immediately forfeit all rights to your Option and the Option shall immediately expire. For purposes of this Agreement, "Cause" shall mean the termination of your Service due to your commission of any act of fraud, embezzlement or dishonesty; any unauthorized use

or disclosure of confidential information or trade secrets of the Company (or any Parent, Subsidiary or Affiliate); or any other intentional misconduct adversely affecting the business or affairs of the Company (or any Parent, Subsidiary or Affiliate) in a material manner. This definition shall not restrict in any way the Company's or any Parent's,

	Subsidiary's or Affiliate's right to discharge you for any other reason, nor shall this definition be deemed to be inclusive of all the acts or omissions which constitute "cause" for purposes other than this Agreement.
DEATH	If your Service terminates because of your death, then your Option will expire at the close of business at Company headquarters on the date twelve (12) months after the date of death. During that twelve (12) month period, your estate or heirs may exercise the vested portion of your Option.
DISABILITY	If your Service terminates because of your Disability, then your Option will expire at the close of business at Company headquarters on the date twelve (12) months after your termination date.
LEAVES OF ABSENCE	For purposes of this Option, your Service does not terminate when you go on a bona fide leave of absence that was approved by the Company in writing, if the terms of the leave provide for continued Service crediting, or when continued Service crediting is required by applicable law. However, your Service will be treated as terminating ninety (90) days after you went on leave, unless your right to return to active work is guaranteed by law or by a contract. Your Service terminates in any event when the approved leave ends unless you immediately return to active work. The Company determines which leaves count for this purpose, and when your Service terminates for all purposes under the Plan.
NOTICE OF EXERCISE	When you wish to exercise this Option, you must notify the Company by filing the proper "Notice of Exercise" form at the address given on the form. Your notice must specify how many Shares you wish to purchase. Your notice must also specify how your Shares should be registered (in your name only or in your and your spouse's names as community property or as joint tenants with right of survivorship). The notice will be effective when it is received by the Company. If someone else wants to exercise this Option after your death,

	that person must prove to the Company's satisfaction that he or she is entitled to do so.
Form of Payment	When you submit your notice of exercise, you must include payment of the Exercise Price for the Shares you are purchasing. Payment may be made in one (or a combination) of the following forms: - Cash, your personal check, a cashier's check or a money order. - Shares which have already been owned by you for more than six months and which are surrendered to the Company. The value of

	the Shares, determined as of the effective date of the Option exercise, will be applied to the Exercise Price. - To the extent a public market for the Shares exists as determined by the Company, by delivery (on a form prescribed by the Company) of an irrevocable direction to a securities broker to sell Shares and to deliver all or part of the sale proceeds to the Company in payment of the aggregate Exercise Price.
Withholding Taxes	You will not be allowed to exercise this Option unless you make acceptable arrangements to pay any withholding or other taxes that may be due as a result of the Option exercise or sale of Shares acquired under this Option.
Restrictions on Exercise and Resale	By signing this Agreement, you agree not to exercise this Option or sell any Shares acquired under this Option at a time when applicable laws, regulations or Company or underwriter trading policies prohibit exercise, sale or issuance of Shares. The Company will not permit you to exercise this Option if the issuance of Shares at that time would violate any law or regulation. The Company shall have the right to designate one or more periods of time, each of which shall not exceed one hundred eighty (180) days in length, during which this Option shall not be exercisable if the Company determines (in its sole discretion) that such limitation on exercise could in any way facilitate a lessening of any restriction on transfer pursuant to the Securities Act or any state securities laws with respect to any issuance of securities by the Company, facilitate the registration or qualification of any securities by the Company under the Securities Act or any state securities laws, or facilitate the perfection of any exemption from the registration or qualification requirements of the Securities Act or any applicable state securities laws for the issuance or transfer of

any securities. Such limitation on exercise shall not alter the vesting schedule set forth in this Agreement other than to limit the periods during which this Option shall be exercisable.

If the sale of Shares under the Plan is not registered under the Securities Act, but an exemption is available which requires an investment or other representation, you shall represent and agree at the time of exercise that the Shares being acquired upon exercise of this Option are being acquired for investment, and not with a view to the sale or distribution thereof, and shall make such other representations as are deemed necessary or appropriate by the Company and its counsel.

Transfer of Option	Prior to your death, only you may exercise this Option. You cannot transfer or assign this Option. For instance, you may not sell this Option or use it as security for a loan. If you attempt to do any of these things, this Option will immediately become invalid. You may, however, dispose of this Option in your will. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your spouse, nor is the Company obligated to recognize your spouse's interest in your Option in any other way.
Retention Rights	Your Option or this Agreement does not give you the right to be retained by the Company (or any Parent or any Subsidiaries or Affiliates) in any capacity. The Company (or any Parent and

	any Subsidiaries or Affiliates) reserves the right to terminate your Service at any time and for any reason.
Stockholder Rights	You, or your estate or heirs, have no rights as a stockholder of the Company until a certificate for your Option's Shares has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued, except as described in the Plan.
Adjustments	In the event of a stock split, a stock dividend or a similar change in the Company stock, the number of Shares covered by this Option and the exercise price per Share may be adjusted (and rounded down to the nearest whole number) pursuant to the Plan. Your Option shall be subject to the terms of the agreement of merger, liquidation or reorganization in the event the Company is subject to such corporate activity.
Legends	All certificates representing the Shares issued upon exercise of this Option shall, where applicable, have endorsed thereon the following legends: "THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND OPTIONS TO PURCHASE SUCH SHARES SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER, OR HIS OR HER PREDECESSOR IN INTEREST. A COPY OF SUCH AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY AND WILL BE FURNISHED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY BY THE HOLDER OF RECORD OF THE SHARES REPRESENTED BY THIS CERTIFICATE." "THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT

AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

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Applicable Law — This Agreement will be interpreted and enforced under the laws of the State of California.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

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GRANT NO. _____

PDF SOLUTIONS, INC.

2001 STOCK PLAN

NONSTATUTORY STOCK OPTION AGREEMENT

PDF Solutions, Inc. (the "Company"), hereby grants an Option to purchase shares of its common stock (the "Shares") to the Optionee named below. The terms and conditions of the Option are set forth in this cover sheet, in the attachment and in the Company's 2001 Stock Plan (the "Plan").

Date of Option Grant: _____, 2001

Name of Optionee: _____

Optionee's Social Security Number: _____-____-_____

Number of Shares Covered by Option: _____

Exercise Price per Share: $_____.___

Vesting Start Date: _____, 2001

Vesting Schedule:

Subject to all the terms of the attached Agreement, your right to purchase Shares under this Option vests as to one-fourth (1/4) of the total number of Shares covered by this Option, as shown above, on the one-year anniversary of the Vesting Start Date. Thereafter, the number of Shares which you may purchase under this Option shall vest at the rate of one-forty-eighth (1/48) per month on the 1st day of each of the thirty-six (36) months following the month of the one-year anniversary of the Vesting Start Date. The resulting aggregate number of vested Shares will be rounded to the nearest whole number. No additional Shares will vest after your Service has terminated for any reason.

BY SIGNING THIS COVER SHEET, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED IN THE ATTACHED AGREEMENT AND IN THE PLAN, A COPY OF WHICH IS ALSO ENCLOSED.

Optionee:_____
(Signature)

Company:_____

(Signature)

Title:_____

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PDF SOLUTIONS, INC.

2001 STOCK PLAN

NONSTATUTORY STOCK OPTION AGREEMENT

THE PLAN AND OTHER AGREEMENTS	The text of the Plan is incorporated in this Agreement by reference. Certain capitalized terms used in this Agreement are defined in the Plan. This Agreement and the Plan constitute the entire understanding between you and the Company regarding this Option. Any prior agreements, commitments or negotiations concerning this Option are superseded.
NONSTATUTORY STOCK OPTION	This Option is not intended to be an Incentive Stock Option under section 422 of the Internal Revenue Code and will be interpreted accordingly.
VESTING	This Option is only exercisable before it expires and then only with respect to the vested portion of the Option. This Option will vest according to the Vesting Schedule on the attached cover sheet.
TERM	Your Option will expire in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Date of Option Grant, as shown on the cover sheet. Your Option will expire earlier if your Service terminates, as described below.
REGULAR TERMINATION	If your Service terminates for any reason, other than death, Disability or Cause, as defined below, then your Option will expire at the close of business at Company headquarters on the 90th day after your termination date.
TERMINATION FOR CAUSE	If your Service is terminated for Cause, as determined by the Board in its sole discretion, then you shall immediately forfeit all rights to your Option and the Option shall immediately expire. For purposes of this Agreement, "Cause" shall mean the termination of your Service due to your commission of any act of fraud, embezzlement or dishonesty; any unauthorized use or disclosure of confidential information or trade secrets of the Company (or any Parent, Subsidiary or Affiliate); or any other intentional misconduct adversely affecting the business or affairs of the Company (or any Parent, Subsidiary or Affiliate) in a material manner. This definition shall not restrict in any way the Company's or any Parent's, Subsidiary's or Affiliate's

	right to discharge you for any other reason, nor shall this definition be deemed to be inclusive of all the acts or omissions which constitute "cause" for purposes other than this Agreement.
DEATH	If your Service terminates because of your death, then your Option will expire at the close of business at Company headquarters on the date twelve (12) months after the date of death. During that twelve (12) month period, your estate or heirs may exercise the vested portion of your Option.
DISABILITY	If your Service terminates because of your Disability, then your Option will expire at the close of business at Company headquarters on the date twelve (12) months after your termination date.
LEAVES OF ABSENCE	For purposes of this Option, your Service does not terminate when you go on a bona fide leave of absence that was approved by the Company in writing, if the terms of the leave provide for continued Service crediting, or when continued Service crediting is required by applicable law. Your Service terminates in any event when the approved leave ends unless you immediately return to active work. The Company determines which leaves count for this purpose, and when your Service terminates for all purposes under the Plan.
NOTICE OF EXERCISE	When you wish to exercise this Option, you must notify the Company by filing the proper "Notice of Exercise" form at the address given on the form. Your notice must specify how many Shares you wish to purchase. Your notice must also specify how your Shares should be registered (in your name only or in your and your spouse's names as community property or as joint tenants with right of survivorship). The notice will be effective when it is received by the Company. If someone else wants to exercise this Option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.
FORM OF PAYMENT	When you submit your notice of exercise, you must include payment of the Exercise Price for the Shares you are purchasing. Payment may be made in one (or a combination) of the following forms: - Cash, your personal check, a cashier's check or a money

order.

- Shares which have already been owned by you for more than six months and which are surrendered to the Company. The value of the Shares, determined as of the effective date of the Option exercise, will be applied to the Exercise Price.

- To the extent a public market for the Shares exists as determined by the Company, by delivery (on a form prescribed by the Company) of an irrevocable direction to a securities broker to sell Shares and to deliver all or part of the sale proceeds to the Company in payment of the aggregate exercise price.

WITHHOLDING TAXES	You will not be allowed to exercise this Option unless you make acceptable arrangements to pay any withholding or other taxes that may be due as a result of the Option exercise or sale of Shares acquired under this Option.
RESTRICTIONS ON EXERCISE AND RESALE	By signing this Agreement, you agree not to exercise this Option or sell any Shares acquired under this Option at a time when applicable laws, regulations or Company or underwriter trading policies prohibit exercise, sale or issuance of Shares. The Company will not permit you to exercise this Option if the issuance of Shares at that time would violate any law or regulation. The Company shall have the right to designate one or more periods of time, each of which shall not exceed one hundred eighty (180) days in length, during which this Option shall not be exercisable if the Company determines (in its sole discretion) that such limitation on exercise could in any way facilitate a lessening of any restriction on transfer pursuant to the Securities Act or any state securities laws with respect to any issuance of securities by the Company, facilitate the registration or qualification of any securities by the Company under the Securities Act or any state securities laws, or facilitate the perfection of any exemption from the registration or qualification requirements of the Securities Act or any applicable state securities laws for the issuance or transfer of any securities. Such limitation on exercise shall not alter the vesting schedule set forth in this Agreement other than to limit the periods during which this Option shall be exercisable. If the sale of Shares under the Plan is not registered under the Securities Act, but an exemption is available which requires an investment or other representation, you shall represent and agree at the time of exercise that the Shares being acquired upon exercise of this Option are being acquired for investment,

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and not with a view to the sale or distribution thereof, and shall make such other representations as are deemed necessary or appropriate by the Company and its counsel.

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TRANSFER OF OPTION	Prior to your death, only you may exercise

this Option. You cannot transfer or assign this Option. For instance, you may not sell this Option or use it as security for a loan. If you attempt to do any of these things, this Option will immediately become invalid. You may, however, dispose of this Option in your will. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your spouse, nor is the Company obligated to recognize your spouse's interest in your Option in any other way.

RETENTION RIGHTS

Your Option or this Agreement does not give you the right to be retained by the Company (or any Parent or any Subsidiaries or

Affiliates) in any capacity. The Company (or any Parent and any Subsidiaries or Affiliates) reserves the right to terminate your Service at any time and for any reason.

STOCKHOLDER RIGHTS

You, or your estate or heirs, have no rights as a stockholder of the Company until a certificate for your Option's Shares has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued, except as described in the Plan.

ADJUSTMENTS

In the event of a stock split, a stock dividend or a similar

change in the Company stock, the number of Shares covered by this Option and the exercise price per Share may be adjusted (and rounded down to the nearest whole number) pursuant to the Plan. Your Option shall be subject to the terms of the agreement of merger, liquidation or reorganization in the event the Company is subject to such corporate activity.

LEGENDS

All certificates representing the Shares issued upon exercise of this Option shall, where applicable, have endorsed thereon the following legends:

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND OPTIONS TO PURCHASE SUCH SHARES SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER, OR HIS OR HER PREDECESSOR IN INTEREST. A COPY OF SUCH AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY AND WILL BE FURNISHED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY BY THE HOLDER OF RECORD OF THE SHARES REPRESENTED BY THIS CERTIFICATE."

"THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

APPLICABLE LAW	This Agreement will be interpreted and enforced under the laws of the State of California.

BY SIGNING THE COVER SHEET OF THIS AGREEMENT, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

EXHIBIT 10.11

PDF SOLUTIONS, INC.
2001 EMPLOYEE STOCK PURCHASE PLAN
(AS ADOPTED ON June 12, 2001)

SECTION 1
PURPOSE

PDF Solutions, Inc. hereby establishes the PDF Solutions, Inc. 2001 Employee Stock Purchase Plan, effective as of the Initial Public Offering Date, in order to provide eligible employees of the Company and its participating Subsidiaries with the opportunity to purchase Common Stock through payroll deductions. The Plan is intended to qualify as an employee stock purchase plan under Section 423(b) of the Code.

SECTION 2
DEFINITIONS

2.1 "1934 Act" means the Securities Exchange Act of 1934, as amended. Reference to a specific Section of the 1934 Act or regulation thereunder shall include such Section or regulation, any valid regulation promulgated under such Section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such Section or regulation.

2.2 "Board" means the Board of Directors of the Company.

2.3 "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific Section of the Code or regulation thereunder shall include such Section or regulation, any valid regulation promulgated under such Section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such Section or regulation.

2.4 "Committee" shall mean the committee appointed by the Board to administer the Plan. Any member of the Committee may resign at any time by notice in writing mailed or delivered to the Secretary of the Company. As of the effective date of the Plan, the Plan shall be administered by the Compensation Committee of the Board.

2.5 "Common Stock" means the common stock of the Company.

2.6 "Company" means PDF Solutions, Inc.

2.7 "Compensation" means a Participant's regular wages. The Committee, in its discretion, may (on a uniform and nondiscriminatory basis) establish a different definition of Compensation prior to an Enrollment Date for all options to be granted on such Enrollment Date.

2.8 "Eligible Employee" means every Employee of an Employer, except (a) any Employee who immediately after the grant of an option under the Plan, would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary

of the Company (including stock attributed to such Employee pursuant to Section 424(d) of the Code), or (b) as provided in the following sentence. The Committee, in its discretion, from time to time may, prior to an Enrollment Date for all options to be granted on such Enrollment Date, determine (on a uniform and nondiscriminatory basis) that an Employee shall not be an Eligible Employee if he or she: (1) has not completed at least two years of service since his or her last hire date (or such lesser period of time as may be determined by the Committee in its discretion), (2) customarily works not more than 20 hours per week (or such lesser period of time as may be determined by the Committee in its discretion), or (3) customarily works not more than 5 months per calendar year (or such lesser period of time as may be determined by the Committee in its discretion).

2.9 "Employee" means an individual who is a common-law employee of any Employer, whether such employee is so employed at the time the Plan is adopted or becomes so employed subsequent to the adoption of the Plan.

2.10 "Employer" or "Employers" means any one or all of the Company, and those Subsidiaries which, with the consent of the Board, have adopted the Plan.

2.11 "Enrollment Date" means such dates as may be determined by the Committee (in its discretion and on a uniform and nondiscriminatory basis) from time to time.

2.12 "Grant Date" means any date on which a Participant is granted an option under the Plan.

2.13 "Participant" means an Eligible Employee who (a) has become a Participant in the Plan pursuant to Section 4.1 and (b) has not ceased to be a Participant pursuant to Section 8 or Section 9.

2.14 "Plan" means the PDF Solutions, Inc. 2001 Employee Stock Purchase Plan, as set forth in this instrument and as hereafter amended from time to time.

2.15 "Purchase Date" means such dates as may be determined by the Committee (in its discretion and on a uniform and nondiscriminatory basis) from time to time prior to an Enrollment Date for all options to be granted on such Enrollment Date.

2.16 "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

SECTION 3
SHARES SUBJECT TO THE PLAN

3.1 Number Available. A maximum of 300,000 shares (after giving effect to the June 2001 stock split) of Common Stock shall be available for issuance pursuant to the Plan. Beginning with the first fiscal year of the Company beginning after the effective date of the Plan, on the first day of each fiscal year of the Company, Shares will be added to the Plan equal to the least of (a) 2% of the outstanding Shares on the last day of the prior fiscal year, (b) 675,000 Shares (after giving effect to the June 2001 stock split), or (c) such lesser amount as

determined by the Board. Shares sold under the Plan may be newly issued shares or treasury shares.

3.2 Adjustments. In the event of any reorganization, recapitalization, stock split, reverse stock split, stock dividend, combination of shares, merger, consolidation, offering of rights or other similar change in the capital structure of the Company, the Board may make such adjustment, if any, as it deems appropriate in the number, kind and purchase price of the shares available for purchase under the Plan and in the maximum number of shares subject to any option under the Plan.

SECTION 4
ENROLLMENT

4.1 Participation. Each Eligible Employee may elect to become a Participant by enrolling or re-enrolling in the Plan effective as of any Enrollment Date. In order to enroll, an Eligible Employee must complete, sign and submit to the Company an enrollment form in such form, manner and by such deadline as may be specified by the Committee from time to time (in its discretion and on a nondiscriminatory basis). Any Participant whose option expires and who has not withdrawn from the Plan automatically will be re-enrolled in the Plan on the Enrollment Date immediately following the Purchase Date on which his or her option expires. Any Participant whose option

has not expired and who has not withdrawn from the Plan automatically will be deemed to be un-enrolled from the Participant's current option and be enrolled as of a subsequent Enrollment Date if the price per Share on such subsequent Enrollment Date is lower than the price per Share on the Enrollment Date relating to the Participant's current option.

4.2 Payroll Withholding. On his or her enrollment form, each Participant must elect to make Plan contributions via payroll withholding from his or her Compensation. Pursuant to such procedures as the Committee may specify from time to time, a Participant may elect to have withholding equal to a whole percentage from 1% to 10% (or such lesser, or greater, percentage that the Committee may establish from time to time for all options to be granted on any Enrollment Date). A Participant may elect to increase or decrease his or her rate of payroll withholding by submitting a new enrollment form in accordance with such procedures as may be established by the Committee from time to time. A Participant may stop his or her payroll withholding by submitting a new enrollment form in accordance with such procedures as may be established by the Committee from time to time. In order to be effective as of a specific date, an enrollment form must be received by the Company no later than the deadline specified by the Committee, in its discretion and on a nondiscriminatory basis, from time to time. Any Participant who is automatically re-enrolled in the Plan will be deemed to have elected to continue his or her contributions at the percentage last elected by the Participant.

SECTION 5
OPTIONS TO PURCHASE COMMON STOCK

5.1 Grant of Option. On each Enrollment Date on which the Participant enrolls or re-enrolls in the Plan, he or she shall be granted an option to purchase shares of Common Stock.

5.2 Duration of Option. Each option granted under the Plan shall expire upon the conclusion of the option's offering period which will end on the earliest to occur of (a) the completion of the purchase of shares on the last Purchase Date occurring within 27 months of the Grant Date of such option, (b) such shorter option period as may be established by the Committee from time to time prior to an Enrollment Date for all options to be granted on such Enrollment Date, or (c) the date on which the Participant ceases to be such for any reason. Until otherwise determined by the Committee for all options to be granted on an Enrollment Date, the period referred to in clause (b) in the preceding sentence shall mean the period from the applicable Enrollment Date through the last business day prior to the immediately following Enrollment Date.

5.3 Number of Shares Subject to Option. The number of shares available for purchase by each Participant under the option will be established by the Committee from time to time prior to an Enrollment Date for all options to be granted on such Enrollment Date.

5.4 Other Terms and Conditions. Each option shall be subject to the following additional terms and conditions:

(a) payment for shares purchased under the option shall be made only through payroll withholding under Section 4.2;

(b) purchase of shares upon exercise of the option will be accomplished only in accordance with Section 6.1;

(c) the price per share under the option will be determined as provided in Section 6.1; and

(d) the option in all respects shall be subject to such other terms and conditions (applied on a uniform and nondiscriminatory basis), as the Committee shall determine from time to time in its discretion.

SECTION 6
PURCHASE OF SHARES

6.1 Exercise of Option. Subject to Section 6.2, on each Purchase Date, the funds then credited to each Participant's account shall be used to

purchase whole shares of Common Stock. Any cash remaining after whole shares of Common Stock have been purchased shall be carried forward in the Participant's account for the purchase of shares on the next Purchase Date. The price per Share of the Shares purchased under any option granted under the Plan shall be eighty-five percent (85%) of the lower of:

(a) the closing price per Share on the NASDAQ National Market System on the business day preceding the Grant Date for such option; or

(b) the closing price per Share on the NASDAQ National Market System on the Purchase Date;

provided, however, that with respect to any Grant Date under the Plan that coincides with the date of the final prospectus for the initial public offering of the Common Stock, the price in clause (a) above shall be the price per Share at which shares of Common Stock are initially offered for sale to the public by the Company's underwriters in such offering.

6.2 Delivery of Shares. As directed by the Committee in its sole discretion, shares purchased on any Purchase Date shall be delivered directly to the Participant or to a custodian or broker (if any) designated by the Committee to hold shares for the benefit of the Participants. As determined by the Committee from time to time, such shares shall be delivered as physical certificates or by means of a book entry system.

6.3 Exhaustion of Shares. If at any time the shares available under the Plan are over-enrolled, enrollments shall be reduced proportionately to eliminate the over-enrollment. Such reduction method shall be "bottom up," with the result that all option exercises for one share shall be satisfied first, followed by all exercises for two shares, and so on, until all available shares have been exhausted. Any funds that, due to over-enrollment, cannot be applied to the purchase of whole shares shall be refunded to the Participants (without interest thereon).

SECTION 7
WITHDRAWAL

7.1 Withdrawal. A Participant may withdraw from the Plan by submitting a completed enrollment form to the Company. A withdrawal will be effective only if it is received by the Company by the deadline specified by the Committee (in its discretion and on a uniform and nondiscriminatory basis) from time to time. When a withdrawal becomes effective, the Participant's payroll contributions shall cease and all amounts then credited to the Participant's account shall be distributed to him or her (without interest thereon).

SECTION 8
CESSATION OF PARTICIPATION

8.1 Termination of Status as Eligible Employee. A Participant shall cease to be a Participant immediately upon the cessation of his or her status as an Eligible Employee (for example, because of his or her termination of employment from all Employers for any reason). As soon as practicable after such cessation, the Participant's payroll contributions shall cease and all amounts then credited to the Participant's account shall be distributed to him or her (without interest thereon). If a Participant is on a Company-approved leave of absence, his or her participation in the Plan shall continue for so long as he or she remains an Eligible Employee and has not withdrawn from the Plan pursuant to Section 7.1.

SECTION 9
DESIGNATION OF BENEFICIARY

9.1 Designation. Each Participant may, pursuant to such uniform and nondiscriminatory procedures as the Committee may specify from time to time, designate one or more Beneficiaries to receive any amounts credited to the Participant's account at the time of his or her death. Notwithstanding any contrary provision of this Section 9, Sections 9.1 and 9.2 shall

be operative only after (and for so long as) the Committee determines (on a uniform and nondiscriminatory basis) to permit the designation of Beneficiaries.

9.2 Changes. A Participant may designate different Beneficiaries (or may revoke a prior Beneficiary designation) at any time by delivering a new designation (or revocation of a prior designation) in like manner. Any designation or revocation shall be effective only if it is received by the Committee. However, when so received, the designation or revocation shall be effective as of the date the designation or revocation is executed (whether or not the Participant still is living), but without prejudice to the Committee on account of any payment made before the change is recorded. The last effective designation received by the Committee shall supersede all prior designations.

9.3 Failed Designations. If a Participant dies without having effectively designated a Beneficiary, or if no Beneficiary survives the Participant, the Participant's Account shall be payable to his or her estate.

SECTION 10
ADMINISTRATION

10.1 Plan Administrator. The Plan shall be administered by the Committee. The Committee shall have the authority to control and manage the operation and administration of the Plan.

10.2 Actions by Committee. Each decision of a majority of the members of the Committee then in office shall constitute the final and binding act of the Committee. The Committee may act with or without a meeting being called or held and shall keep minutes of all meetings held and a record of all actions taken by written consent.

10.3 Powers of Committee. The Committee shall have all powers and discretion necessary or appropriate to supervise the administration of the Plan and to control its operation in accordance with its terms, including, but not by way of limitation, the following discretionary powers:

(a) To interpret and determine the meaning and validity of the provisions of the Plan and the options and to determine any question arising under, or in connection with, the administration, operation or validity of the Plan or the options;

(b) To determine any and all considerations affecting the eligibility of any employee to become a Participant or to remain a Participant in the Plan;

(c) To cause an account or accounts to be maintained for each Participant;

(d) To determine the time or times when, and the number of shares for which, options shall be granted;

(e) To establish and revise an accounting method or formula for the Plan;

(f) To designate a custodian or broker to receive shares purchased under the Plan and to determine the manner and form in which shares are to be delivered to the designated custodian or broker;

(g) To determine the status and rights of Participants and their Beneficiaries or estates;

(h) To employ such brokers, counsel, agents and advisers, and to obtain such broker, legal, clerical and other services, as it may deem necessary or appropriate in carrying out the provisions of the Plan;

(i) To establish, from time to time, rules for the performance of its powers and duties and for the administration of the Plan;

(j) To adopt such procedures and subplans as are necessary or appropriate to permit participation in the Plan by employees who are foreign nationals or employed outside of the United States;

(k) To delegate to any one or more of its members or to any other person, severally or jointly, the authority to perform for and on behalf of the Committee one or more of the functions of the Committee under the Plan.

10.4 Decisions of Committee. All actions, interpretations, and decisions of the Committee shall be conclusive and binding on all persons, and shall be given the maximum possible deference allowed by law.

10.5 Administrative Expenses. All expenses incurred in the administration of the Plan by the Committee, or otherwise, including legal fees and expenses, shall be paid and borne by the Employers, except any stamp duties or transfer taxes applicable to the purchase of shares may be charged to the account of each Participant. Any brokerage fees for the purchase of shares by a Participant shall be paid by the Company, but fees and taxes (including brokerage fees) for the transfer, sale or resale of shares by a Participant, or the issuance of physical share certificates, shall be borne solely by the Participant.

10.6 Eligibility to Participate. No member of the Committee who is also an employee of an Employer shall be excluded from participating in the Plan if otherwise eligible, but he or she shall not be entitled, as a member of the Committee, to act or pass upon any matters pertaining specifically to his or her own account under the Plan.

10.7 Indemnification. Each of the Employers shall, and hereby does, indemnify and hold harmless the members of the Committee and the Board, from and against any and all losses, claims, damages or liabilities (including attorneys' fees and amounts paid, with the approval of the Board, in settlement of any claim) arising out of or resulting from the implementation of a duty, act or decision with respect to the Plan, so long as such duty, act or decision does not involve gross negligence or willful misconduct on the part of any such individual.

SECTION 11
AMENDMENT, TERMINATION, AND DURATION

11.1 Amendment, Suspension, or Termination. The Board, in its sole discretion, may amend or terminate the Plan, or any part thereof, at any time and for any reason. If the Plan is terminated, the Board, in its discretion, may elect to terminate all outstanding options either immediately or upon completion of the purchase of shares on the next Purchase Date, or may elect to permit options to expire in accordance with their terms (and participation to continue through such expiration dates). If the options are terminated prior to expiration, all amounts then credited to Participants' accounts which have not been used to purchase shares shall be returned to the Participants (without interest thereon) as soon as administratively practicable.

11.2 Duration of the Plan. The Plan shall commence on the date specified herein, and subject to Section 11.1 (regarding the Board's right to amend or terminate the Plan), shall remain until June 30, 2011.

SECTION 12
GENERAL PROVISIONS

12.1 Participation by Subsidiaries. One or more Subsidiaries of the Company may become participating Employers by adopting the Plan and obtaining approval for such adoption from the Board. By adopting the Plan, a Subsidiary shall be deemed to agree to all of its terms, including (but not limited to) the provisions granting exclusive authority (a) to the Board to amend the Plan, and (b) to the Committee to administer and interpret the Plan. An Employer may terminate its participation in the Plan at any time. The liabilities incurred under the Plan to the Participants employed by each Employer shall be solely the liabilities of that Employer, and no other Employer shall be liable for benefits accrued by a Participant during any period when he or she was not employed by such Employer.

12.2 Inalienability. In no event may either a Participant, a former Participant or his or her Beneficiary, spouse or estate sell, transfer, anticipate, assign, hypothecate, or otherwise dispose of any right or interest under the Plan; and such rights and interests shall not at any time be subject to the claims of creditors nor be liable to attachment, execution or other legal process. Accordingly, for example, a Participant's interest in the Plan is not transferable pursuant to a domestic relations order.

12.3 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

12.4 Requirements of Law. The granting of options and the issuance of shares shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or securities exchanges as the Committee may determine are necessary or appropriate.

12.5 Compliance with Rule 16b-3. Any transactions under this Plan with respect to officers (as defined in Rule 16a-1 promulgated under the 1934 Act) are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee. Notwithstanding any contrary provision of the Plan, if the Committee specifically determines that compliance with Rule 16b-3 no longer is required, all references in the Plan to Rule 16b-3 shall be null and void.

12.6 No Enlargement of Employment Rights. Neither the establishment or maintenance of the Plan, the granting of options, the purchase of shares, nor any action of any Employer or the Committee, shall be held or construed to confer upon any individual any right to be continued as an employee of the Employer nor, upon dismissal, any right or interest in any specific assets of the Employers other than as provided in the Plan. Each Employer expressly reserves the right to discharge any employee at any time, with or without cause.

12.7 Apportionment of Costs and Duties. All acts required of the Employers under the Plan may be performed by the Company for itself and its Subsidiaries, and the costs of the Plan may be equitably apportioned by the Committee among the Company and the other Employers. Whenever an Employer is permitted or required under the terms of the Plan to do or perform any act, matter or thing, it shall be done and performed by any officer or employee of the Employers who is thereunto duly authorized by the Employers.

12.8 Construction and Applicable Law. The Plan is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423(b) of the Code. Any provision of the Plan which is inconsistent with Section 423(b) of the Code shall, without further act or amendment by the Company or the Committee, be reformed to comply with the requirements of Section 423(b). The provisions of the Plan shall be construed, administered and enforced in accordance with such Section and with the laws of the State of California (excluding California's conflict of laws provisions).

12.9 Captions. The captions contained in and the table of contents prefixed to the Plan are inserted only as a matter of convenience, and in no way define, limit, enlarge or describe the scope or intent of the Plan nor in any way shall affect the construction of any provision of the Plan.

CONFIDENTIAL MATERIAL
OMITTED AND FILED SEPARATELY WITH
THE SECURITIES AND EXCHANGE COMMISSION.
ASTERISKS DENOTE SUCH OMISSIONS.

CONFIDENTIAL TREATMENT
PDF SOLUTIONS, INC. HAS REQUESTED
THAT THE MARKED PORTIONS OF THIS
DOCUMENT BE ACCORDED CONFIDENTIAL
TREATMENT PURSUANT TO RULE 406 UNDER
THE SECURITIES ACT OF 1933, AS AMENDED.

EXHIBIT 10.15

INTEGRATION TECHNOLOGY AGREEMENT

THIS INTEGRATION TECHNOLOGY AGREEMENT ("this Agreement") is made and entered into as of ********** (the "EFFECTIVE DATE") by and between Semiconductor Company of Matsushita Electronics Corporation, a Japanese corporation ("CUSTOMER") and PDF Solutions, Inc., a California corporation ("PDF SOLUTIONS").

TERM AND CONTACTS

Customer: Semiconductor Company, Matsushita Electronics Corporation	Contact: **********
Address: **********	Phone: **********
**********	Fax: **********
Website: http://www.**********	E-Mail: **********

Term: This agreement shall commence on the Effective Date and shall expire on **********, unless sooner terminated in accordance with Sections 1.2 or 1.3.

All notices, correspondence and invoices pertaining to this Agreement shall be sent to the persons and addresses listed, or such other address as the applicable party designates by giving written notice:

To Customer:

Matsushita Electronics Corporation **,
****
****

Phone: **********
Fax: **********

To PDF Solutions:

PDF Solutions, Inc.
333 West San Carlos Street
Suite 700
San Jose, CA 95110
Attn: Chief Financial Officer
Tel: (408) 938-6445
Fax: (408) 938-6478

The parties have caused their duly authorized representatives to execute and deliver this Agreement, which consists of this cover page, the attached Terms and Conditions and any attached executed exhibits.

CUSTOMER Matsushita Electronics Corporation	PDF SOLUTIONS, INC.
Signed: /s/ Seiji Ueda	Signed: /s/ John K. Kibarian
Printed: Seiji Ueda	Printed: John K. Kibarian
TITLE: Director	TITLE: President & CEO

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

TERMS AND CONDITIONS

INTEGRATION TECHNOLOGY AGREEMENT

RECITALS

A. PDF Solutions possesses technology and expertise useful in discovering, analyzing, and fixing problems in the design and manufacturing processes that cause low yields of useable integrated circuits.

B. Customer desires to engage PDF Solutions and receive a license to certain technology useful to analyze its internal integrated circuit manufacturing process, identify problems therewith, and recommend solutions thereto, by way of methodology or otherwise, upon the terms and conditions contained herein.

C. PDF Solutions desires to be so engaged upon the terms and conditions contained herein.

DEFINITIONS

"Analysis" refers to all interpretations, recommendations, extractions, statistical models or other yield and performance models developed by PDF Solutions and derived in whole or in part from Customer's Raw Data; provided, however, that Analysis does not include any information sufficiently detailed that Raw Data could be feasibly re-constructed.

"Characterization Vehicle" or "CV" refers to the parameterized layout structures or circuit elements, specific implementations of said structures or circuit elements either in computer format or layout format (for example, GDS-II files), and images of said structures or circuit elements, historically or hereafter created or customized by PDF Solutions for the purposes of creating a test vehicle used to characterize any given manufacturing process. Manufacturing Designs are usually referenced in the process of generating CVs for the purposes of optimizing or tuning the vehicle to the targeted designs and process. The CV is used to create a Mask Set which is used by the fabrication facility to generate test wafers.

"Developed Technology" refers to all methodologies, techniques, designs, problem solving processes and practices developed by jointly by the parties in the course of the performance of this Agreement.

"Manufacturing Designs" refers to all non-public information relating to **********

"Mask Set" refers to translucent glass plates used as a light filter to transfer

designs onto a wafer.

"Modified Standard Process of Customer" means the standard process of Customer for comparison purpose which will be obtained by Customer as the result of successful completion of this project under the Agreement."

"Permitted Field of Use" means the field of use described in Exhibit "A".

"Proprietary Rights" shall mean all intellectual property rights including, but not limited to, patents, patent applications, copyrights, copyright registrations, moral rights, mask work rights, rights of authorship, industrial design rights, trademarks, tradenames, know-how and trade secrets, irrespective of whether such rights arise under U.S. or worldwide intellectual property, unfair competition or trade secret laws.

"PDF Technology" refers to (a) all the methodologies, techniques, software, designs, CVs, CV layout, Design of Experiments used in creating CV layout, problem solving processes and practices developed and utilized by PDF Solutions (i) prior to the Effective Date of this Agreement or (ii) during the term hereof independently of this Agreement and (b) **********

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

***

"Raw Data" shall mean the data generated by PDF Solutions using the CV in conjunction with Customer's Manufacturing Design.

"R&D Team" means those employees of Customer and employees of the ******** (****) who provide research and development work with respect to Customers IC products in the pre-qualification effort or have a need to know with regards to the development work of the pre-qualification effort.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises herein contained, the above recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Customer and PDF Solutions, intending to be legally bound, hereby agree as follows:

SECTION 1. TERM AND TERMINATION

1.1 Term. This Agreement shall commence on the Effective Date and shall expire as described in the attached cover sheet.

1.2 Termination for Cause. This Agreement may be terminated upon thirty (30) days prior written notice by either party if the other party materially breaches or fails to perform any material obligations hereunder and the breaching party fails to cure such breach within thirty (30) days of such written notice. Notwithstanding the foregoing, the cure period for any failure of Customer to pay Fees and Reimbursements due hereunder shall be ten (10) days from the date of receipt by Customer of any notice of breach relating thereto. In the event of a termination under this Section 1.2, Customer shall pay PDF Solutions all Fixed Fees incurred through the effective date of such termination, all Reimbursements incurred through the effective date of such termination and, if PDF Solutions shall so terminate this Agreement, all Incentive Fees that would otherwise have been earned had this Agreement not been terminated shall be paid after such termination in accordance with the time schedule and milestone objectives in Exhibit B.

1.3 Survival of Provisions. Any and all obligations and duties which have accrued hereunder upon such termination shall survive the termination and remain obligations and duties of the burdened party. Additionally, Sections 3 (Payment for Services and Technology) as modified by this Section 1, 4 (Proprietary Rights), 5 (Confidentiality), 6 (Representations and Warranties), 7 (Indemnity), 8 (Limitation of Liability), 9 (Export Controls) and 10 (Miscellaneous) shall survive the expiration or sooner termination of this Agreement and remain binding upon the parties hereto; provided that in the event

of any termination of this Agreement by PDF Solutions pursuant to Section 1.3, any and all rights and licenses granted by PDF Solutions to Customer hereunder shall terminate effective upon such termination.

SECTION 2. DELIVERY OF SERVICES

2.1 Scope of Services. During the term of this Agreement, PDF Solutions shall furnish the PDF technology and related services (the "SERVICES AND TECHNOLOGY") described in detail in EXHIBIT "A" attached hereto (the "SCOPE OF SERVICES AND TECHNOLOGY"). The manner and means used by PDF Solutions to provide the Services and Technology are in the control of PDF Solutions but shall at all times be satisfactory to Customer.

2.2 Standard for Performance. PDF Solutions shall perform and deliver the Services and Technology under this Agreement in accordance with the standards and practices of care consistent with the quality of services PDF Solutions performs for its other similarly situated clients. PDF Solutions at all times shall

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provide such number of qualified and skilled personnel to perform and deliver the Services and Technology in accordance with the quality standards, time frames and other requirements set forth in this Agreement. PDF Solutions shall utilize and comply with the relevant portions of any regulatory standards applicable to the provision of the Services and Technology. PDF Solutions shall promptly repair or replace at its own expense all damages, scars or disfigurements to any materials or property that is part of, or contained in, Customer's work site that are the result of the negligence of personnel employed by PDF Solutions.

2.3 Customer Assistance. Subject to Section 5 (Confidentiality), Customer will provide PDF Solutions with such information, materials, technology and Proprietary Rights as PDF Solutions shall reasonably require in order to perform and deliver the Services and Technology as specified in the Scope of Services and Technology.

2.4 Mutual Cooperation; Schedule. Customer and PDF Solutions agree to cooperate in good faith to achieve completion of the Services and Technology in a timely and professional manner. Customer understands and agrees that PDF Solutions' provision of the Services and Technology may depend on Customer or a third party completing certain tasks or adhering to certain schedules within Customer's control. Consequently, the schedule for completion of the Services and Technology or any portion thereof or milestones for payment of Fees may require adjustments or changes in the event such tasks are not completed as anticipated. PDF Solutions shall bear no liability or otherwise be responsible for or penalized by delays in the provision of Services and Technology or any portion thereof proximately caused by failure by Customer or a third party to complete a reasonable task or adhere to a reasonable schedule.

SECTION 3. PAYMENT FOR SERVICES

3.1 Fees. As compensation for the Services and Technology, Customer shall pay to PDF Solutions the fees ("FEES") set forth in EXHIBIT "B" attached hereto.

3.2 Expenses. Customer shall also reimburse PDF Solutions for its reasonable out-of-pocket expenses incurred in carrying out its obligations under this Agreement including, but not limited to, travel, hotel, meals, document production and other customary business expenses directly related to the Services and Technology ("REIMBURSEMENT"). Travel, other than trips to Customer's office or fabrication facilities, shall be in accordance with PDF Solution's travel policy. Reimbursement for expenses incurred in an amount of up to $******* in any calendar month shall not require the written approval of Customer; provided, however, that any extraordinary engagement-related purchases including, but not limited to, expenses for mask production, equipment purchases, on-site facilities and on-site communications services, must receive Customer's prior written authorization. Customer shall not have any liability to

PDF Solutions for any Reimbursement for expenses incurred in an amount in excess of $******* in any calendar month, unless such expenses are approved in writing by both parties.

3.3 Invoice. PDF Solutions shall bill Customer as agreed herein for Services and Technology pursuant to an invoice delivered on a monthly basis. Each invoice shall be accompanied by a reasonably detailed breakdown of the invoiced amount.

3.4 Payment of Invoices. All payments by Customer hereunder shall be made in U.S. Dollars by telegraphic transfer to the bank designated by PDF Solutions. All invoices shall be due and payable within ********** after the date of invoice. Amounts not paid in accordance herewith shall be subject to a late charge equal to ********** (or, if less, the maximum allowed by applicable law). Without prejudice to other remedies available, PDF Solutions reserves the right to suspend performance and delivery of Services and Technology until such delinquency is corrected, provided that PDF Solutions shall give written notice of payment delinquency and

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shall give ten (10) days advance written notice of its intention to suspend performance. The amounts payable to PDF Solutions hereunder are exclusive of any sales or use or other taxes or governmental charges. Customer shall be responsible for payment of all such taxes or charges except for any taxes based solely on PDF Solutions' net income. If Customer is required to pay any taxes based on this Section 3.4, Customer shall pay such taxes with no reduction or offset in the amounts payable to PDF Solutions hereunder.

SECTION 4. PROPRIETARY RIGHTS

4.1 Ownership. Customer and PDF Solutions acknowledge and agree that, as between them, ownership shall be as follows:

(a) PDF Solutions is the exclusive owner of all PDF Technology and all Proprietary Rights in the PDF Technology;

(b) Customer is the exclusive owner of all Analysis, Manufacturing Designs, Raw Data, Modified Standard Process of Customer and all Proprietary Rights in the Analysis, Manufacturing Design ,the Raw Data and Modified Standard Process of Customer;

(c) Customer and PDF Solutions shall jointly own the Developed Technology and related Proprietary Rights and each party shall be free to exploit Developed Technology without any obligation to account to the other party for royalties, to share any royalties or to cooperate in the enforcement or defense of Proprietary Rights in Developed Technology.

(d) Customer is the exclusive owner of *****; provided, however, that during the term of this Agreement and thereafter, such ***** may be used only by the ***** and only within the Permitted Field of Use, and Customer will not license, transfer or disclose the ***** to any third party or outside of the *****.

To the extent the law would provide for ownership other than as provided herein, (y) Customer hereby assigns to PDF Solutions its right, title and interest in and to the PDF Technology and the Proprietary Rights in the PDF Technology and (z) PDF Solutions hereby assigns to Customer its right, title and interest in and to the Analysis, Manufacturing Designs, Raw Data, Modified Standard Process of Customer and the Proprietary Rights in the Analysis, Manufacturing Designs and Raw Data, such Modified Standard Process of Customer and in the Mask Sets for CVs, subject to the restrictions set forth in Subsection (c) above.

4.2 Grant of License by PDF Solutions. Subject to the terms and conditions of this Agreement, including the timely payment of Fees, PDF Solutions hereby grants to Customer, a perpetual, non-exclusive, irrevocable, non-transferable license (without any right to sublicense) only for the

********** to use the PDF Technology and associated Proprietary Rights disclosed by PDF Solutions under this Agreement, but only to the extent PDF Solutions has the right to grant such license; provided that such license is solely for use of PDF Technology by the ******** within the permitted field of use. The foregoing license includes all PDF Technology disclosed by PDF Solutions in its work for Customer hereunder (including methodologies and practices observed by the ******** in the course of PDF Solutions' work hereunder); provided, however, that specifically excluded from this license of PDF Technology is any and all software or software tools or software manuals and documentation to the extent related to PDF Technology. Customer shall not disclose or license PDF Technology to any third party or outside of the *******.

4.3 Grant of License by Customer. Subject to the terms and conditions of this Agreement, Customer hereby grants to PDF Solutions a perpetual, non-exclusive, irrevocable, worldwide, non-transferable, license (without the right to sublicense), but only to the extent Customer has the right to grant such license, as follows:

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(a) to incorporate Customer's Manufacturing Designs in CVs at any time during the term solely for the purpose of performing under this Agreement; and

(b) to use, copy, compile, manipulate, analyze or reproduce Raw Data and the Mask Sets for CVs solely for the purpose of performing under this Agreement.

4.4 No Other Rights. Except as otherwise set forth in this Section 4, neither this Agreement nor performance and delivery of the Services and Technology shall give either PDF Solutions or Customer any ownership, interest in, or rights to, the Proprietary Rights owned or provided by the other party.

4.5 Reference Right. Nothing in this Agreement shall be construed as limiting the free right of Customer to refer to the Modified Standard Process of Customer for the purpose of development and mass production of any semiconductor products.

SECTION 5. CONFIDENTIALITY

The parties acknowledge and agree that during the course of the performance of the mutual obligations hereunder, each party will occasionally deliver to the other party certain information (including proprietary information, technical data, trade secrets, know-how, research, software, developments, inventions, processes, design flows, methods, methodologies, formulas, algorithms, technologies, designs, drawings, engineering, hardware configuration information, yield data or other similar information, and related documentation and information) which the disclosing party deems to be confidential or proprietary. Such information shall be considered and treated hereunder as proprietary and confidential information if it is identified as "Confidential" or "Proprietary" (hereinafter referred to as "CONFIDENTIAL INFORMATION"): (i) by stamp or legend if communicated in writing or other tangible form, or (ii) orally at the time of disclosure with a written confirmation within thirty days describing the Confidential Information communicated orally. All restrictions as to use and disclosure shall apply during such thirty day period. Except as permitted hereunder, the receiving party shall not use or disclose the Confidential Information of the disclosing party. Any recipient of Confidential Information disclosed pursuant to this Agreement shall hold the Confidential Information in strictest confidence and shall protect the Confidential Information by using the same degree of care, but no less than a reasonable degree of care, to prevent the unauthorized use, disclosure, dissemination or publication of the Confidential Information as the recipient uses to protect its own comparable confidential and proprietary information. Any permitted reproduction of Confidential Information shall contain all confidential or proprietary legends which appear on the original. If the disclosing party discloses any software, the recipient is prohibited from disassembling,

decompiling, reverse-engineering or otherwise attempting to discover or disclose the disclosing party's source code, trade secrets, ideas or methods or concepts embodied in such software. Subject to the licenses granted in Section 4, upon receipt of the written request of the disclosing party, the receiving party will return, or give written certification of the destruction of all Confidential Information in any tangible or digital form, including all copies thereof whether on paper or in digital form, which are in the recipient's possession or control. The recipient will immediately notify the disclosing party in the event of any loss or unauthorized disclosure of Confidential Information. The above restrictions on use and disclosure shall not apply to any Confidential Information that: (1) is in the public domain or in the possession of the recipient without restriction at the time of receipt under this Agreement through no wrongful act or omission of the recipient, (2) is disclosed with the prior written approval of the disclosing party, (3) is disclosed after ********** ***** from the date of expiration or earlier termination of this Agreement, (4) is independently developed by the recipient without breach of this Agreement which independent development is supported by reasonable contemporary evidence, (5) becomes

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known to the recipient from a source other than the disclosing party without breach of this Agreement by the recipient or any other wrongful act or omission by recipient or any third party; or (6) is required to be disclosed pursuant to law, provided the recipient uses reasonable efforts to give the disclosing party reasonable notice of such required disclosure sufficient to give the disclosing party the opportunity to contest such disclosure. The obligations of confidentiality shall survive the expiration or sooner termination of this Agreement for a period of ********** ***** thereafter. Disclosing party assumes no responsibility or liability whatever under this Agreement for any use of Confidential Information by the recipient or its agents. Nothing in this Agreement shall restrict recipient's discretion to transfer or assign its personnel, providing the obligations of recipient under this Agreement are otherwise met. Subject to the provisions of Section 4, either party shall be free to use for any purpose the "residuals" resulting from access to or work with such Confidential Information, provided that such party shall maintain the confidentiality of the Confidential Information as provided herein. The term "residuals" means information in non-tangible form, which may be retained in the memories (without intentional memorization) by persons who have had access to the Confidential Information, including ideas, concepts, know-how or techniques contained therein. Neither party shall have any obligation to limit or restrict the assignment of such persons or to pay royalties for any work resulting from the use of residuals. Each party hereto recognizes and agrees that there is no adequate remedy at law for a breach of this Section 5, that such a breach would irreparably harm the disclosing party and that the disclosing party shall be entitled to seek equitable relief (including, without limitation, injunctions) with respect to any such breach or potential breach in addition to any other remedies. PDF Solutions acknowledges that Confidential Information disclosed by Customer may include the information of ****, and some employees of **** will participate in the ****. Customer shall be liable for the performance of employees of **** in the **** in performing under this Agreement and also be liable for the confidentiality obligation of **** with respect to the Confidential Information disclosed by PDF Solutions. The parties agree that the MUTUAL NON-DISCLOSURE AGREEMENT among PDF Solutions, Customer and **** dated the ********** (NDA) shall be superseded by this Agreement, provided, however, that any of the Confidential Information exchanged by the parties under the NDA shall be treated as and included in the Confidential Information under this Agreement.

SECTION 6. REPRESENTATIONS AND WARRANTIES

6.1 Corporate Warranties. Each party hereby represents and warrants to the other party that: (i) it is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it was organized, (ii) the person executing this Agreement on behalf of each party is duly authorized to bind such party to all terms and conditions of this Agreement, (iii) this Agreement, when executed and delivered by each party, will be the legal, valid, and binding obligation of such party, enforceable against it in accordance with its terms, and (iv) the execution, delivery and performance of this Agreement by

each party does not and will not conflict with or constitute a breach or default under such party's charter documents, delegations of authority, or any material agreement, contract or commitment of such party, or require the consent, approval or authorization of, or notice, declaration, filing or registration with, any third party or governmental or regulatory authority.

6.2 Infringement. PDF Solutions warrants that it is not aware of infringement or alleged infringement of its deliverables under third parties' valid worldwide intellectual property rights.

6.3 Disclaimer of Warranties. THE WARRANTIES STATED IN THIS SECTION 6 ARE THE PARTIES' SOLE AND EXCLUSIVE WARRANTIES PERTAINING TO THE SUBJECT MATTER OF THIS AGREEMENT, AND EACH PARTY HEREBY

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DISCLAIMS ANY OTHER WARRANTY, EXPRESS OR IMPLIED, WRITTEN OR ORAL, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OF TITLE, MERCHANTABILITY, NON-INFRINGEMENT OR FITNESS FOR A PARTICULAR PURPOSE. NOTHING UNDER THIS AGREEMENT, OR THE STATEMENT OF WORK OR PROJECT SHALL BE DEEMED TO BE A WARRANTY AS TO THE OUTCOME OF ANY PROJECT OR THE EFFICACY OF ANY RECOMMENDATIONS MADE BY PDF SOLUTIONS. NOTHING UNDER THIS AGREEMENT OR THE STATEMENT OF WORK SHALL BE DEEMED TO CREATE ANY LIABILITY ON THE PART OF EITHER PARTY WITH RESPECT TO THE OUTCOME OF A PROJECT OR ANY ACTIONS TAKEN BY CUSTOMER OR THE PDF SOLUTIONS AS A CONSEQUENCE OF THE OTHER PARTY'S RECOMMENDATIONS.

SECTION 7. INDEMNIFICATION. PDF Solutions shall defend or settle at PDF Solutions' expense any claim ("Claim") brought against Customer that the Services and Technology and/or any tangible or intangible delivered in connection therewith impermissibly contains third party's proprietary rights, trade secrets, or copyrighted materials or that Customer's use of any such materials, as permitted hereunder by the ******** in the Permitted Field of Use, infringes any patent issued in Japan; provided that such indemnification shall not extend (a) to any infringement by Customer's designs or products, (b) to any infringement resulting from any infringement contained in any technical data, Manufacturing Designs, Mask Sets or materials or reports or information provided by Customer. The indemnification obligations set forth in this Section 7 are subject to the conditions that the Customer: (i) gives prompt written notice of the Claim to the PDF Solutions, (ii) gives the PDF Solutions the exclusive authority to control and direct the defense or settlement of such Claim, provided that the PDF Solutions does not take any positions that may be prejudicial to Customer and (iii) gives the PDF Solutions, at Customer's own expense (except for the value of the Customer's employees' time), all reasonably necessary information and reasonable assistance with respect to such Claim. PDF Solutions shall pay all amounts paid in settlement and all damages and costs awarded with respect to such Claim. PDF Solutions will not be liable for any costs or expenses incurred without its prior written authorization. In the event of any Claim under this Section 7, PDF Solutions shall have the option, at its election, to (a) obtain a license to permit continued use of the allegedly infringing item or practice, (b) modify the allegedly infringing item or practice to avoid continued infringement provided the modified item or practice is substantially equivalent, (c) procure or provide a substantially equivalent substitute for the allegedly infringing item or practice or (d) if PDF Solutions is unable to achieve (a), (b) or (c) after reasonable efforts, then PDF Solutions may require that Customer cease use of the infringing item or practice as soon as feasible and terminate this Agreement and refund all Incentive Fees paid by Customer to PDF Solutions.

SECTION 8. LIMITATION OF LIABILITY

THE LIABILITY OF EITHER PARTY AND OF SUCH PARTY'S OFFICERS, DIRECTORS, EMPLOYEES, CONTRACTORS AND AGENTS, TAKEN AS A WHOLE, WHETHER IN TORT, CONTRACT OR OTHERWISE, AND NOTWITHSTANDING ANY FAULT, NEGLIGENCE, STRICT LIABILITY OR PRODUCT LIABILITY OF SUCH PARTY OR OF ITS OFFICERS, DIRECTORS, EMPLOYEES, OR AGENTS OR FAILURE OF ESSENTIAL PURPOSE, WITH REGARD TO ANY SERVICES OR OTHER ITEMS FURNISHED UNDER THIS AGREEMENT SHALL IN NO EVENT EXCEED THE AGGREGATE

COMPENSATION PAID BY CUSTOMER TO PDF SOLUTIONS HEREUNDER. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR ANY CLAIM FOR ANY INDIRECT, INCIDENTAL, SPECIAL OR

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CONSEQUENTIAL DAMAGES, COVER OR ANY LOSS OF DATA, PROFIT, REVENUE OR USE UNDER ANY THEORY OF LAW OR FOR ANY CAUSE OF ACTION.

SECTION 9. EXPORT CONTROL

9.1 Both parties acknowledge that certain technical information disclosed by PDF Solutions to Customer hereunder may be subject to the export control laws or regulations of the U. S. A. PDF Solutions shall be responsible for obtaining any export license required under such laws or regulations with respect to the export of any Confidential Information, and shall promptly notify Customer in writing the technical information which is subject to the restrictions under such laws or regulations as well as the type of license to have been obtained.

9.2 In the event that a Japanese governmental authorization is required for the disclosure of technical information under this Agreement, Customer will not disclose such information until Customer obtains such authorization.

SECTION 10. MISCELLANEOUS

10.1 Publicity. Neither party shall disclose the existence of or the terms of this Agreement to any third party, or in any manner advertise or publish statements to such effect, without the prior written consent and mutual agreement as to the content, medium, and manner of the public announcement of the other party. Notwithstanding the above, should one of the parties be required by laws or regulations to disclose either the existence or terms of this Agreement to a court of law, a governmental agency, an auditor, a bank, or any person such party may do so without the prior written consent of the other party provided that the disclosing party: (i) notifies the recipient of the confidential nature of the information, (ii) requests confidential treatment of such information, (iii) limits the disclosure to only such information as is required under the circumstances, and (iv) delivers prompt notice to the other party of such requested or actual disclosure.

10.2 Assignment. Neither party shall assign any portion of its rights, duties, or obligations under this Agreement without the prior written consent of the other party, which consent will not be unreasonably withheld or delayed, provided that PDF Solutions may utilize the services of consultants and subcontractors to perform hereunder with the prior written consent of Customer.

10.3 Changes. No modification to this Agreement will be binding unless in writing and signed by a duly authorized representative of each party. Change orders affecting any Scope of Services and Technology will not be effective until reviewed and approved in writing by PDF Solutions and Customer. PDF Solutions will submit to Customer a report on how the proposed changes will affect the current Services and Technology including the effect on the time schedule and cost estimates. The parties will have no obligation to proceed with changed work until both parties have approved the change in writing.

10.4 Notices. All notices or corres-pondence pertaining to this Agreement shall be in writing, delivered by either first class mail with receipt or by facsimile with receipt. Such notice shall be effective upon the earlier of actual receipt or the expiration of three business days following the date of mailing, or such alternative address the parties may designate in the future.

10.5 Independent Contractors. PDF Solutions and Customer shall perform their obligations under this Agreement as independent contractors, and nothing contained in this Agreement shall be construed to create or imply a joint venture, partnership, principal-agent or employment relationship between the parties. Neither party shall take any action or permit any action to be taken on

its behalf which purports to be done in the name of or on behalf of the other party and shall have no power or authority to bind the other party to assume or create any obligation or responsibility express or implied

on the other party's behalf or in its name, nor shall such party represent to any one that it has such power or authority. Each party shall be responsible for damages to tangible property or personal injury cause by the gross negligence or willful misconduct of the employees or agents of such party.

10.6 Force Majeure. Neither party shall be liable to the other party for any loss, damage, or penalty arising from delay to the extent due to causes beyond its reasonable control including acts of God, acts of government, war, riots, or embargoes.

10.7 Severability. If any term or provision of this Agreement is determined to be invalid or unenforceable for any reason, it shall be adjusted rather than voided, if possible, to achieve the intent of the parties to extent possible. In any event, all other terms and provisions shall be deemed valid and enforceable to the maximum extent possible.

10.8 Insurance. PDF Solutions shall carry Workers' Compensation and Comprehensive General Liability Insurance (including Products, Contractual, and Automobile Liability) having limits of liability not less than $1 million combined single limit per occurrence for bodily injury, including death and property damages, prior to performing any services on Customer's site.

10.9 Disputes. If any claim or controversy arises out of this Agreement, the parties shall first make a good faith attempt to resolve the matter through a designated executive officer. The officers having cognizance of the subject matter of the Agreement for each of the parties shall first meet and make a good faith attempt to resolve such controversy or claim. In the event such good faith negotiation fails to settle any dispute within ********** days from notice of such dispute, the controversy shall be settled by binding arbitration by one or three arbitrators, (if three are used, each party shall select one, and the third shall be selected by mutual agreement of the parties), conducted in Santa Clara County, California, if Customer initiates the proceedings, and in Osaka, Japan, if PDF Solutions initiates the proceeding, and in accordance with the Commercial Arbitration Rules of the American Arbitration Association and judgment upon the award rendered by the arbitrator(s) may be entered by any court having jurisdiction thereof. The arbitrator(s) shall not be empowered to award damages in excess of, and/or in addition to, actual damages, and the arbitrator(s) shall deliver a reasoned opinion in connection with his/her/their decision. Nothing herein, however, shall prohibit either party from seeking injunctive relief if such party would be substantially prejudiced by a failure to act during the time that such good faith efforts are being made to resolve the claim or controversy. In the event either party seeks injunctive relief, the parties agree that jurisdiction will be before a state or district court seated in Santa Clara County, California.

10.10 Governing Law. This Agreement and any and all disputes arising hereunder shall be governed by the internal laws of the State of California, without regard to choice of law principles. This Agreement is prepared and executed and shall be interpreted in the English language only, and no translation of the Agreement into another language shall have any effect. The parties agree that the United Nations Convention on Contracts for the International Sale of Goods (1980) is specifically excluded from and shall not apply to this Agreement.

10.11 Waiver. The failure of any party hereto to enforce at any time any of the provisions of this Agreement or to require at any time performance by the other party of any of the provisions of this Agreement, or any part hereof, shall not be construed to be a waiver of said provision or to effect the right of any party to enforce each and every provision in accordance with the terms of this Agreement.

10.12 Interpretation. In the event that any term of the Scope of Services and Technology conflicts with the terms of this Agreement, the terms of this Agreement shall take precedence.

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10.13 Non-Solicitation. Customer shall not actively solicit or influence or attempt to influence any person employed by PDF Solutions to terminate or otherwise cease his or her employment with PDF Solutions or become an employee of Customer. PDF Solutions shall not actively solicit or influence or attempt to influence any person employed by Customer to terminate or otherwise cease his or her employment with Customer or become an employee of PDF Solutions.

10.14 Drafter. Neither party will be deemed the drafter of this Agreement, which Agreement will be deemed to have been jointly prepared by the parties. If this Agreement is ever construed, whether by a court or by an arbitrator, such court or arbitrator will not construe this Agreement or any provision hereof against any party as drafter.

10.15 Entire Agreement. The parties acknowledge that PDF Solutions is not providing or licensing to Customer under this Agreement any software programs or products and anticipate that they will enter into a Software Evaluation and/or Software License Agreement related to the subject matter hereof. Such agreement shall also not be affected by this Agreement. Except for such software agreements, this Agreement shall constitute the entire agreement between the parties with respect to the subject matter hereof and: (i) shall supersede all prior contemporaneous oral or written communications, proposals and representations with respect to its subject matter, and (ii) shall prevail over any conflicting or additional terms of any statement of work, quote, order acknowledgment or similar communication between the parties during the term of this Agreement.

10.16 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

10.17 Exhibits. Exhibits "A" and "B" attached hereto are incorporated herein by this reference as if fully set forth herein.

PDF SOLUTIONS, INC., A CALIFORNIA CORPORATION

By: /s/ John K. Kibarian

Name: John K. Kibarian

Title: President & CEO

Date: **********

CUSTOMER

By: /s/ Seiji Ueda

Name: Seiji Ueda

Title: Director

Date: **********
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EXHIBIT "A" TO INTEGRATION TECHNOLOGY AGREEMENT
SCOPE OF SERVICES AND TECHNOLOGY

PERMITTED FIELD OF USE

PDF Solutions agrees to provide Customer with **********
**********. The Agreement, and all licenses granted by PDF Solutions to Customer under the Agreement, extends only **********
*********.

PROJECT PHASES & DESCRIPTION

The project is described below in the following three phases. Phases may be amended upon written notice to more appropriately achieve the targeted project goals.

PROJECT PHASE	GENERAL WORK STEPS	ESTIMATED DURATION
**********	**********	**********
**********	**********	**********
	**********	**********
	**********	
	**********	
**********	**********	**********
**********	**********	**********
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EXHIBIT "A" TO INTEGRATION TECHNOLOGY AGREEMENT
SCOPE OF SERVICES AND TECHNOLOGY

DELIVERABLES

PDF Solutions agrees to provide Customer the following deliverables:

PHASE	DELIVERABLE
**********	**********

********** **
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********** **
********** **
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********** **
********** **
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PROJECT ACCOUNTABILITY

PDF Solutions will maintain an engagement manager to lead the project effort throughout the duration of the project. PDF Solutions' engagement manager currently assigned to the project is **********. Customer will also maintain a project leader to lead the project effort and Customer team. ********** will serve as the primary point of contact for Customer's project leader or other Customer representatives regarding project status and updates.

REPORTS AND DOCUMENTATION

PDF Solutions agrees to provide at minimum ***** updates to Customer's Project Leader. PDF Solutions will provide a formal presentation at the conclusion **********.

REQUIREMENTS FROM CUSTOMER

To assist in the success completion of the project, Customer's cooperation to support the following as reasonably required by PDF Solutions:

- Business Resources: Secure and private office space (with 24 hour access) and other customary and reasonable business resources as required. Reasonable and customary communication and business resources including, but is not limited to, international access telephones, multiple analog lines, international access fax machines and access to a photocopier.

- Computing Resources: Customary and reasonable computing resources as required.

- CVs: Customer agrees to run PDF Solution's characterization vehicles.

- Engineering Resources: Customer's engineering resources as required.

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GENERAL

Customer agrees to pay *** types of fees associated with the services and technologies rendered with the Integration Technology Agreement.

1. A fixed fee ("Fixed Fee") component, and

2. **********

FIXED FEE

PDF Solutions shall invoice Customer the Fixed Fee on a monthly basis. The Fixed Fee rates will be as follows:

1. ********** **.
2.

Customer shall pay such invoices in accordance with this Agreement. If the term of this Agreement is extended with prior written approval, both parties may elect to continue services under this Agreement at a Fixed Fee **********.

INCENTIVE FEE

PDF Solutions may earn ********** as follows:

	INCENTIVE FEE DUE DATE	INCENTIVE FEE AMOUNT	INCENTIVE FEE MILESTONE OBJECTIVE(S)
1	**********	*****	**********
2	**********	*****	**********
		*	**********
3	**********	*****	**********
		*	**********

****

Customer's obligation to pay the Incentive Fee shall be contingent on satisfaction of the applicable milestone objective(s). PDF Solutions cannot pre-earn any incentive; each milestone must be achieved during the time frame applicable to such incentive payment. Should conditions beyond the control of PDF Solutions result in an inability to achieve incentive(s) including, but not limited to, delays in Customer

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process roll-out plans, both parties agree to adjust either the Incentive Fee milestones, Incentive Fee deadlines or both as required.

PRODUCT VOLUME EXCLUDED FROM INCENTIVE FEE CALCULATIONS

The following wafers shall be excluded from the calculation of the defect density in determining Incentive Fees:

- Mis-processed wafers

- Wafers adversely affected by equipment failures or malfunctions

- Wafers adversely affected by non-qualified PM (preventative maintenance) adjustments. Non-qualified means new equipment introduced but not verified to process tolerances. Customer and PDF Solutions agree to review the qualification process within forty-five (45) days of Effective Date. Customer may elect not to make any changes suggested by PDF Solutions that are deemed unreasonable or beyond Customer's control.

- Zero yielding wafers traceable to equipment failures, malfunction, or PM cycle dependency.

- Operator errors

- Mishandled wafers during processing or test.

- Scrapped wafers

- Failures caused by tester malfunction, test program inadequacy, or measuring beyond the capability of the tester.

If products under this Agreement contains a design **********
****

****
****
****
****

Wafers included or excluded in the yield calculations may be modified provided both Customer's designated Project Manager and PDF Solutions' designated Engagement Manager agree to the modifications in writing.

YIELD MODEL

For the purposes of this Agreement, the yield model equation used in determining Incentive Fees when appropriate will be the **********
**********.

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CONFIDENTIAL TREATMENT
PDF SOLUTIONS, INC. HAS REQUESTED
THAT THE MARKED PORTIONS OF THIS
DOCUMENT BE ACCORDED CONFIDENTIAL
TREATMENT PURSUANT TO RULE 406 UNDER
THE SECURITIES ACT OF 1933, AS AMENDED.

EXHIBIT 10.16

[cadence logo]

SOFTWARE OEM LICENSE AGREEMENT

BETWEEN

PDF SOLUTIONS, INC.

AND

CADENCE DESIGN SYSTEMS, INC.

EFFECTIVE DATE: July 7, 2000

AGREEMENT NO.

INDEX

EXHIBITS:

[cadence logo]

SOFTWARE OEM LICENSE AGREEMENT

Effective Date: July 7, 2000

Agreement No:

This Software OEM License Agreement ("Agreement") is entered into effective as of the date set forth above by and among, on the one hand, CADENCE DESIGN SYSTEMS, INC., a Delaware corporation having a principal place of business at 555 River Oaks Parkway, San Jose, California 95134, and CADENCE DESIGN SYSTEMS (IRELAND) LIMITED, a corporation organized and existing under the laws of Ireland having a place of business at Block U, East Point Business Park, Dublin 3, Ireland (collectively with its Subsidiaries, as defined below, "Cadence"), and, on the other hand, PDF Solutions, Inc., a California corporation, having a principal place of business at 333 W. San Carlos Street, Suite 700, San Jose CA 95110 ("VENDOR").

WHEREAS Cadence develops and markets software application programs used in the electronic design automation industry for the computer-aided engineering, design, co-verification, simulation, and layout of advanced electronic circuits, printed circuit boards and electronic systems and subsystems; and

WHEREAS Vendor has developed certain computer programs and desires to grant Cadence rights to commercially exploit such programs on a world-wide basis in combination with certain software and systems which Cadence develops and/or distributes; and

WHEREAS Cadence is willing, subject to the terms of this Agreement, to market, distribute and sublicense Vendor's programs as stand alone products, or in combination or for use with the software and systems which Cadence develops or distributes;

NOW THEREFORE in consideration of the mutual promises herein contained the parties hereby agree as follows:

1.0 DEFINITIONS.

In addition to the terms defined elsewhere in this Agreement, the following terms have the following meanings:

1.1 "Ancillary Work" means any software code written by or for Cadence (and not by Vendor) for the purpose of tightly integrating the Licensed Work as an integral and functioning part of Cadence's product framework environment and/or to meet unique requirements of an End User, or provide new or improved features, functionality or enhancements to the Licensed Work.

1.2 "Cadence" means Cadence and its world-wide Subsidiaries and the successors and assigns of any of them.

1.3 "Designated Equipment" means computer hardware contained in one of the equipment product families listed on Exhibit A and all improved and enhanced versions of such equipment, and also including the operating system environment

with which Cadence's products operate. At the request of either party from time to time, the parties shall amend Exhibit A to reflect expansions and extensions of the product families there represented and will in good faith negotiate the inclusion of additional product lines.

1.4 "Documentation" means all data sheets, user manuals and/or education and training materials in human or machine readable form, and all Maintenance Modifications and Enhancements thereto which: (i) document the design or details of the Product(s); and/or (ii) explain the capabilities of the Product(s); and/or (iii)

provide operating instructions for using the Product(s).

1.5 "End User" means an entity that acquires the Licensed Work for its internal production use.

1.6 "Enhancement" means any modification(s), revision(s), upgrade(s) or addition(s) to a Product made by or on behalf of Vendor (other than a Maintenance Modification) that improves its function, adds new function(s) or substantially enhances its performance, including, without limitation, new versions of the Products. Enhancements shall include updates to the Documentation.

1.7 "Error(s)" means any malfunction or defect in the Products and/or a mistake in the Documentation that prevents the Product from correctly operating in substantial conformance with its functional specifications, including, without limitation, any significant deviation from commonly accepted standards for normal and correct operation of computer programs, even if not explicitly mentioned in the Documentation, e.g., any case where the Product, in any significant respect, abnormally ceases function, produces incorrect or misleading information or erroneously interprets information given to it, and similar deviations.

1.8 "Fees" means the fees that Cadence shall pay to Vendor for the rights granted hereunder, as more specifically described in Section 7 below.

1.9 "Licensed Work(s)" means the Products and Documentation collectively.

1.10 "Maintenance Modification" means any modification(s), revision(s) or addition(s) to the Products necessary to: (i) correct Errors; or (ii) support new releases of the Designated Equipment or subsequent revisions of its operating system; or (iii) update a Product to ensure its continuing compatibility with versions of Cadence's product(s) it is intended to be used with, if any; or (iv) other modification(s) or addition(s) which are not Enhancements. Maintenance Modifications shall include correction to Documentation.

1.11 "Marketing Agent(s)" means those distributors, dealers, resellers, representatives, affiliates or Subsidiaries with whom Cadence enters into a contractual relationship for the express purpose of engaging such entity to market to End-Users the Licensed Work or other Cadence products which include the Licensed Works.

1.12 "Net Maintenance Revenues" means the portion of gross revenues recognized by Cadence that is directly attributable to the sale of maintenance services directly related and apportioned to the Licensed Works, net of Marketing Agent commissions, refunds, commodity taxes, value added taxes, sales taxes, and provision for bad debt. Net Maintenance Revenues specifically excludes revenues recognized by Cadence from the sale or provision of maintenance services related to or in connection with Licensed Works that are provided to persons for evaluation or demonstration purposes only.

1.13 "Net Product Revenues" means the portion of gross revenues recognized by Cadence that is directly attributable to the sale or license of the Licensed Works, net of Marketing Agent commissions, returns, commodity taxes, value added taxes, sales taxes, and provision for bad debt. Net Product Revenues specifically excludes revenues recognized by Cadence from any Licensed Works that are provided to persons for evaluation or demonstration purposes only.

1.14 "Product(s)" means the Vendor software product(s), in object code form, as specified in Exhibit A, including any Maintenance Modifications and/or Enhancements thereto.

1.15 "Subsidiary" means a corporation, limited liability company, partnership, joint venture, company, unincorporated association or other entity in which more than fifty percent (50%) of the outstanding shares, securities or other ownership interest (representing the right to vote for the election of directors or other managing authority or the right to make the decisions for such entity, as applicable) is, now or hereafter, owned or controlled, directly or indirectly, by a party hereto. Such corporation, company or other entity shall be deemed to be a Subsidiary only so long as such ownership or control exists.

1.16 "Term" means the initial term and any renewal term of this Agreement as specified in Section

11.1 below.

2.0 APPOINTMENT.

2.1 Subject to the terms and conditions if this Agreement, Vendor hereby appoints Cadence as its non-exclusive OEM for the delivery of Licensed Works to End Users world-wide, and Cadence hereby accepts such appointment. Notwithstanding the foregoing, during the Term of this Agreement, Cadence is hereby authorized to distribute the Licensed Work known as "Circuit Surfer" on an exclusive basis provided however, that Vendor retains the right to license Circuit Surfer to those customer sites where (1) Cadence's Analog Design Environment (or other replacement name for the product currently called "Analog Artist")product is not installed and there is no reasonable likelihood for the license of Analog Design Environment for a period of ninety (90) days from the date that PDF notifies Cadence of the opportunity as specified in 6.2, or (2) such license of Circuit Surfer is made solely in connection with and solely during the period of time during which Vendor is providing yield improvement services to a customer

2.2 Cadence shall arrange for delivery of Licensed Works to the End Users and providing End Users maintenance support of Licensed Works, through Cadence's usual channels for distribution and maintenance. Cadence will pay Vendor the license and maintenance fees as more fully described in Section 7.

3.0 DELIVERY AND ACCEPTANCE.

3.1 Initial Delivery, Acceptance Tests and Corrections. For the initial Licensed Work, each additional Licensed Work and each major revision thereof, Vendor shall deliver to Cadence a copy of the Licensed Work in accordance with the delivery schedule mutually agreed upon by the parties. Cadence shall have sixty (60) days after the initial delivery of the Product to perform such tests Cadence deems reasonably necessary to determine whether such version meets the specifications and performance standards represented by Vendor and is capable of performing repetitively in a variety of situations without failure (the "Acceptance Standards"). Cadence shall promptly notify Vendor if Cadence determines that the Product does not meet the Acceptance Standards. Vendor shall then have thirty (30) days to modify or improve such Product version, at Vendor's expense, so that it performs in accordance with the Acceptance Standards and to redeliver it to Cadence. Cadence shall have a second sixty (60) day test period to reconduct the acceptance tests. Failure of the Product to meet the Acceptance Standards shall constitute a material breach by Vendor.

3.2 Acceptance Date. If and when the acceptance tests establish that the Product is performing in accordance with the Acceptance Standards, Cadence shall promptly notify Vendor in writing that it accepts that Product version (the "Acceptance Date"). Within ten (10) days of the Acceptance Date Vendor shall deliver to Cadence: (i) one (1) reproducible master copy of the Product, and (ii) a camera ready hard copy of the Documentation, with a collation guide for printing and reproduction together with an electronic soft copy of the Documentation in FrameMaker, Word, PostScript format or as otherwise specified

by Cadence. Vendor shall deliver the Licensed Works to Cadence on such media and format as Cadence specifies. It is the intent of the parties that Vendor shall provide Cadence a "golden master" copy of the Licensed Work from which Cadence can thenceforth replicate, without intervention or assistance from Vendor, additional copies of the Products and Documentation as necessary to exercise the grants of Section 4.

3.3 Test Plan. Vendor and Cadence shall use reasonable efforts to develop as soon as possible following the execution of this Agreement a test plan and quality assurance plan necessary for the development of the acceptance tests to verify a Product's conformance to the Acceptance Standards.

4.0 LICENSE GRANT.

4.1 Distribution License. Subject to the terms and conditions of this Agreement, Vendor hereby grants Cadence a non-exclusive, worldwide, fully-paid right and license (sublicenseable at any level),

for the Term of this Agreement, to use, copy, reproduce, market, display, perform and distribute externally and to prepare derivative works including Ancillary Works of the Licensed Work. Such right and license includes the right and license of Cadence to sublicense and distribute copies of Licensed Work and derivative works including Ancillary Work to End Users world-wide and under the same forms of license and maintenance agreements Cadence uses with respect to the licensing of, and providing maintenance for, its own proprietary software products, and to permit End Users to copy the Products or Documentation as is necessary in connection with their internal use of the Products on the Designated Equipment. A copy of Cadence's current form of license agreement is attached hereto as Exhibit E.

With respect to the source code of the Licensed Work, effective currently but exercisable only if and when the source code is released from escrow in accordance with Section 8 hereof, Vendor hereby grants to Cadence the non-exclusive, irrevocable, perpetual (except where earlier termination is provided in Section 8 hereof), worldwide royalty free, fully-paid right and license to modify and prepare derivative works of the source code, to replicate the source code, and to use the source code, including such modifications internally, in each case solely to fulfill Vendor's maintenance and support obligations hereunder. The object code version of such revisions, enhancements and derivative works may be distributed to End Users under maintenance or if otherwise permitted under Section 8, as included in "Products". The parties expressly agree that a derivative work shall not include a new software product that would not constitute a Product hereunder. If upon the release of the source code from escrow, Cadence requests that Vendor continues to perform maintenance hereunder, Vendor shall use reasonable efforts to continue to perform its maintenance obligations hereunder and payment of maintenance fees to Vendor shall continue for so long as Vendor has maintenance obligations hereunder. Cadence shall license to Vendor those enhancements or modifications Cadence makes to the source code of the Licensed Work during the time Vendor so performs maintenance obligations hereunder, following source code release from escrow, on an non-exclusive basis, irrevocable, perpetual, worldwide, royalty-free, fully paid basis.

4.2 Internal Use License. Vendor hereby grants Cadence and its Marketing Agents a non-exclusive, non-sublicenseable, perpetual, fully paid, royalty free, worldwide right and license to internally use the Licensed Works for the purposes of technical support, quality assurance, manufacturing, testing, demonstration, training, marketing and other tasks incidental to and reasonably necessary in connection with: (a) carrying out the distribution activities of Section 4.1; and (b) supporting End Users in their use of the Products sublicensed to them by Cadence and/or its Marketing Agent(s). The internal use described in the preceding sentence shall be at no charge or Fee to Cadence.

4.3 Ownership. Title to and ownership of the Licensed Works shall not be modified by this Agreement and shall at all times remain with Vendor or Vendor's suppliers. Title to and ownership of all derivative works made by Cadence, including Ancillary Works and modifications thereof, shall be held exclusively by Cadence. Vendor and its suppliers, shall have no rights in, or license to use any Ancillary Works in any manner without the express prior written permission

of Cadence.

4.4 Exclusivity. Subject to Section 2.1 above, the licenses granted to Cadence hereunder are exclusive solely with respect to Vendors Circuit Surfer product;

5.0 MAINTENANCE, TRAINING AND ENHANCEMENTS.

5.1 Maintenance and Training Services. Vendor will provide Cadence with the maintenance and training services described on Exhibit B hereto. All references to Exhibit B include Exhibit B-1 if applicable. Vendor's maintenance and support obligations hereunder and under Exhibit B shall survive termination of this Agreement for whatever reason for a period of two years. The maintenance and support obligations of Vendor following the termination or expiration of this Agreement are for wind-down purposes only, and accordingly shall consist of the error corrections and second level telephone support as provided for in Exhibit B. Such continuing obligations will not include any upgrades to the Licensed Works.

5.2 Maintenance Modifications, Enhancements. Within thirty (30) days after the execution of this Agreement, each party shall designate, and notify the other party in writing of, a company representative; both persons together shall comprise a steering committee ("Steering Committee") whose function shall be to evaluate the functionality and overall performance of the Licensed Works and Products and determine the need for additional functionality, features, Maintenance Modifications and Enhancements with respect thereto in a mutually agreed upon schedule. The Steering Committee shall meet at least once each calendar quarter during the Term of this Agreement in the performance of its functions. Vendor shall develop all Maintenance Modifications and Enhancements so agreed upon by the Steering Committee. Vendor shall provide Cadence, at no charge, all Maintenance Modifications and Enhancements of the Licensed Works and related Documentation created by or for

Vendor during the term of this Agreement on or before the date Vendor's first release of such Maintenance Modifications and/or Enhancements to any of its other distributors, OEM's, marketing partners or end customers. Such Maintenance Modifications and Enhancements shall, upon their availability, automatically become part of the Licensed Work(s) for the purpose of this Agreement.

5.3 Directed Development and Services. The steering Committee shall also determine enhancements, new features and services that benefit Cadence customers but may not benefit non-Cadence users of Circuit Surfer. During the first year of this Agreement, a Vendor software engineer will work at Cadence's research and development facility agreed upon by the parties at least twenty (20) hours per week for the purposes of performing the development work described in this section. The parties intend that the majority of the development efforts during the first year of the term of this Agreement will be directed toward integrating the Licensed Works with the Cadence Product. Fees for such development and services are specified in Exhibit C.

6.0 MARKETING AND PROMOTION.

6.1 Control of Marketing. The means by which Cadence markets and distributes the Licensed Work shall be in Cadence's sole discretion and control, including without limitation the methods of pricing, marketing, naming, packaging, labeling, advertising, and collection of fees. Cadence may distribute the Licensed Work world-wide through any combination of direct marketing, Marketing Agents, original equipment manufacturers, and other means, and either alone or in combination with other products.

6.2 Referral of Inquiries. **********
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6.3 CADENCE MAKES NO WARRANTY OR REPRESENTATION CONCERNING THE SUCCESS OF SUCH MARKETING AND DISTRIBUTION EFFORTS. VENDOR AGREES THAT CADENCE SHALL IN NO CIRCUMSTANCES BE LIABLE TO VENDOR FOR ANY LOST PROFITS, OR FOR ANY OTHER INDIRECT, SPECIAL, OR CONSEQUENTIAL DAMAGES ARISING UNDER ANY LEGAL THEORY OUT OF OR IN CONNECTION WITH THIS AGREEMENT.

6.4 Sales Support. Vendor agrees to provide Cadence sufficient sales and technical support, as mutually agreed upon by the parties, including but not limited to Vendor personnel proficient in the performance, use, implementation and modification of the Licensed Works and Products (collectively, "Sales Support"), as Cadence may reasonably require with respect to the training of its Marketing Agent(s) to sell and market sublicenses to the Licensed Works and/or Products to customers and/or potential End Users hereunder. Such Sales Support shall be at no charge to Cadence.

6.5 Marketing Support. Vendor agrees to provide Cadence sufficient marketing training, as mutually agreed upon by the parties, such that Cadence can support ("Marketing Support") marketing events (e.g., industry conferences, business/trade shows, marketing seminars, presentations and/or demonstration for key customers or strategic accounts). Such Marketing Support shall be at no charge to Cadence.

6.6 Trademarks and Copyrights. Vendor hereby grants to Cadence (and its applicable subcontractors) a non-exclusive license to use the trademarks and logos set forth on Exhibit F (the "Trademarks") in connection with the manufacture, distribution, license and promotion of the Licensed Works. However, Vendor agrees that Cadence need not use the Trademarks and may, in its discretion, market and distribute the Products under Cadence's own trademarks. If Cadence uses the Trademarks, then the use of such Trademarks shall conform with all trademark

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specifications of Vendor for such Trademarks, which specifications are attached hereto as Exhibit F. If Cadence manufactures the Products, then Cadence shall cause the manufacture of the Products to conform to the reasonable quality standards of Vendor for the manufacture of the Products and Vendor may review the Products manufactured by Cadence, upon reasonable notice to Cadence, to make sure that such quality standards are met. Except for the use of the Trademarks however, the packaging design, and advertising for the Licensed Products shall be within the discretion and control of Cadence. Vendor represents and warrants to Cadence that it is not aware and has not received notice of any infringement or claim of infringement of any Trademark upon any rights of any third party anywhere in the world. Cadence shall replicate Vendor's copyright notices (as they appear or as designated by Vendor) in any Product and Documentation reproduced under this Agreement. Use of Vendor's Trademarks shall inure to the benefit of Vendor.

6.7 Drop Shipment. If Cadence does not manufacture the Products and Vendor drop ships the Products, then the drop shipment box on Exhibit A shall be checked.

7.0 FEES.

7.1 Amount. Cadence shall pay to Vendor Fees on revenues from the Licensed Work distributed by Cadence to End Users or Marketing Agents, as applicable, under the terms of Exhibit C hereto.

7.2 Payments, Quarterly Reports. Fees shall be remitted on a ***** basis within ********** following the end of Cadence's ********** during which Cadence recognized revenues for the Licensed Work to which the Fee payment applies. Cadence will deliver written reports to Vendor within *************** after the last day of each ********** stating: (i) the amount of Net Product Revenues recognized during the *****; and (ii) the amount of Net Maintenance Revenues recognized during that same *****, and (iii) the resulting Fees due. Cadence

will enclose with the report the Fee payment so calculated.

7.3 Records and Audit. Cadence agrees that it shall maintain records sufficient to establish the Fees payable pursuant to this Section 7. Vendor may, with prior written notice and during normal business hours, have independent certified public accountants acceptable to Cadence examine, at Vendor's expense, Cadence's records relating to the Fees payable pursuant to this Agreement. Such accountants must agree in advance in writing to maintain in confidence and not to disclose to any party any information obtained during the course of such examination, other than a disclosure to Vendor of the amounts of Fees that should have been paid for the period covered by the examination. Any errors discovered during such examination shall be corrected by the appropriate party. In no event shall any such adjustment be made more than two (2) years after the end of the period in error. The audit right contained in this Section may not be exercised more than once during any 12 month period.

8.0 SOURCE CODE ESCROW.

8.1 Deposit. Within ten (10) days of the Acceptance Date, Vendor shall, at Vendor's expense, place the complete Licensed Work source code ("Source Code Materials") into escrow with an independent third party escrow holder. The form of escrow deposit agreement to be used is attached hereto as Exhibit D. Throughout the Term of this Agreement, Vendor shall update the Source Code Materials at least once every six months to include Maintenance Modifications and Enhancements, so that the deposit at all times reflects the most current version of the Licensed Work distributed by Cadence hereunder.

8.2 Release Event. If Vendor materially breaches its obligations under this Agreement, including, without limitation, its obligations under Exhibit B (all as more fully set forth in the escrow deposit agreement), Cadence may retrieve the Source Code Materials and use same to fulfill Vendors obligations hereunder respecting the Licensed Work and otherwise continue to exercise the license grants of Section 5. If the source code is released from escrow Cadence may (i) fully exercise its source code license rights granted in Section 4.1 hereof, solely for purposes fulfilling Vendor's support and maintenance obligations hereunder regarding the Licensed Work, and (ii) if the release event occurred during the Term, continue to exercise the license grants of Section 4 as if this Agreement continued in full force and effect for the full Term (initial or then applicable renewal) as if such Term

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had continued. Upon release of the source code from escrow all other terms and conditions of this Agreement shall continue to apply, including Cadence's obligation to pay product and maintenance fees. The license to the source code granted herein shall be irrevocable but shall expire five years after the occurrence of a release event

8.3 Escrow Termination. The escrow shall continue and survive on its own terms independent of the existence of this Agreement and shall terminate on the fifth (5th) anniversary of the termination of this Agreement, if no release event has occurred prior thereto, or such other date as mutually agreed upon by the parties in writing.

9.0 PROTECTION OF CONFIDENTIAL INFORMATION.

9.1 The parties acknowledge that: (i) Licensed Work in the case of Vendor; and (ii) Ancillary Works in the case of Cadence; and/or (iii) any other information which the parties desire to exchange to conduct the activities contemplated by this Agreement, which the revealing party ("Discloser") holds in confidence or received from a third party under confidentiality obligations ("Proprietary Materials"), are confidential information of the Discloser. Except as permitted under this Agreement, the receiving party ("Recipient") shall treat Discloser's Proprietary Materials that are prominently marked with a notice in human readable form noting their confidential nature, with the same standard of care that Recipient uses to safeguard its own proprietary materials from

unauthorized access, use, disclosure or dissemination. Proprietary Materials disclosed orally or visually shall be identified as confidential prior to the discussion or presentation, then furnished to Recipient in tangible form within thirty (30) days thereof and marked as confidential.

9.2 Recipient's obligations respecting Discloser's Proprietary Materials shall terminate with respect to any part thereof which Recipient can establish by documentary evidence: (i; (ii) now or hereafter may be in the public domain by acts not attributable to Recipient; (iii) was rightfully in the possession of or known to Recipient prior to its receipt from Discloser under this Agreement; (iv) is or becomes available without restriction to Recipient from a source independent of Discloser who was in lawful possession of same and authorized to disclose it to Recipient without restriction; or (v) is agreed to be unrestricted by Discloser in writing.

9.3 Nothing herein shall restrict Recipient's right to disclose the Proprietary Materials where such disclosure is required by written order of a judicial, legislative, or administrative authority of competent jurisdiction, or is necessary to establish its rights under this Agreement, provided, however that, in each case, Recipient will, if practicable, first notify Discloser of such need or requirement and cooperate with Discloser, at Discloser's expense, in limiting the scope of the proposed disclosure. Recipient will assist Discloser, at Discloser's expense, in taking all reasonable steps for obtaining further appropriate means of limiting the scope of the required disclosure of Discloser's Proprietary Materials.

9.4 Within ten (10) days of the earlier of (i) receipt of Discloser's written request for return of same (other than the Licensed Work), or (ii) the termination or expiration of this Agreement (except as and to the extent otherwise provided herein); Recipient shall return all Discloser's Proprietary Materials along with Recipient's certification that to the best of its knowledge all Discloser's Proprietary Materials have either been returned or destroyed and no Discloser Proprietary Materials, or copies thereof, remain in the possession of Recipient, its employees or agents; provided, however, that Cadence as Recipient may retain such of Vendor's Proprietary Materials as Cadence may reasonably require to provide the support and maintenance obligations of Vendor for the Licensed Works to its customers. Recipient's obligations set forth in this Section 9 shall terminate on the ********** of the termination or expiration of this Agreement, excluding those obligations with respect to the source code placed in escrow pursuant to Section 8 above which shall terminate on the ********** of the termination or expiration of this Agreement.

9.5 Equitable Relief. Each party acknowledges that unauthorized disclosure or use of the Proprietary Materials may cause irreparable harm to the other party for which recovery of money damages would be inadequate, and the other party shall therefore be entitled to obtain timely injunctive relief to protect the other party rights under this Agreement in addition to any and all remedies available at law.

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10.0 WARRANTY AND INDEMNIFICATION.

10.1 Vendor warrants and represents that: (i) it has the right and power to enter into this Agreement, and that doing so does not violate or conflict with any other Vendor obligations; and (ii) Vendor shall not assume any obligation or restriction which would, in any way, interfere, be inconsistent with or present a conflict of interest concerning the rights granted to Cadence hereunder or the services to be performed by Vendor under this Agreement.

10.2 Vendor warrants and represents that: (i) the Licensed Works and Vendor's services which are the subject matter of this Agreement are the original product of Vendor and Vendor is the sole and exclusive owner of the Licensed Works; and (ii) that no portion of such items, or their distribution or use is protected by or infringes any third party(ies)'s US patent, patent applications, copyright, trade secret, trademark.

10.3 Vendor warrants and represents that the Licensed Works, and all

Maintenance Modifications and Enhancements thereto shall conform to and perform in accordance with Vendor's published specifications therefor.

10.4 Vendor warrants and represents that the Licensed Work is designed to be used prior to, during and after the calendar year 2000 A.D., and that the Licensed Work will operate during each such time period without error relating to date data, specifically including any error relating to, or the product of, date data which represents or references different centuries or more than one century. Without limiting the forgoing, Vendor represents and warrants that (i) the Licensed Work will properly manage and manipulate data involving dates, including single-century and multi-century formulas, and will not abnormally end, or cause an abnormally ending scenario, within the application or generate incorrect values or invalid results involving such dates; and (ii) the Licensed Work has been designed to ensure year 2000 compatibility, including, without limitation, date data century recognition, calculations which accommodate same century and multiple century formulas and date values, and date data interface values that reflect the century, and (iii) the Licensed Work provides that all date-related user interface functionalities and data fields include the indication of the century, and that all date-related data interface functionalities include the indication of the century, and (iv) handle all leap years, including, without limitation, the year 2000 leap year, correctly. Vendor shall promptly advise Cadence of any breach of the above warranty.

10.5 Vendor agrees to indemnify and hold Cadence, its Marketing Agents and End Users entirely harmless from any and all losses, costs, claims, damages, settlements and judgments, including, without limitation, any expenses and attorneys' fees, arising out of or related in any way to any breach or alleged breach of any of the above warranties. Cadence agrees to defend and indemnify Vendor from and against any and all losses, costs, claims, damages, settlements and judgments, including without limitation, any expenses and attorneys' fees arising out of any action brought against Vendor alleging that a Cadence software product utilized with the Licensed Work infringes any US patent, copyright or trade secret. If any claim or action is commenced against a party entitled to indemnification under this Section, (a "Claim"), such party shall give written notice to the other party within ten (10) days of notice of such Claim. If such party receiving notice is obligated under this Section to defend the party against such Claim, then the indemnifying party shall take control of the defense and investigation of the Claim, using such attorneys and other assistance as it selects in its discretion. The indemnified party shall cooperate in all reasonable respects in such investigation and defense, including trial and any appeals, provided that such party may also participate, at its own expense, in such defense. No settlement of a Claim that involves a remedy other than payment of money by indemnifying party shall be agreed to and entered without the consent of the indemnified party, which consent shall not be unreasonably withheld.

10.6 EXCEPT AS EXPRESSLY SET FORTH IN THIS SECTION 10, THE LICENSED WORKS, ENHANCEMENTS, MAINTENANCE MODIFICATIONS, AND SERVICES PROVIDED BY VENDOR ARE PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, VENDOR DISCLAIMS ALL OTHER WARRANTIES, EXPRESS AND IMPLIED, INCLUDING WITHOUT LIMITATION WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE (EVEN IF VENDOR IS ADVISED OF SUCH PURPOSE) AND NON-INFRINGEMENT.

10.7 EXCEPT FOR A BREACH OF AN OBLIGATION OF CONFIDENTIALITY, TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, UNDER NO CIRCUMSTANCES SHALL

EITHER PARTY BE LIABLE TO THE OTHER FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT OR PUNITIVE DAMAGES IN CONNECTION WITH THIS AGREEMENT, OR ITS SUBJECT MATTER, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOSS OF PROFITS OR REVENUES, OR THE COST OF PROCUREMENT OF SUBSTITUTE GOODS AND/OR SERVICES, REGARDLESS OF THE LEGAL OR EQUITABLE BASIS FOR SUCH DAMAGES, WHETHER IN CONTRACT, TORT OR OTHERWISE, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. COSTS AND EXPENSES ASSOCIATED WITH ANY CLAIM FOR WHICH A PARTY HAS AN OBLIGATION TO INDMENIFY THE OTHER PARTY PURSUANT TO SECTION 10.5 SHALL NOT BE CONSIDERED CONSEQUENTIAL DAMAGES

11.0 TERM AND TERMINATION.

11.1 Term. The initial term of this Agreement shall be for a period

commencing upon the effective date first set forth above and ending three (3) years thereafter. This Agreement shall subsequently automatically renew, and thereafter re-renew for additional terms of one (1) year each unless terminated by either party, providing the other one-hundred eighty (180) days written notice prior to the end of the then current term.

11.2 Termination. This Agreement may be terminated at any time:

11.2.2 For Cause. By either party at any time immediately upon written notice to the other party in the event the other party fails to observe or perform a material obligation of this Agreement (a "Default"), which Default is not cured within thirty (30) days after the non-defaulting party has given written notice of the Default and demanded its cure.

11.3 Effect of Termination. Upon non-renewal or termination of this Agreement for any reason, all rights and licenses previously granted to End Users shall continue in full force and effect and Vendor shall (continue to provide Cadence all Licensed Work and support services necessary to enable Cadence and Marketing Agents to fulfill its continuing obligations to End User's respecting the Licensed Work for a period of two years following such termination. The maintenance and support obligations of Vendor following the termination or expiration of this Agreement are for wind-down purposes only, and accordingly shall consist of the error corrections and second level telephone support as provided for in Exhibit B. Such continuing obligations will not include any upgrades to the Licensed Works.

11.4 Survival. The provisions of Sections 4.2, 4.3, 4.5 (and Exhibit E), 5.1 (and Exhibit B), 6.3, 7(until all amounts due and owing have been paid), 8 (and other provisions of this Agreement (including Exhibits) as contemplated therein), 9, 10, 11.3 (and the provisions of Section 7 to the extent applicable), 11.4 and 12, along with any other provision which by its terms continues after termination, shall survive the termination of this Agreement.

12.0 GENERAL.

12.1 Relationship. The relationship between the parties under this Agreement is that of independent contractors, and nothing contained in this Agreement shall be construed to constitute either party as an agent, partner, or joint venturer of the other.

12.2 Rights. Nothing in this Agreement shall be construed as prohibiting or restricting: (i) either partyfrom independently developing or acquiring products which are competitive, irrespective of the similarity to or substitutability for theother party's products; or (ii) the rights which the parties have outside the scope of this Agreement; or (iii) the rights of either party to make, have made, use, lease, license, sell or otherwise dispose of any particular product(s) not herein described subject to the restrictions set forth in Section 9.

12.3 Notices. All notices, demands or consents required or permitted hereunder shall be delivered in writing to the respective parties at the addresses set forth above, and, in the case of Cadence, to the attention of the General Counsel, or at such other address as shall have been given to the other party in writing for the purposes of

this clause. Such notices shall be deemed effective upon the earliest to occur of: (i) actual delivery; or (ii) five (5) calendar days after mailing (airmail for international mailings), addressed and postage prepaid, return receipt requested (except for international mailings); or (iii) one (1) day after transmission by fax, if to Cadence to (408) 944-0215, and if to Vendor, to (408)280-7915.

12.4 Assignment. Neither this Agreement nor any rights hereunder, in whole or in part, shall be assignable or otherwise transferable by either party without the express written consent of the other party. However, the foregoing notwithstanding, an assignment by either party in connection with the transfer of all, or a substantial portions of its assets, product lines or businesses, or by reason of acquisition, merger, consolidation or operation of law shall not require consent. Subject to the above, this Agreement shall be binding upon and

inure to the benefit of the successors and assigns of the parties hereto.

12.5 Severability, Waiver or Amendment. If any Agreement provision is determined by a court of competent jurisdiction to be contrary to law, the remaining provisions of this Agreement will continue in effect. No waiver, amendment or modification of any provision hereof shall be effective unless in writing and signed by the party against whom such waiver, amendment or modification is sought to be enforced. No failure or delay by either party in exercising any right, power or remedy hereunder shall operate as a waiver of any such right, power or remedy.

12.6 Rights and Remedies Cumulative. Except as expressly provided herein, the rights and remedies provided in this Agreement shall be cumulative and not exclusive of any other rights or remedies provided at law, in equity or otherwise.

12.7 Government Provisions. When the Licensed Works are to be furnished to the United States Government, or, to an End User for use on a subcontract under a United States Government prime contract (collectively a "Government Contract"), Vendor agrees to comply with provisions that are contained in the Government Contract, insofar as Cadence is required by law or regulations to flow down or otherwise make such provisions applicable to Vendor as a supplier/subcontractor of Cadence.

12.8 Excusable Delays; Force Majeure. Neither party shall be responsible for any delay in or failure to deliver or perform any obligations which is due to circumstances beyond that party's reasonable control. In the event of any such failure or delay, the time of performance shall be extended for a period equal to the time lost by reason of the delay.

12.9 Governing Law. This Agreement is made under, governed by, and shall be construed in accordance with the laws of the state of California, excluding its choice of laws rule, as applied to contracts between California corporations entered into and to be performed entirely in California. The prevailing party in any judicial action brought to enforce or interpret this Agreement or for relief for its breach shall be entitled to recover its costs and its reasonable attorneys' fees incurred to prosecute or defend such action.

12.10 Entire Agreement. The provisions of this Agreement and the Exhibits hereto, which are incorporated herein by this reference, except for Exhibit D which is a separate agreement, constitute the entire agreement between the parties in connection with the subject matter hereof and supersede all prior and contemporaneous agreements, understanding, negotiations and discussions, whether oral or written, between the parties hereto with respect to the subject matter hereof.

12.11 Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which will be considered an original, but all of which together will constitute one and the same instrument.

12.12 Export. Vendor will notify Cadence from time to time of all export classifications for the Licensed Works (including ECCNs) and all unusual export requirements of which they are aware. Each party will comply with all applicable laws in the performance of this Agreement.

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IN WITNESS WHEREOF the parties have entered into this Agreement effective as of the year and date first set forth above.

CADENCE DESIGN SYSTEMS, INC.	VENDOR:
By: /s/ R.L. SMITH MCKEITHEN	By: /s/ P.S. MELMAN
Name: R.L. Smith McKeithen	Name: P.S. Melman

Title: Sr. V.P. & General Counsel

Title: Chief Financial Officer

Date: July 7, 2000

Date: July 7, 2000

CADENCE DESIGN SYSTEMS (IRELAND) LIMITED

By: /s/ R.L. SMITH MCKEITHEN

Name: R.L. Smith McKeithen

Title: Director

Date: July 7, 2000

EXHIBIT A

PRODUCTS AND DESIGNATED EQUIPMENT

REF: Software OEM Agreement
Dated:

1. DESCRIPTION OF PRODUCTS AND DOCUMENTATION.

Product Name	Description
Circuit Surfer	Circuit Surfer is a software program for the analysis and optimization of parametric yield/performance issues in analog and mixed/signal circuits.

1.1 New Products. If Vendor develops or commercially offers a program ("New Product") that may be complementary to either the above Products or other programs marketed by Cadence, Vendor will use commercially reasonable efforts to give Cadence the right of first refusal to market the New Product pursuant to this Agreement. In addition, Vendor agrees to use reasonable efforts to preferentially select Cadence for the distribution of such New Products. In the event the New Product is one which Cadence desires to include in its program offerings, the parties shall negotiate in good faith to include the New Product(s) at mutually agreeable prices.

2. DESIGNATED EQUIPMENT.

The Products shall operate on the following equipment product families and operating system version level on which the programs that Cadence offers on such equipment operate: Solarisx.x, HPUXx.x, and operating system version level on which Cadence programs may operate currently and in the future.
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3. DROP SHIPMENT.

[ ] If the box is checked the parties agree that Vendor will drop ship the Products to End Users (or Marketing Agents, as applicable) worldwide, as designated by Cadence from time to time, and at no charge to Cadence.

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* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

EXHIBIT B

MAINTENANCE AND SUPPORT SERVICES

REF: Software OEM Agreement
Dated:

1.0 MAINTENANCE.

1.1 FOR CADENCE.

1.1.1 Error Correction. Vendor will use its commercially reasonable efforts to provide a Maintenance Modification to correct any Errors in the Licensed Works reported by Cadence. Such response shall include as appropriate: (i) reviewing the Error with Cadence; and (ii) gathering additional information about the Error; and (iii) analyzing the Error to determine its cause; and (iv) providing an Error solution if already known; and (v) where required providing a Maintenance Modification. Maintenance Modifications will be delivered promptly to Cadence at no additional cost. Vendor shall provide Cadence with an estimate of how long it will take to correct the Error(s) reported by Cadence and shall keep Cadence informed of the progress of the problem resolution.

1.1.2 Error Classification & Response: Cadence will notify Vendor when Errors are discovered. Cadence and Vendor will classify Errors by severity as: "Fatal ", preventing a Product from performing any useful work; or "Severe Impact ", disables major function(s); or "Degraded Operations ", Errors disabling non-essential functions; or "Minor ", all other Errors. Vendor's response remedy shall be in three levels defined as follows: (i) Level 1, Cadence's receipt of Vendor's written confirmation acknowledging Vendor's receipt of the Error report; and (ii) Level 2, Cadence's receipt of Vendor's patch, workaround or temporary fix including Documentation changes; and (iii) Level 3, Cadence's receipt of Vendor's official fix or update, including applicable Documentation changes. The response/correction timetable shall be as follows, wherein a day shall be considered to be a workday. Vendor shall use commercially reasonable efforts to meet the timeframes set forth below.

Response/Correction Timetable

Severity	Level 1	Level 2	Level 3
Fatal	*****	***************	**********
Severe Impact	*****	***************	**********
Degraded Operations	*****	***************	**********
Minor	*****	***************	**********

1.1.3 Telephone Support: Provide reasonable telephone support to Cadence on an as-needed basis. Vendor shall maintain a telephone hotline service to enable Cadence to obtain a quick response to any Errors with the Licensed Work. Service Hot lines, at a minimum, must be attended during the hours from 9:00 a.m. to 5:00 p.m. Pacific Standard Time, Monday through Friday excluding standard Vendor holidays.

1.1.4 Fees for Such maintenance services shall be specified in Exhibit C.

1.1.5 Vendor shall use reasonable efforts to provide to Cadence sufficient advance notice of any planned Maintenance Modification or Enhancements to the Products(s)

1.2 FOR END USERS:

1.2.1 Vendor agrees to support its existing end users until such time as Cadence and Vendor put a support plan in place and transition such customers to Cadence.

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

1.2.2 After 2.1 is satisfied, or such other date as mutually agreed upon by the parties in writing, Cadence shall be responsible for providing "first line" maintenance and support services directly to End Users in accordance with the terms and conditions of the End User Software Maintenance Agreement attached hereto as Exhibit B1. During this time, Vendor shall continue to provide "second line" maintenance and support services to Cadence, consistent with the terms and conditions of Section 1.1 of this Exhibit B, and such other maintenance and support services as Cadence may reasonably require in order to fulfill and satisfy its maintenance and support obligations to End Users.

2.0 TRAINING.

2.1 Cadence Internal. During the Term of this Agreement, Vendor shall provide training to Cadence and its Marketing Agents' personnel. Such training shall cover, without limitation, the following topics in detail: (i) installation and configuration procedures, (ii) operating, usage and performance characteristics of the Product, (iii) Error diagnosis and isolation. Such training shall be without charge to Cadence, shall consist of at least one courses per release, and shall be conducted at such facilities with such schedule as is mutually agreeable, except however Cadence shall reimburse Vendor for its out of pocket costs for the instructor's travel, lodging and meal expenses for training held at Cadence's facilities. Additionally, if any of the foregoing topics are covered in regularly scheduled classes held at Vendor's facilities, then Cadence or its Marketing Agents' personnel who are engaged in the marketing, sales, integration or support of the Products may attend any such course(s) at no charge, provided however Cadence shall be responsible for the travel and living expenses of its course attendees.

2.2 End User training. Cadence shall be responsible for selling and delivering End User training in a manner consistent with other Cadence products. Cadence may desire to contract PDF to do the training. PDF will provide the training material and reasonable consultation necessary for Cadence to develop a production customer training class.

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EXHIBIT C

FEES AND PAYMENT

REF: Software OEM Agreement
Dated:
==========

1. FEES.

Cadence shall pay Vendor the following amounts in Fees:

YEAR	LICENSE FEES	DATE DUE

1	**********	*****
	**********	*****
2	**********	*****
	**********	*****
3	**********	*****
	**********	*****

*Payment terms of **********.

1.2 Maintenance Fees. Cadence shall pay to Vendor the fees for the maintenance and support services set forth on Exhibit B, in accordance with the schedule set forth below:

YEAR	MAINTENANCE FEES	DATE DUE
1	**********	*****
	**********	*****
2	**********	*****
	**********	*****
3	**********	*****
	**********	*****
4	**********	*****
	**********	*****
5	**********	*****
	**********	*****

*Payment terms of **********.

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

1.3 Development Fees. Cadence shall pay to Vendor the following minimum fees for development services that may be provided by Vendor under Section 5.2 of the Agreement:

YEAR	MINIMUM DEVELOPMENT FEES	DATE DUE
1	**********	*****
	**********	*****

2	**********	*****
	**********	*****
3	**********	*****
	**********	*****

*Payment terms of **********.

****
****
****
****
**********.

1.3 Prices. The parties agree that Cadence shall be free to determine its prices to its customers.

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* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

EXHIBIT D

SOFTWARE DEPOSIT AGREEMENT

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EXHIBIT E
STANDARD FORM OF LICENSE AGREEMENT

EXHIBIT F

TRADEMARK SPECIFICATIONS

REF: Software OEM Agreement
Dated:

1. TRADEMARK SPECIFICATIONS.

The following are the trademark specifications for the Trademarks: _____ of Vendor.

[CONTENT TO BE PROVIDED BY VENDOR IN DIFFERENT SIZES AND SCALED]

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OMITTED AND FILED SEPARATELY WITH
THE SECURITIES AND EXCHANGE COMMISSION.
ASTERISKS DENOTE SUCH OMISSIONS.

CONFIDENTIAL TREATMENT
PDF SOLUTIONS, INC. HAS REQUESTED
THAT THE MARKED PORTIONS OF THIS
DOCUMENT BE ACCORDED CONFIDENTIAL
TREATMENT PURSUANT TO RULE 406 UNDER
THE SECURITIES ACT OF 1933, AS AMENDED.

Exhibit 10.17

PROJECT: TOSHIBA --
****

YIELD IMPROVEMENT CONSULTING AGREEMENT

This Yield Improvement Consulting Agreement dated as of ****** **, **** (this "AGREEMENT") is entered into by and between Toshiba Corporation, a corporation organized under the laws of Japan ("TOSHIBA") having its principal place of business at 1-1 Shibaura 1-chome, Minato-ku, Tokyo 105-8001, Japan, and PDF Solutions, Inc., a corporation organized under the laws of California ("PDF") having its principal place of business at 333 West San Carlos Street, Suite 700, San Jose, California, U.S.A.

RECITALS

A. PDF Solutions possesses technology and expertise useful in discovering, analyzing, and fixing problems in the design and manufacturing processes that cause low yields of useable integrated circuits.

B. Toshiba desires to engage PDF Solutions and receive a license to certain technology useful to analyze its internal integrated circuit manufacturing process, identify problems therewith, and recommend solutions thereto, by way of methodology or otherwise, upon the terms and conditions contained herein.

C. PDF Solutions desires to be so engaged upon the terms and conditions contained herein.

DEFINITIONS

"Analysis" refers to all interpretations, recommendations, extractions, statistical models or other yield and performance models developed by PDF Solutions and derived in whole or in part from Toshiba's Raw Data; provided, however, that Analysis does not include any information sufficiently detailed that Raw Data could be feasibly re-constructed.

"Characterization Vehicle" or "CV" refers to the parameterized layout structures or circuit elements, specific implementations of said structures or circuit elements either in computer format or layout format (for example, GDS-II files), and images of said structures or circuit elements, historically or hereafter created or customized by PDF Solutions for the purposes of creating a test vehicle used to characterize any given manufacturing process. Manufacturing Designs are usually referenced in the process of generating CVs for the purposes of optimizing or tuning the vehicle to the targeted designs and process. The CV is used to create a Mask Set which is used by the fabrication facility to generate test wafers.

"Foundry" refers to any facility Toshiba owns or operates to manufacture products and any third party foundry with which Toshiba has a relationship that manufactures products for Toshiba.

"Manufacturing Designs" refers to all non-public information relating to Toshiba's manufacturing processes and integrated circuit designs (structures and elements) used in connection with the CV to generate Raw Data.

"Mask Set" refers to translucent glass plates used as a light filter to transfer designs onto a wafer.

"Proprietary Rights" shall mean all intellectual property rights including, but not limited to, patents, patent applications, copyrights, copyright registrations, moral rights, mask work rights, rights of authorship, industrial design rights, trademarks, tradenames, know-how and trade secrets, irrespective of whether such rights arise under U.S. or international intellectual property, unfair competition or trade secret laws.

"PDF Technology" refers to all historically, or hereafter developed methodologies, techniques, software, designs, CVs, problem solving processes and practices utilized by PDF Solutions, and any modifications, compilations or works derivative of the foregoing, excluding know-how, methodologies, techniques or practices that are commonly known or that Toshiba independently has the right to use. PDF Technology also refers to the CV layout and the Design of Experiments used in creating the CV layout.

"Raw Data" shall mean the data generated by PDF Solutions using the CV in conjunction with Toshiba's Manufacturing Design.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises herein contained, the above recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Toshiba and PDF Solutions, intending to be legally bound, hereby agree as follows:

1. YIELD IMPROVEMENT SERVICES.

1.1 PROVISION OF SERVICES. During the term of this Agreement, PDF will provide to Toshiba development work and services with respect to integrated circuit yield management issues. The services and the Deliverables to be delivered as a result thereof (the "PROJECT") are described in detail on a statement of work (the "STATEMENT OF WORK") attached hereto as Exhibit A. The Statement of Work shall be governed by the terms of this Agreement, and specifies:

(a) Deliverables. The specific deliverables (the "DELIVERABLES") to be delivered under the Project and relevant milestones for delivering the Deliverables;

(b) Team Structure. The team members from PDF and Toshiba who are to work on the Project and the expected time contributions for each such member;

(c) Tools. The required data, tools, hardware, software, materials, access to personnel and facilities, and other materials required for effectively completing the Project;

(d) Location. The geographic location where each component of the Project will be completed;

(e) Fees and Expenses. The amount and structure of PDF's Fees (as defined below) payable upon delivery of the Deliverables and Expenses (as defined below).

1.2 TOSHIBA INTELLECTUAL PROPERTY. Toshiba will disclose to PDF on a timely basis such Proprietary Rights (as defined in Section 3.1) and such other data and materials as PDF shall reasonably require in order to perform the Project and/or prepare the Deliverables as defined in the Statement of Work.

1.3 DELIVERABLES. In performing the Project, PDF shall develop and/or make for Toshiba the Deliverables in accordance with any schedules set forth in the Statement of Work. The Deliverables shall meet in all material respects the

description of the Deliverable (the "DELIVERABLE DESCRIPTION") set forth in the Statement of Work.

1.4 ACCEPTANCE. Upon delivery of any Deliverable by PDF to Toshiba, Toshiba shall examine the Deliverable to determine whether it reasonably conforms to the Deliverable Description. If the Deliverable does not reasonably conform to such Deliverable Description, Toshiba shall have fifteen (15) days from the date of delivery thereof to reject such Deliverable and specify in writing why it does not reasonably conform to such Deliverable Description. Upon such rejection the parties shall work together to determine what needs to be done to bring such Deliverable up to such Deliverable Description. If the Deliverable does not meet the Deliverable Description, PDF shall exercise reasonable efforts to correct promptly such nonconformity of the Deliverable with the Deliverable Description and redeliver the Deliverable to Toshiba upon completion of such correction within one month following the parties' agreement referenced in the preceding sentence but only if there are no limitations outside of PDF's control. If there are limitations outside PDF's control, PDF and Toshiba will negotiate in good faith a time for delivery of the Deliverable. If a rejection of the Deliverable is not received by PDF within fifteen (15) days after any delivery or redelivery of a Deliverable under this Section 1.4, the Deliverable shall be deemed accepted. "ACCEPTANCE" (including with correlative meaning the term "ACCEPT") shall mean any acceptance under this Section 1.4. Toshiba agrees to deliver a notice of Acceptance (the "NOTICE OF ACCEPTANCE") upon its decision to Accept any Deliverable hereunder within such fifteen (15) days following such delivery or redelivery.

2. FEES AND EXPENSES.

2.1 SERVICES FEES AND EXPENSES. Upon delivery of each of the respective Deliverables provided by PDF hereunder, Toshiba shall pay to PDF the fees specified to the extent and in the manner set forth in the Statement of Work ("FEES"), and shall

reimburse PDF for its out-of-pocket expenses incurred in carrying out its obligations under this Agreement including, but not limited to, travel, hotel, meal, document production, equipment and other expenses directly related to the services performed hereunder further subject to the terms and conditions set forth in the Statement of Work ("EXPENSES"). In no event shall the Expenses for which Toshiba shall be liable hereunder exceed any limitation on Expenses specified in the Statement of Work without written agreement from Toshiba. PDF shall use reasonable and diligent efforts to deliver the Deliverables hereunder within the estimated expenses and time schedule specified in the Statement of Work.

2.2 PAYMENT OF INVOICES If required by applicable law, PDF shall pay any taxes and assessments levied or imposed by any Japanese tax or other governmental body resulting from the services or the Deliverables to be provided by PDF to Toshiba and the payment to be made by Toshiba to PDF hereunder, including without limitation all personal property taxes on any of the foregoing and any taxes or amounts in lieu of any of the foregoing paid or payable by PDF, other than taxes based on PDF's net income. Toshiba agrees that PDF Solutions or PDF Solutions' designated representative will have the right to participate and negotiate in all discussions with the appropriate tax authorities regarding taxes to be paid by PDF Solutions in the process of determining the required tax burden, if any. The parties acknowledge that PDF Solutions shall be obligated to pay any such tax at the reduced withholding income tax rate rather than the ordinary rate by filing "Application Form for Income Tax Convention between the United States and Japan" with the Japanese tax authorities. If applicable, Toshiba shall send PDF the application form immediately after the execution of this Agreement for PDF's signature and PDF shall promptly sign it and return it to Toshiba so that Toshiba may file it with the applicable Japanese tax authorities on behalf of PDF.

3. PROPRIETARY RIGHTS

3.1 OWNERSHIP. Toshiba and PDF Solutions acknowledge and agree that, as between them, ownership shall be as follows:

(a) PDF Solutions is the exclusive owner of all PDF Technology and all Proprietary Rights in the PDF Technology;

(b) Toshiba is the exclusive owner of all Analysis, Manufacturing Designs, Raw Data and all Proprietary Rights in the Analysis, Manufacturing Design and the Raw Data; and

(c) Toshiba is the exclusive owner of Mask Sets.

3.2 SOLELY DEVELOPED PROPRIETARY RIGHTS OWNERSHIP. Each party shall solely own any Proprietary Rights solely developed by such party or the employee(s) of such party, whether before, during or after the term of this Agreement.

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OMITTED AND FILED SEPARATELY WITH
THE SECURITIES AND EXCHANGE COMMISSION.
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3.3 GRANT OF LICENSE BY PDF SOLUTIONS. Subject to the terms and conditions of this Agreement, including the timely payment of Fees, PDF Solutions hereby grants to Toshiba and its Subsidiaries, a perpetual, non-exclusive, irrevocable, worldwide, non-transferable license (with the right of Toshiba to sublicense its Subsidiaries) to use, copy for internal use, modify and/or enhance the Deliverables (as set forth in the Statement of Work), any PDF Technology and associated Proprietary Rights disclosed by PDF Solutions under this Agreement, but only to the extent PDF Solutions has the right to grant such license; provided that such license is solely for the development, manufacture, fabrication and sale of all Toshiba's semiconductor products associated with Toshiba's **********. The foregoing license includes all PDF Technology disclosed by PDF Solutions in its work for Toshiba hereunder; provided, however, that specifically excluded from this license of PDF Technology is any and all software or software tools used by PDF in connection with or during the course of such services, or software manuals and documentation relating to such software or tools. Notwithstanding the foregoing, Toshiba shall not be limited to the ********** with respect to PDF Technology that consists of methodologies or practices observed by Toshiba personnel in the course of PDF Solutions' work hereunder. In particular, Toshiba shall have the right to create any ***** ***** ***** ***** ***** ***** for the purpose of transferring to other semiconductor ****** than ****** by using PDF's know-how of ***** ***** ***** ***** by PDF under this Agreement ("*******"); provided that Toshiba shall not violate any PDF's copyright or patent. In the event that Toshiba reasonably determines that there is a possibility of violating PDF's copyright or patent in connection with the modification of ****** to be implemented by Toshiba, Toshiba shall consult PDF and PDF shall provide Toshiba with its views thereon and/or alternative solution to avoid such possible violation. Toshiba shall be bound by and shall cause its sublicensees to be bound by the confidentiality obligations contained in Section 6 or obligations at least as restrictive as the confidentiality obligations contained in Section 6. Except as specifically provided herein, Toshiba shall not disclose or license PDF Technology to any third party. Toshiba understands that PDF Solutions will not disclose to Toshiba certain proprietary methods or trade secrets in connection with the services to be rendered by PDF Solutions hereunder. To this end, PDF Solutions retains the right to take industry standard measures to keep such proprietary methods or trade secrets from Toshiba, unless the same defeats or substantially impedes the Scope of Services and Technology under this Agreement.

3.4 PDF SOLUTIONS SERVICES. PDF Solutions may do the following:

(a) to use, copy, compile, manipulate, analyze or reproduce Raw Data and the Mask Sets solely for the purpose of performing under this Agreement; and (b) to use and rely upon Raw Data and Analysis for the purpose of supporting Toshiba's yield ***. PDF Solutions shall be bound by and shall cause its sublicensees to be bound by the confidentiality obligations contained in Section 6 or obligations at least as restrictive as the confidentiality obligations contained in Section 6.

3.5 NO OTHER RIGHTS. Except as otherwise set forth in this Section 3, neither this Agreement nor performance and delivery of the Services and Technology shall give

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either PDF Solutions or Toshiba any ownership, interest in, or rights to, the Proprietary Rights owned or provided by the other party.

3.6 DEFINITION OF SUBSIDIARY. For the purpose of this Agreement and the Statement of Work, the term "SUBSIDIARY" of any party shall mean any corporation or other entity more than fifty percent (50%) of the Voting Stock of which is beneficially owned or controlled, directly or indirectly, by such party; provided that such corporation, company or other entity shall be deemed to be a Subsidiary only so long as such ownership or control exists. "VOTING STOCK" of any entity shall mean any stock or other equity interest entitled to vote for the election of directors or any equivalent governing body of such entity. Notwithstanding the above, ********** ********** ********* ********** ******* ********** ********** ********** ********** ********** ******** ******** ******** ********* *** **********.

4. TERM AND TERMINATION.

4.1 COMMENCEMENT. This Agreement shall commence as of the date first set forth above and shall continue in force until completion of the Project, unless sooner terminated as provided in this Section 4.

4.2 TERMINATION.

(a) If either party defaults in the performance of any material obligation hereunder the non-defaulting party may give the defaulting party written notice of such default within twenty (20) days following the non-defaulting party's discovery of such default. If the defaulting party fails to cure such default within forty-five (45) days (or such other time period as the parties shall mutually agree) after the defaulting party's receipt of such notice of default, then the non-defaulting party, at its option, may, terminate this Agreement by giving the defaulting party written notice of termination of this Agreement within ten days following the end of such 45-day period. If such notice of default or notice of termination is not given within such period, then the default shall no longer constitute cause for termination of this Agreement.

(b) Either party may terminate this Agreement effective upon written notice to the other party in the event the other party becomes the subject of a voluntary or involuntary petition in bankruptcy or any proceeding relating to insolvency, or assignment for the benefit creditors, if that petition or proceeding is not dismissed within sixty (60) days after filing. Such written notice of termination must be delivered no later than ten (10) days following the expiration of such 60-day period. If such notice of termination is not given within such 10-day period, then the default shall no longer constitute cause for termination of this Agreement.

(c) Either party may terminate this Agreement effective upon written notice to the other party in the event that the other party is merged with or into, or all or substantially all or the other party's assets are sold to, a third party corporation or other entity, unless such acquiring corporation or entity expressly agrees to assume the other

party's obligations under this Agreement. Such written notice of termination must be delivered no later than ten (10) days following the consummation of such transaction. If such notice of termination is not given within such 10-day period, then the default shall no longer constitute cause for termination of this Agreement.

(d) Toshiba shall be entitled to terminate this Agreement upon forty-five (45) days prior written notice if (i) Toshiba reasonably rejects the Deliverables due to their material nonconformity with the Deliverable

Description set forth in the Statement of Work (and clearly and properly specifies the reason for such nonconformity), the Acceptance procedure set forth in Section 1.4 shall have been exhausted without an Acceptance, and PDF does not reasonably cure such material nonconformity within forty-five (45) days following the final written rejection of such Deliverable, or (ii) Toshiba reasonably and in good faith judges that the expected progress for the services to be performed by PDF necessary to deliver the Deliverables hereunder cannot be achieved within the mutually agreed time frame, and within forty-five (45) days following such notice PDF cannot reasonably establish that such progress can be achieved. This Agreement may then be terminated by a written notice of termination delivered within ten (10) days following the applicable foregoing forty-five (45) day period. If such written notice of termination is not given within such 10-day period, then the default under this Section 4.2(d) shall no longer constitute cause for termination of this Agreement.

4.3 TERMINATION OF RIGHTS. Upon expiration or termination of this Agreement, all rights and licenses granted and all obligations undertaken hereunder shall forthwith terminate except the following:

(a) Any and all licenses granted by PDF to Toshiba and its Subsidiaries under this Agreement as to previously delivered, Accepted and paid for Deliverables shall survive the expiration or termination of this Agreement unless this Agreement is terminated by PDF in accordance with the provisions of Section 4.2(a), (b) or (c) in which case none of such licenses shall survive and all copies of such Deliverables shall be returned to PDF.

(b) If Toshiba terminates this Agreement for the reason as stated in Section 4.2, Toshiba shall pay to PDF, within thirty (30) days after the date of termination, (i) the actual amount of unreimbursed Expenses incurred by PDF through the date of termination by Toshiba, (ii) the amount of the Deliverables Fees with respect to Deliverables delivered or otherwise accrued, and unpaid through the date of termination; provided that payment of such Fees and Expenses shall be subject to the provisions of Section 2.

(c) If Toshiba terminates this Agreement for the reason specified in Section 4.2, Toshiba shall pay to PDF:

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ASTERISKS DENOTE SUCH OMISSIONS.

(i) the amount of any unpaid Product Fees accrued prior to the date of termination; and

(ii) the amount of any future Product Fees in accordance with Paragraph (e)(iii) of the Statement of Work. Such Product Fees shall be payable through the term of payment specified in such Paragraph (e)(iii); provided that Product Fees to be accrued and paid following a date of termination shall terminate only if the basis for termination of this Agreement shall be (A) an involuntary bankruptcy under Section 4.2(b) or (B) the material default under PDF's confidentiality obligations under Section 6 of this Agreement; provided that payment of such Product Fees under this Section 4.3(c) shall be subject to the provisions of Section 2.

(d) The provisions of Sections 2 (including by reference Toshiba's obligations to pay Fees and Expenses set forth in the Statement of Work but subject to Section 4.3(b) and (c)), 3.1, 3.2, 3.4 (with respect to Deliverables delivered by PDF to Toshiba and Accepted and paid for by Toshiba), 4, 6, 7, 8.4, 8.7 and 8.8 shall survive any expiration or termination of this Agreement.

5. INDEPENDENT CONTRACTORS. The relationship of PDF and Toshiba established by this Agreement is that of independent contractors, and nothing contained in this Agreement shall be construed to (i) give either party the power to direct or control the day-to-day activities of the other, (ii) constitute the parties as agents, partners, joint venturers, co-owners or otherwise as participants in a joint or common undertaking, or (iii) allow either party to create or assume any obligation on behalf of the other for any purpose whatsoever.

6. CONFIDENTIALITY. Except as otherwise provided herein, each party agrees, at all times during the term of this Agreement and for ** years after receipt of Confidential Information, to hold in strictest confidence (and to cause its Subsidiaries to hold in strictest confidence), and not to use, except for the purposes contemplated herein, or to disclose to any person, firm or corporation without written authorization of the other party, any Confidential Information of the disclosing party. As used in this Agreement, "CONFIDENTIAL INFORMATION" means any proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, yield data or other information disclosed by one party to the other, which is marked as "Confidential," and/or orally or in other tangible form identified as confidential at the time of disclosure and confirmed as Confidential Information in writing within thirty (30) days of its initial disclosure, provided that any methodologies, practices or procedures used by PDF and observed by Toshiba shall constitute "Confidential Information" within the meaning of this Agreement without any such notification. Confidential Information does not include any of the foregoing items which have become publicly known and made generally available through no wrongful act of the receiving party, or which is already known by the receiving party as evidenced by the receiving party's files immediately prior to such disclosure, or which the receiving party proves was independently developed, prior to the receiving party's receipt of such

Confidential Information, by employees or other representatives of such receiving party who have not had access to such information or the ideas or theories underlying such Confidential Information. Each party receiving Confidential Information of the other party agrees to limit disclosure of Confidential Information to only those of its officers and employees the receiving party considers necessary to complete its services contemplated in this Agreement and then only after such officers and employees have undertaken by employment agreement or otherwise to comply with the obligations undertaken by Recipient under this Agreement. Except as otherwise agreed by both parties, PDF shall return to Toshiba all Confidential Information of Toshiba owned by Toshiba and not licensed to PDF or jointly owned by PDF and Toshiba and copies thereof, within thirty (30) days after completion of the Project or after expiration or termination of this Agreement. Except as otherwise agreed by both parties, Toshiba shall return to PDF all Confidential Information of PDF owned by PDF and not licensed to Toshiba or jointly owned by PDF and Toshiba and copies thereof, within thirty (30) days after completion of the Project or after expiration or termination of this Agreement.

7. WARRANTY. PDF warrants to Toshiba that PDF's Intellectual Property utilized by PDF in performing the Project does not infringe any patent, copyright, trade secret, and any other proprietary rights of any third party. EXCEPT FOR THE FOREGOING, NOTHING UNDER THIS AGREEMENT, OR THE STATEMENT OF WORK OR PROJECT SHALL BE DEEMED TO BE A WARRANTY OR REPRESENTATION AS TO THE OUTCOME OF ANY PROJECT OR THE EFFICACY OF ANY RECOMMENDATIONS MADE BY PDF. NOTHING UNDER THIS AGREEMENT OR THE STATEMENT OF WORK SHALL BE DEEMED TO CREATE ANY LIABILITY ON THE PART OF PDF WITH RESPECT TO THE OUTCOME OF A PROJECT OR ANY ACTIONS TAKEN BY TOSHIBA AS A CONSEQUENCE OF PDF'S RECOMMENDATIONS.

8. MISCELLANEOUS.

8.1 AMENDMENTS AND WAIVERS. Any term of this Agreement or any Statement of Work may be amended or waived only with the written consent by the representatives of the parties.

8.2 SOLE AGREEMENT. This Agreement and the Statement of Work constitute the sole agreement of the parties and supersede all oral negotiations and prior writings with respect to the subject matter hereof.

8.3 NOTICES. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon receipt, when delivered personally or by an internationally-recognized delivery service (such as Federal Express or DHL), or after being deposited in the U.S. mail as certified or registered mail with postage prepaid, if such notice is addressed to the party to be notified at such party's address as set forth above or as subsequently modified by written notice.

8.4 CHOICE OF LAW. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California,

without giving effect to the principles of conflict of laws.

8.5 SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of this Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of this Agreement shall be enforceable in accordance with its other terms.

8.6 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

8.7 ARBITRATION. The parties shall attempt in good faith to resolve any dispute arising under this Agreement. If the parties are unable to resolve dispute within a reasonable period then the dispute shall be finally settled by binding arbitration (a) if brought by Toshiba, in San Jose, California, in accordance with the Commercial Rules of the American Arbitration Association and, (b) if brought by PDF, in Tokyo, Japan in accordance with the rules of the International Chamber of Commerce. In either case such arbitration shall be conducted by one arbitrator appointed in accordance with said rules. The arbitrator shall apply California law, without reference to rules of conflicts of law or rules of statutory arbitration, to the resolution of any dispute. Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Notwithstanding the foregoing, the parties may apply to any court of competent jurisdiction for preliminary or interim equitable relief, or to compel arbitration in accordance with this paragraph, without breach of this arbitration provision.

8.8 EXPORT CONTROL. Neither party shall, directly or indirectly export or re-export any technical data or information or data received from the other party hereunder or the direct products thereof to any destination prohibited or restricted by export control regulations of Japan and the United States, including U.S. Export Administration Regulations, without proper authorization from the appropriate governmental authorities. In addition, the parties agree that no technology furnished to the other will be used for any purpose to develop and/or manufacture nuclear, chemical or biological weapons and/or missiles.

8.9 NON-SOLICITATION. Toshiba shall not solicit or influence or attempt to influence any person employed by PDF to terminate or otherwise cease his or her employment with PDF or become an employee of Toshiba or any competitor of PDF. A company's status as a competitor of PDF shall be determined by PDF in its sole discretion.

8.10 PUBLICITY. Neither party shall disclose the terms of this Agreement to any third party, or in any manner advertise or publish statements to such effect, without the prior written consent and mutual agreement as to the content, medium, and manner of the public announcement of the other party. Customer agrees during the term to work in good

faith with PDF Solutions to produce mutually acceptable public announcements by PDF Solutions of PDF Solutions' engagement with Customer under this Agreement. Notwithstanding the above, should one of the parties be required to disclose either the existence or terms of this Agreement to a court of law, a governmental agency, an auditor or a bank, such party may do so without the prior written consent of the other party provided that the disclosing party: (i) notifies the recipient of the confidential nature of the information, (ii) requests confidential treatment of such information, (iii) limits the disclosure

to only such information as is required under the circumstances, and (iv) delivers prompt notice to the other party of such requested or actual disclosure.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

PDF SOLUTIONS, INC.	TOSHIBA CORPORATION
By: ----------	By: ----------
Name: John K. Kibarian	Name: Yasuo Morimoto
Title: President	Title: President & CEO, Semiconductor Company
DATE: ----------	DATE: ----------

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EXHIBIT A

STATEMENT OF WORK
****
**
****

This Statement of Work is made between PDF Solutions, Inc. ("PDF") and Toshiba Corporation ("TOSHIBA") pursuant to and attached as an exhibit to that certain Yield Improvement Consulting Agreement dated as of ****** **, **** (the "AGREEMENT") between PDF and Toshiba. All terms and conditions contained in this Statement of Work are subject to the terms and conditions set forth in the Agreement. The date of commencement of services under this Agreement was ****** **, **** (the "ENGAGEMENT COMMENCEMENT DATE").

PROJECT DESCRIPTION & GOALS

PDF Solutions agrees to provide Toshiba with ********** services for Toshiba's **** developed as ********** ******* ******. Services in support of this project described in this contract is consists with one major components:

(1) ******* PROJECT

(a) PROJECTS, DELIVERABLES AND FEE

The section is outlined below that review the project services. The section has Project Phases and Deliverables.

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***** PROJECT

Two phases are included in this project;

(i) **

(ii) **

**** deliverables are included in this project;

(i) **

(ii) **

(iii) **

(iv) **

(v) **

(a) DESCRIPTION OF PHASES FOR EACH *** (START DATE: ******)

PROJECT PHASE	PDF SOLUTIONS WORK STEPS	DURATION
**********	- ********** **********	********** *****
********** *	- ********** ********** ****	********** ***

(b) DELIVERABLES

PHASE	DELIVERABLE	DESCRIPTION	PLANED DELIVERY MONTH	DELIVERABLE FEE	MAINTENANCE FEE (per 6 months)	ESTIMATED PERIOD OF MAINTENANCE FEE
****	*****	********** ********** *****	**********	**********	*****	**********
	**********	**********	*********	**		
*****	*****	********** ********** *****	**********	**********	*****	**********
	**********	**********	*********	**		
*****	*****	********** ********** *****	**********	**********	*****	**********
	**********	**********	*********	**		
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	**********	**********	*********	**		
******	*****	**********	**********	**********	*****	**********

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(b) TEAM STRUCTURE

The team is structured to divide the decision-making, project leadership and analysis management between three bodies in the form of "TEAM STRUCTURE" in the form attached to this Statement of Work as Exhibit C.

Toshiba will establish a Steering Committee (the "STEERING COMMITTEE") which will consist of (a) ****** ******* and any other Toshiba manager who is necessary in order for yield improvement decisions to be made, and (b) ****** ******* or another senior executive of PDF. The Steering Committee will be limited to four representatives of Toshiba and one representative of PDF. The Steering Committee will have sufficient authority to make the relevant decisions concerning this Project. The Steering Committee is responsible for giving the team its charter, deciding which yield improvement actions to take and who in the Toshiba organization will be responsible for carrying out the improvement.

Project leadership responsibility will be shared by ****** ******* (the "TOSHIBA PROJECT MANAGER") on behalf of Toshiba, and ****** ******* (the "PDF PROJECT MANAGER"), on behalf of PDF. Their primary responsibility will be to ensure overall project status include delivery timing and the deliverables of the work chartered by the Steering Committee. In order to maximize the likelihood that the team is making good progress, the Project Managers will monitor the team's work on a monthly basis and help reduce any organizational obstacles which may impede the team's progress.

Technical responsibility will be shared by the personnel assigned by Toshiba and PDF(the "TOSHIBA ENGAGEMENT MANAGER", on behalf of Toshiba, the "PDF ENGAGEMENT MANAGER", on behalf of PDF, respectively). Their primary responsibility will be to ensure that the team is making good progress toward delivery of the work. Engagement Managers will monitor the team's work on a weekly basis and ensure the project from technical view point.

The day-to-day analyses will be conducted by a ******** ******* Team ("******") of engineers from Toshiba and PDF. A PDF Engagement Manager will manage the activities of the ****. The PDF Engagement Manager will be responsible for directing all team members in their analyses as well as aggregating and synthesizing the results of all the analyses conducted by the entire team. In addition, the Engagement Managers will be the principal point of contact for any technical questions regarding the project.

********** Toshiba engineers will be asked to participate actively with the **** Toshiba team members should be assigned to **** and be skilled at ******* ******* ******* ******* *******. Toshiba engineers will be placed on the Team after approval by PDF for the purpose of gathering data and conducting analyses. The Toshiba team members will work at the direction of the Engagement Managers.

(c) TOOLS

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Toshiba will provide PDF with office space and other reasonable and

customary business resources. In particular, Toshiba will provide PDF with secure office space large enough to accommodate the required PDF personnel in addition to the Toshiba engineers assigned to work on the ****. Toshiba will provide PDF with office equipment reasonably requested by PDF from time to time including **** international access telephones (including such analog lines as PDF shall request), an international access Facsimile machine and line, and a photocopier. Toshiba will provide PDF with 24-hour access to the team office so work can continue at night and on weekends.

Toshiba will provide PDF with computing resources that PDF reasonably deems necessary to ***** ***** ***** *****. The details of such request will be sent in a separate document to the Toshiba Engagement Manager but in general, Toshiba will provide ******** engineering workstations connected to both the Toshiba network and the Internet. Toshiba will also provide such other accessories as PDF shall reasonably request including, but not limited to, a removable data storage device, such as a tape drive, and a printer.

(d) LOCATION

The Project will be conducted by Toshiba's and PDF's personnel at Toshiba's **** ********* in ************ and Toshiba's **** ********* in **********, and PDF's facilities in San Jose, CA. In certain cases, PDF may require Toshiba engineers to work at the PDF facility in San Jose, California. PDF engineers may also work in ***** and ********* when the engagement manager believes this is necessary to achieve progress. If Toshiba shall provide PDF employees with an English version of the employee rules and regulations in force at the Toshiba facilities, then PDF employees shall comply with such rules and regulations in all material respects in an equivalent manner as other Toshiba employees generally. Any failure to comply with such rules and regulations shall not constitute a default of a material obligation constituting a basis for termination of this Agreement unless (A) Toshiba has repeatedly given notices of such failure to PDF and PDF has repeatedly failed to remedy such noncompliance as specified in such notices, (B) Toshiba shall notify PDF in writing that failure to cure such repeated non compliance within ** ***** shall constitute a basis for termination of the Agreement and PDF shall fail to remedy such non compliance, and (C) Toshiba gives final notice of termination within ** ***** following such ***** period. PDF shall take all reasonable steps necessary to ensure that all employees resident at or visiting a Toshiba facility shall treat as confidential in accordance with Section 6 all material information of a proprietary nature observed by or disclosed to such employee, and shall comply in all material respects with the all export control obligations contained in Section 8.8.

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(e) FEES AND EXPENSES.

Toshiba will pay PDF Fees consisting of three components: (1) the Deliverable Fees and (2) the Maintenance Fees and (3) the Product Fees, each as defined below:

(i) DELIVERABLE FEES. Toshiba will pay PDF a deliverable fee described in each deliverable tables after each deliverable are provided to Toshiba (the "DELIVERABLE FEES"). The payment will be made within *** days of receipt of an invoice covering such Deliverable Fees.

(ii) MAINTENANCE FEE. **********
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(iii) PRODUCT FEE.
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EXPENSES.

Toshiba will reimburse PDF for all reasonable and customary Expenses incurred by PDF in performing the services, delivering the Deliverables and fulfilling its obligations under the Project. The Expenses will be billed to Toshiba at PDF's cost and will not exceed an average of *** per calendar quarter without the written consent of Toshiba. PDF will submit to Toshiba invoices specifying the Expenses and Toshiba will pay the Expenses within ****** of the receipt of the invoice. Invoices will be submitted to Toshiba no more frequently than a monthly basis. Payments of invoices for PDF's expenses will be made in accordance with the provisions of Section 2.2 of the Agreement. Notwithstanding the foregoing

if PDF is entitled to receive reimbursement of the same travel, lodging and other similar expenses from both Toshiba and other customers, then PDF will allocate any expenses that are for the benefit of both Toshiba and such other customers, among Toshiba and such other customers on a basis that PDF shall determine is fair, just and equitable to Toshiba and such other customers taking into account all relevant factors.

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CONFIDENTIAL TREATMENT
PDF SOLUTIONS, INC. HAS REQUESTED
THAT THE MARKED PORTIONS OF THIS
DOCUMENT BE ACCORDED CONFIDENTIAL
TREATMENT PURSUANT TO RULE 406 UNDER
THE SECURITIES ACT OF 1933, AS AMENDED.

EXHIBIT 10.18

PDF SOLUTIONS, INC.

SOFTWARE SITE LICENSE AGREEMENT

This SOFTWARE SITE LICENSE AGREEMENT is made as of ********** (this "AGREEMENT") between PDF SOLUTIONS, INC., a corporation organized and existing under the laws of the State of California ("LICENSOR"), whose address is 333 West San Carlos Street, Suite 700, San Jose, California, U.S.A. and TOSHIBA CORPORATION, a corporation organized and existing under the laws of Japan (the "CUSTOMER"), whose address is 1-1 Shibaura 1-chome, Minato-ku, Tokyo 105-01, Japan.

RECITALS:

WHEREAS, Licensor has previously licensed to Customer certain of the computer software packages identified on Schedule A hereto (the "SOFTWARE PRODUCT") including end-user manuals and documentation, for use on a single central processing unit pursuant to prior agreements between Licensor and Customer.

WHEREAS, Licensor and Customer wish to enter into a site or enterprise license providing for a license of the Software Product by all employees of Customer on Customer's central processing units, and to have all copies of Software Product used by Customer covered under this Agreement.

WHEREAS, this Agreement shall govern the relationship between both parties with regard to any Software Product used by Customer.

NOW, THEREFORE, in consideration of the mutual promises contained herein, Licensor and Customer agree as follows:

1. SOFTWARE PRODUCT LICENSE.

(a) GRANT.

(i) Licensor hereby grants to Customer a non-exclusive and non-transferable license, without the right to sublicense, to use the Software Product solely on the central processing units and other equipment owned or operated by Customer on which the Software Product is designated to be used and set forth in Schedule A (the "DESIGNATED EQUIPMENT"), and only for Customer's own internal business use in the integrated circuit manufacturing and design business. This Software Product License shall govern the license of all Software Product licensed or used by Customer whether previously or hereafter provided or licensed by Licensor to

Customer and shall replace any prior agreements entered into between Licensor and Customer relating to licensing of copies the Software Product previously delivered.

(ii) Subject to the provisions of Section 8, the term of the

Software Product License shall be for a period of three (3) years commencing on January 1, 2001 after which period the Software Product License shall terminate unless extended by mutual agreement between the parties.

(iii) Customer shall not make the Software Product available to any other party except (i) its subsidiaries in which Customer maintains a fifty percent (50%) or greater ownership interest (but only for so long as Customer retains such a percentage interest), by time-sharing or otherwise or (ii) others who use the Software Product on Designated Equipment on Customer's premises for the purposes specified in this Agreement and who agree in writing to maintain the confidentiality of Licensor Information (as defined in Section 3(a). Customer shall not use the Software Product to process any data other than its own.

(iv) Customer shall not operate the Software Product on any central processing unit other than the Designated Equipment, without the prior written consent of Licensor.

(v) Customer acknowledges that it is receiving only a limited license to use the Software Product and related documentation and that Licensor retains all right, title and interest in and to the Software Product and related documentation, including all patent, copyright, trade secret and other intellectual property rights and any corrections, bug fixes, enhancements, updates or other modifications, whether made by Licensor, Customer or any third party.

(vi) Licensor shall grant to Customer, free of additional charge, a license to use the interface and the related documentation therefor which is developed by Licensor only for Customer. Such interface and documentation shall constitute Software Product licensed under this Agreement.

(b) RISK OF LOSS. Licensor assumes the risk of loss or injury to the Software Product until delivered to Customer. Thereafter, the risk of loss and damage to the Software Product (except for replacement of defective items as set forth in Section 5 hereof relating to warranties) shall be upon Customer. Customer hereby assumes full responsibility for the selection, installation and, subject to Section 4, maintenance of the Software Product.

(c) COPIES. In addition to such copies as are installed on Designated Equipment, Customer may make one (1) copy of each item of the Software Product for backup purposes only.

(d) REVERSE ENGINEERING. Customer agrees that only Licensor shall have the right to maintain, enhance or otherwise modify the Software Product. Customer shall not cause or permit the decompilation, disassembly, modification or reverse engineering of all or any part of the Software Product and shall not attempt to do so. Customer further acknowledges that the Product Software incorporates certain tracking software (the "TRACKING SOFTWARE") designed to track use of the Product Software and the fees payable hereunder. Customer shall not amend or modify

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such tracking software or take any other action which might disable or alter such tracking features or the results obtained therefrom.

2. PAYMENTS TO BE MADE BY CUSTOMER.

(a) PAYMENTS. Customer shall pay the charges for the Software Product in the amounts and at the times indicated in Schedule B hereto.
****
****
********** Customer shall hold Licensor harmless from all claims and liabilities arising from Customer's failure to report or pay any such taxes, duties and assessments subject to the following conditions and procedures.
****

**********. Licensor agrees that the payment may be made by Toshiba America Incorporated on Customer's behalf provided that such payment is made in accordance with the conditions required by Customer under this Agreement.

(b) AUDITING. In furtherance of any and all of Licensor's rights under this Agreement, Customer shall, upon forty-eight (48) regular business hours prior notice and no more than once during any twelve (12) month period, provide Licensor with sufficient access to the data generated by and results of the Tracking Software and shall provide such materials, documentation, reports and other information as Licensor shall request to support and prove the usage of and number of copies made under this Agreement and Customer's compliance with the other provisions of this Agreement. Following delivery of such data, results and other materials, if Licensor is not reasonably satisfied with such proof and should Licensor reasonably request, Customer shall permit an independent third party mutually acceptable to Licensor and Customer to enter upon Customer's premises to audit Customer's compliance with the terms of this Agreement at Licensor's expense.

3. CONFIDENTIALITY AND USE OF SOFTWARE PRODUCT.

(a) GENERAL. Customer acknowledges that it has no proprietary interest in or right to use the Software Product except in accordance with the terms of the Software Product License granted in this Agreement. Customer agrees that, during the term of this Agreement and thereafter, it will hold the Software Product, the terms of this Agreement and any other confidential information of the Licensor that may come into Customer's possession ("LICENSOR INFORMATION") in confidence, that it will not sell, license, sublicense, publish, display, distribute, disclose or otherwise make the Licensor Information or any part thereof available to any third party except employees of Customer within the scope of their employment and to others under a duty of confidence to Customer while on Customer's premises, and that it will take all reasonable steps and precautions to maintain the confidentiality of the Licensor Information.

Notwithstanding the foregoing, information received by Customer in connection with this Agreement shall not be considered Licensor Information if:

(i) The information is known by written records to Customer at the time of disclosure; or

(ii) The information is or becomes public knowledge other than through the unauthorized disclosure by Customer; or

(iii) The information is rightfully received from a third party who has the right to disclose the information; or

(iv) The information is specifically excluded from Licensor Information by Licensor's prior written approval; or

(v) The information is independently developed by Customer without prior knowledge of the Licensor's information.

(b) SPECIFIC. Without limiting the foregoing, Customer further agrees as follows:

(i) It will not use the Software Product or any part thereof on any central processing unit other than Designated Equipment, or at any location other than Customer's business addresses, except as indicated in Section 1(a) of this Agreement.

(ii) It will not remove or permit to be removed from any item included in the Software Product any notice placed thereon by Licensor indicating the confidential or proprietary nature thereof.

(iii) Other than copies installed pursuant to Section 1(a)(i) and the backup copy permitted by Section 1(c), it will not copy or duplicate by any

means the Software Product or any part thereof without the prior written consent of Licensor. Any copy made by Customer shall include all copyright or other proprietary notices of Licensor included in or on the original Software Product provided by Licensor. Customer shall keep a record of each copy made, where such copy is located and in whose custody it is, and shall provide to Licensor a monthly report specifying all additional central processing units on which the Product Software is installed and designated to be used under Section 1(a).

(iv) It will restrict all use of the information provided hereunder solely to the field of use defined and granted herein, and will not use any information in tangible or intangible form which has been or may be delivered or disclosed to Customer or Customer's employees by Licensor or Licensor's employees for the purpose of creating or attempting to create, or permitting others to create or attempt to create, any product similar to the Software Product or any part thereof.

(v) It will limit access to the Software Product to only those employees of Customers and others who who need access thereto for the purposes specified in this Agreement

and who have agreed in writing to protect the confidentiality of the Licensor Information in the manner set forth in this Section

(vi) It will not copy any source code received by it from Licensor, and it will take all necessary steps to assure that no copies are made by employees or third parties.

(vii) To protect and maintain the confidentiality of the Licensor Information, it will take precautions at least as stringent as it uses to protect its own confidential information.

(c) DISCLOSURE. Licensor recognizes that under certain circumstances, Customer may be required by judicial order, regulatory authority, or in order to satisfy its auditors, to disclose certain information about the Software Product, and Licensor hereby consents to such disclosure, provided that:

(i) If the disclosure is to be to a governmental authority or pursuant to judicial order, Customer shall notify Licensor within forty-eight (48) regular business hours after Customer receives such a notice, and

(ii) If such request is by Customer's auditors, then before any disclosure is made, Customer shall obtain from such auditors a covenant and agreement to respect the confidentiality required by this Section 3. Upon request, Licensor shall provide forms for this purpose.

4. UPDATES, SUPPORT AND MAINTENANCE. Customer shall receive modifications and updates to the Software Product, including updates to user documentation, and advice by telephone or mail and other support and maintenance services with respect thereto in accordance with the terms of a separate Software Maintenance Agreement executed simultaneously with the execution of this Agreement. Such modifications, updates, support and maintenance will be provided without additional charges beyond those set forth in this Agreement, except as specifically provided in the Software Maintenance Agreement.

5. EXPRESS WARRANTIES AND EXCLUSION OF IMPLIED WARRANTIES.

(a) AUTHORITY. Licensor warrants that it has the right to grant the license of the Software Product granted in this Agreement.

(b) INFRINGEMENT ACTIONS. Licensor will defend at its expense any action brought against Customer to the extent that it is based on a claim that the Software Product constitutes infringement of any patent, copyright, or other intellectual proprietary rights in the United States and Japan, and Licensor will pay all damages and costs reasonably incurred by Customer in such action which are attributable to such claims, provided that Licensor is informed in writing and furnished a copy of each communication, notice or other action relating to the alleged infringement and is given authority, information and assistance (at Licensor's expense) necessary to defend or settle such claim. Should the Software Product become, or in Licensor's opinion be likely to become, the subject of a claim of infringement of any United States and/or Japanese patent, copyright, or other intellectual proprietary rights, then

Licensor may at its option (i)

procure for Customer the right to use the Software Product free of any liability for infringement or (ii) replace such Software Product with non-infringing substitutes otherwise complying substantially with all of the requirements of this contract. In the event that Licensor attempts in good faith but is unable to resolve such infringement, Licensor may terminate this Agreement and shall refund to Customer a prorated portion of the amount Customer has paid to Licensor based upon the portion of the year that customer has had use of the Software Product prior to such termination.

Licensor will not be obligated to defend or be liable for costs and damages if the infringement arises out of any software developed by Licensor in compliance with the Customer's specifications or a modification of the Software Product after delivery by Licensor.

(c) PATENTS AND COPYRIGHTS. If any action is brought against Licensor, based on a claim that any software developed by Licensor in compliance with Customer's specifications and supplied to Customer directly infringes any duly issued United States patent, copyright, or other proprietary right in the United States, then the indemnity obligation herein stated with respect to Licensor shall reciprocally apply with respect to Customer with respect to such claim of infringement.

(d) CONFORMITY AND DOCUMENTATION. Licensor warrants that the Software Product will, when delivered, conform to the documentation therefor provided by Licensor. If, within 60 days after delivery of the Software Product, Customer reports an alleged defect in the Software Product, Licensor's qualified personnel will attempt to verify the defect and, within thirty (30) days (determined in light of the nature and scope of the alleged defect), after confirming the existence of a defect, Licensor shall correct the defect in the Software Product or provide Customer with an avoidance procedure to correct the defect.

(e) EXTENT OF LIABILITY.

(i) THE PROVISIONS OF SECTIONS 5(b) AND (c) STATE THE SOLE AND EXCLUSIVE LIABILITY OF THE PARTIES HERETO FOR PATENT AND COPYRIGHT INFRINGEMENT AND IS IN LIEU OF ALL CONDITIONS OR WARRANTIES EXPRESSED, IMPLIED, STATUTORY OR OTHERWISE IN REGARD THERETO.

(ii) THE FOREGOING WARRANTIES DO NOT APPLY TO THE SOFTWARE PRODUCT IF LOCATED OR USED IN A MANNER INCONSISTENT WITH ANY TERMS OR LIMITATIONS OF THIS AGREEMENT. EXCEPT FOR THE EXPRESS WARRANTIES STATED IN THIS AGREEMENT, LICENSOR DISCLAIMS ALL OTHER CONDITIONS AND WARRANTIES, WHETHER EXPRESSED, IMPLIED OR STATUTORY INCLUDING ALL IMPLIED CONDITIONS OR WARRANTIES INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

6. LIMITATION OF DAMAGES. In no event will Licensor be liable for any damages arising from performance or non-performance of the Software Product or for any lost profits, loss of use, loss of data, cost of procurement of substitute goods or services, or other consequential,

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incidental, special, indirect or exemplary damages, however caused and under any theory of liability, even if Licensor has been advised of the possibility of such damage, or for any claim against the Customer by any other party, except as provided for in Section 5 with respect to infringement of the rights of others. In no event shall Licensor's liability for any cause exceed the aggregate amount paid by Customer to Licensor pursuant to this Agreement except for personal injury or death resulting from Licensor's gross negligence or willful misconduct. Customer acknowledges that the amounts payable hereunder are based

in part on these limitations and further agrees that these limitations shall apply notwithstanding any failure of essential purpose of any limited remedy.

7. NONTRANSFERABILITY. Customer shall not assign, sublicense, extend or other-wise transfer in whole or in part this Agreement or any license granted hereunder without written consent of Licensor to such transfer which consent shall not be unreasonably withheld. Licensor will notify Customer in writing prior to transferring or assigning this Agreement and Licensor will not be released from its obligations hereunder without written consent of Customer to such transfer or assignment. As used in the preceding sentence, "Customer" means only the specific entity that has executed this Software License Agreement as Customer.

8. DEFAULT; EFFECT OF TERMINATION.

(a) DEFAULT; TERMINATION BY CUSTOMER. Customer shall be in default hereunder upon the occurrence of any of the following events: (i) any sum of money owed by Customer hereunder is not paid when due; (ii) Customer breaches any provision of this Agreement relating to the non-disclosure or limited use of confidential or proprietary information; or (iii) there occurs any material violation of or failure to perform any other term of this Agreement to be performed by Customer which is not remedied by Customer within thirty (30) days after notice of such violation or failure has been given by Licensor to Customer. Upon the occurrence of any such default, Licensor may terminate the Software Product License granted in this Agreement and all sums of money owed by Customer hereunder shall thereupon become due and payable to Licensor within thirty (30) days. When the Software Product License granted in this Agreement shall terminate due to violations of this Agreement without notice of termination, such termination shall be effective as of the date upon which Customer ceases to use the Software Product, and Licensor shall at all times thereafter have the same rights and remedies as Licensor would have in the event the Software Product License were terminated by virtue of a default by Customer with notice having been given.

(b) NON-WAIVER. The exercise or non-exercise of any right granted to Licensor or to Customer under the terms of this Section 8 or under any other provision of this Agreement shall not operate as a waiver of any right which may subsequently accrue to Licensor or Customer under any provision of this Agreement and shall not preclude the exercise by Licensor or Customer of any other rights or remedies which either Licensor or Customer may have in law or equity or under the terms of this Agreement.

(c) SURVIVAL. The provisions of this Agreement relating to confidentiality shall survive for a period of ********** after the termination of the Software Product License. The

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provisions of this Agreement relating to payments due, extent of liability, limitation of damages, governing law and arbitration as well as this Section 8 shall survive the termination of the Software Product License.

(d) DISPOSITION OF SOFTWARE AND LICENSOR INFORMATION. Upon the termination of the Software Product License, Customer agrees to return to Licensor all copies of tangible portions of the Software Product and any material containing or pertaining to the Licensor Information delivered or disclosed to Customer by Licensor pursuant to the terms of this Agreement, or otherwise, as well as any copies made by Customer. Title to the Software Product and any changes, modifications or improvements made or developed with regard to the Software Product, whether or not made or developed at Customer's request, shall remain the property of Licensor and shall be deemed to have been part of the Software Product, as of the date of this Agreement.

9. ACCEPTANCE BY LICENSOR; ENTIRE AGREEMENT; AMENDMENTS. This Agreement shall not be effective until accepted in writing by Licensor at its office set forth in this Agreement. This Agreement constitutes the entire agreement and understanding between Licensor and Customer concerning the subject matter

hereof, and cancels, terminates and supersedes all prior written and oral understandings, agreements, proposals, promises and representations of the parties respecting any and all subject matter contained herein. No representation or promise hereafter made by a party, nor any modification or amendment of this Agreement, shall be binding upon either party unless in writing and signed by Customer and accepted in writing by an authorized agent of Licensor at its office set forth in this Agreement.

10. NOTICES. Any notices required or permitted to be given under the terms of this Agreement shall be deemed given upon personal delivery or five days after the day of postmark thereof if sent by mail, postage prepaid, registered or certified mail, return receipt requested, and addressed to the other party at the address as shown below or at such address as such party from time to time may indicate by written notice given to the other party hereto.

If to Licensor: PDF Solutions, Inc.
333 West San Carlos Street
Suite 700
San Jose, California 95110
U.S.A.
Attention: President
Fax: (408) 280-7915
Phone: (408)280-7900

If to Customer: Toshiba Corporation
****
****
Japan
Attention: **********
****
Fax: **********

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ASTERISKS DENOTE SUCH OMISSIONS.

Phone: **********

11. GOVERNING LAW. This Agreement is entered into in, and shall be governed by and construed in accordance with the laws of, the State of California without reference to conflicts of law provisions.

12. SEVERABILITY. The invalidity of unenforceability of any particular provisions of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions had been omitted.

13. HEADINGS AND CAPTIONS. The headings and captions used in this Agreement are for convenience of the parties only and shall in no way define, limit, expand or otherwise affect the meaning of construction of any provision of this Agreement.

14. BINDING EFFECT. Subject to all of the terms and conditions hereof, this Agreement inures to the benefit of and is binding upon the parties hereto and their successors and assigns.

15. ARBITRATION. Any dispute arising in connection with this Agreement shall be amicably settled. Should both parties fail to do so within ********** from the date in which one party sends to the other party a letter describing the dispute, such dispute shall be finally settled by arbitration in accordance of the rules of the International Chamber of Commerce (ICC). Licensor and Customer shall appoint one arbitrator each and the third arbitrator shall be appointed by the other two arbitrators or, failing the agreement between them, by the president of the International Chamber of Commerce within the time limits provided for by the then existing rules of the International Chamber of Commerce. The arbitration shall take place in Honolulu, Hawaii and the

arbitrator shall decide all disputes in accordance with equity and good commercial practice and shall not be bound by the law of any jurisdiction of process. The decision of the arbitrators shall be final and unappealable and may be enforced in any country having jurisdiction over the parties or their assets.

16. ESCROW.

(a) ESCROW AGENT. Immediately upon execution of this Agreement, Licensor shall deposit with an escrow agent selected by Licensor ("ESCROW AGENT"), the source code language of the Software Product, as well as source code enhancements and modification to the Software Product (together referred to as "SOURCE CODE") within ten (10) days after the same becomes available. Escrow Agent shall act as custodian of the Source Code as long as this Agreement shall be in effect

Within one (1) month from the date of execution of this Agreement, Licensor shall provide Customer with the evidence of the deposit of Source Code and the copy of the escrow agreement between Licensor and Escrow Agent which specifies the contingent events and procedure effecting disclosure of the deposit to Customer.

(b) INSOLVENCY. Upon the occurrence of any one of the following events:

(i) Liquidation of Licensor or discontinuation of business by Licensor without proper provisions for support to be provided by a third party appointed by Licensor; or

(ii) Licensor's inability or failure to reasonably support all or any portion of the Software Product within ninety (90) days after receiving written notification of such failure;

Escrow Agent is hereby authorized to provide to Customer, upon Customer's written request, a copy of the portion of the Source Code not so supported.

(c) USE OF SOURCE CODE. Upon provision by Escrow Agent of a copy of all or any portion of the Source Code to Customer pursuant to Section 16(b), Customer shall only have the right to use the Source Code for the purpose of maintaining the Software Product and for support thereof but only for such purpose and only for the term of this Agreement and for so long as the condition set forth in such Section 16(b) is satisfied. The Source Code shall be deemed to be confidential information as provided in Section 3 hereof with Customer subject to all of the obligations set forth therein with regard to such Source Code.

(d) AVAILABILITY OF SOURCE PRODUCT AND DIGITAL CONNECTION. Customer shall have the right to continue to purchase the Software Product from Escrow Agent or receiver per term's and conditions of this Agreement.

IN WITNESS WHEREOF, the parties hereto executed this Agreement on the day and year first written above.

LICENSOR:	CUSTOMER:
PDF SOLUTIONS, INC.	TOSHIBA CORPORATION
By: /s/ P. Steven Melman	By: /s/ Y. Morimoto
Name: P.S. Melman	Name: Y. Morimoto

Title: CFO Title: CEO Toshiba Semiconductor Company

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THE SECURITIES AND EXCHANGE COMMISSION.
ASTERISKS DENOTE SUCH OMISSIONS.

SCHEDULE A

SOFTWARE PRODUCT

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DESIGNATED EQUIPMENT

1) **********

2) **********

3) **********

4) **********

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SCHEDULE B

LICENSE FEES

Pursuant to Section 2 of that certain Software Site License Agreement dated as of ********** between PDF Solutions, Inc. and Toshiba Corporation, Toshiba agrees to pay the fees set forth herein for use of the Software Product

licensed under the License Agreement:

1. DEFINITIONS. All defined terms used in this Schedule B shall have the meanings ascribed to them in the Agreement; provided that for purposes of this Schedule B, the following terms shall have the following respective meanings:

"AVERAGE ANNUAL PEAK USAGE" means the average of the Peak Monthly Usage for the twelve (12) calendar months in any Usage Year.

"PEAK MONTHLY USAGE" means the highest number of Usage Units determined on any day during a specified Usage Month.

"PRODUCT USES" with respect to any individual Software Product on any day, shall mean the number of times on such day all users are using or running such individual Software Product. For the purpose of this definition, a time being used shall occur if on a particular day a particular user is using or running a particular Software Product; provided that if at any given time on that day such user is concurrently using or running such Software Product on more than one central processing unit, then each such concurrent use shall count as a separate time being used by such user; provided further that if on a day such user is using or running a Software Product on more than one central processing unit but such uses are at no time concurrent, then all such nonconcurrent uses on such day by such user shall count as one time being used. For example, if user A uses or has running ****** on two central processing units and such uses are concurrent at any time during such day, user B uses or has running ******** on three central processing units during such day but on not more than two central processing units at any given time during such day, and user C uses or has running ****** on two central processing units during such day but such uses are not at any time concurrent, and there are no other users of ********on such day then the number of ******** Product Uses on such day is five (calculated as two times being used for user A, two times being used for user B and one time being used for user C). As other examples, (a) the use by user X of ****** on three separate occasions on the same central processing unit on one day shall count as one time being used and (b) the nonconcurrent use by user Y of ****** on three central processing units shall count as one time being used. Uses of such Software Product shall include all copies of such Software Product being used by Customer, including copies thereof delivered to Customer prior to the execution of this Agreement.

"USAGE DAY" shall mean the 24 hour period commencing at midnight and ending at the following midnight, **********, Japan time.

"USAGE MONTH" shall mean any calendar month during any Usage Year.

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"USAGE UNITS" accruing on any specific day shall mean a number equal to (a) ********** of **** Product Uses for such day ****** (b) ***** multiplied by ********** Product Uses for such day ******* (c) **** multiplied by ********** Product Uses for such day ***** (d) ***** multiplied by ********** Product Uses ******* (e) ***** multiplied by ********** Product Uses for such day ****** (f) ******* multiplied by ********** Product Uses for such day **** (g) ****** multiplied by ********** Product Uses for such day ****** (h) ********** Product Uses for such day (i) ********** ********** Product uses for such day.

"USAGE YEAR" shall mean the 12 month period commencing on any Usage Year Commencement Date during the term of this Agreement and ending on the last day of such twelfth month.

"USAGE YEAR COMMENCEMENT DATE" shall mean January 1, 2001 (the "FIRST USAGE YEAR COMMENCEMENT DATE") and each one year anniversary of such date during the term of this Agreement.

2. INITIAL LICENSE FEE; ADDITIONAL LICENSE FEE. Within 30 days of each Usage Year Commencement Date during the term of this Agreement Toshiba shall pay PDF the following initial license fee (the "INITIAL LICENSE FEE"): (a) on the First Usage Year Commencement Date, an amount equal to equal to $**********; and (b) on each subsequent Usage Year Commencement Date, an amount equal to $**********. Within 30 days following the end of each Usage Year, Toshiba shall pay, in addition to the Initial License Fee, the following additional license fee (the "ADDITIONAL LICENSE FEE") for such just completed Usage Year corresponding to the Average Annual Peak Usage for such Usage Year:

AVERAGE ANNUAL PEAK USAGE FOR THE USAGE YEAR	ADDITIONAL LICENSE FEE
Greater than *** Usage Units but less than or equal to *** Usage Units	$**********
Greater than *** Usage Units but less than or equal to **** Usage Units	$**********
Greater than *** Usage Units but less than or equal to **** Usage Units	$**********

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Greater than *** Usage Units	$**********

3. U.S. DOLLARS. All Dollar ($) amounts shall refer to United States Dollars. All payments shall be made by wire transfer of immediately available funds to an account specified by Licensor.

Exhibit 23.1

CONSENT OF DELOITTE & TOUCHE LLP

We consent to the use in this Amendment No. 7 to Registration Statement No. 333-43192 of PDF Solutions, Inc. of our report dated January 19, 2001 (July 6, 2001 as to the third paragraph of Note 12), appearing in the Prospectus, which is part of such Registration Statement, and of our report dated January 19, 2001 relating to the financial statement schedule appearing elsewhere in this Registration Statement.

We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ DELOITTE & TOUCHE LLP

San Jose, California
July 6, 2001

EXHIBIT 23.2

CONSENT OF DELOITTE & TOUCHE GmbH

We consent to the use in this Amendment No. 7 to Registration Statement No. 333-43192 of PDF Solutions, Inc. of our report dated July 26, 2000 (relating to the financial statements of Applied Integrated Systems & Software Entwicklungs-, Produktions- und Vertriebs GmbH as of and for the year ended December 31, 1999), appearing in the Prospectus, which is part of such Registration Statement.

We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ Deloitte & Touche GmbH
/s/ Wirtschaftsprufungsgesellschaft

Munich, Germany
July 6, 2001