Synopsys Annual Report 2003

Form 10-K (NASDAQ:SNPS)

Published: March 18th, 2003

== UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 -- AMENDMENT NO. 3 TO FORM 10-K -- [X] ANNUAL REPOR PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE YEAR ENDED OCTOBER 31, 2002 OR [ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 COMMISSION FILE NUMBER 0-45138 SYNOPSYS, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER) DELAWARE 56-1546236 (STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER IDENTIFICATION NO.) INCORPORATION OR ORGANIZATION) 700 EAST MIDDLEFIELD ROAD, MOUNTAIN VIEW, CALIFORNIA 94043 (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (650) 584-5000 REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: COMMON STOCK, $0.01 PAR VALUE ---------------- PREFERRED SHARE PURCHASE RIGHTS Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ] Yes [X] No Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). [ ] Yes [X] No State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $1,699,717,300. On March 7, 2003 approximately 74,816,630 shares of the registrant's Common stock, $0.01 par value, were outstanding. The aggregate market value of voting stock held by non-affiliates of the registrant as of March 7, 2003, was approximately $1,959,688,700. DOCUMENTS INCORPORATED BY REFERENCE Explanatory Note This Amendment No. 3 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002 is being filed in order to submit the signed Report of KPMG LLP, Independent Auditors. The Registrant received such signed Report on January 29, 2003, prior to the initial filing of the Annual Report on Form 10-K for the year ended October 31, 2002. The signature of KPMG LLP was omitted from this initial filing in error. == 1 Part II ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA REPORT OF KPMG LLP, INDEPENDENT AUDITORS To The Board of Directors and Shareholders of Synopsys, Inc.: We have audited the accompanying consolidated balance sheets of Synopsys, Inc. and subsidiaries as of October 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended October 31, 2002. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Synopsys, Inc. and subsidiaries as of October 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended October 31, 2002 in conformity with accounting principles generally accepted in the United States of America. \s\KPMG LLP Mountain View, California November 20, 2002, except as to Note 13, which is as of January 13, 2003 2

SYNOPSYS, INC. CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT PAR VALUE DATA) ASSETS OCTOBER 31, --------------------------------- 2002 2001 ---------------- ----------------

~~Current assets: Cash and cash equivalents...................................... $ 312,580 $ 271,696 Short-term investments.. 102,153 204,740 ---------------- ----------------- Cash, cash equivalents and short-term investments............ 414,733 476,436 Accounts receivable, net of allowances of $11,565 and $11,027, respectively...................................... 207,206 146,294 Deferred taxes .... 282,867 149,239 Prepaid expenses and other..................................... 24,509 19,413 ---------------- ---------------- Total current assets................................... 929,315 791,382 Property and equipment, net...................................... 185,040 192,304 Long-term investments...~~

~~39,386 61,699 Goodwill, net... 434,554 35,077 Intangible assets, net.. 355,334 3,197 Long-term deferred taxes and other assets.......................... 35,085 45,248 ---------------- ---------------- Total assets.. $ 1,978,714 $ 1,128,907 ================ ================ LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Accounts payable and accrued liabilities......................... $ 246,789 $ 135,272 Current portion of long-term debt................................ 1,423 535 Accrued income taxes.. 169,912 110,561 Deferred revenue.. 359,245 290,052 ---------------- ---------------- Total current liabilities............................... 777,369 536,420 Deferred compensation and other long-term liabilities............. 36,387 17,124 Long-term deferred revenue... 51,477 89,707 Stockholders' equity: Preferred stock, $.01 par value; 2,000 shares authorized; no shares outstanding............................ -- -- Common stock, $.01 par value; 400,000 shares authorized; 73,562 and 59,428 shares outstanding, respectively 735 595 Additional paid-in capital...................................... 1,039,386 575,403 Retained earnings... 198,863 436,662 Treasury stock, at cost.. (116,499) (531,117) Deferred stock compensation.................................... (8,858) -- Accumulated other comprehensive (loss) income................... (146) 4,113 ---------------- ---------------- Total stockholders' equity.............................. 1,113,481 485,656 ---------------- ---------------- Total liabilities and stockholders' equity.............. $ 1,978,714 $ 1,128,907 ================ ================~~

See accompanying notes to consolidated financial statements. 3

SYNOPSYS, INC. CONSOLIDATED STATEMENTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE DATA) YEAR ENDED OCTOBER 31, -- 2002 2001 2000 -------------- -------------- --------------- ~~Revenue: Product..................................... $ 245,193 $ 163,924 $ 434,077 Service..................................... 287,747 341,833 340,796~~

~~Ratable license.............................~~

~~373,594 174,593 8,905 ---------- --- --------------- --------------- Total revenue........................ 906,534 680,350 783,778 Cost of revenue: Product...................................... 15,319 20,479 35,085 Service...................................... 78,167 79,747 80,442 Ratable license.............................. 45,737 29,896 8,947 Amortization of intangible assets and deferred stock compensation........................... 33,936 -- -- -------------- -------------- - --------------- Total cost of revenue................ 173,159 130,122 124,474 -------------- ----- ---------- --------------- Gross margin................................... 733,375 550,228 659,304 Operating expenses: Research and development..................... 225,545 189,831 189,280 Sales and marketing.......................... 264,809 273,954 288,762 General and administrative................... 78,461 69,682 59,248 Integration.................................. 128,528 -- -- In-process research and development.......... 87,700 -- 1,750 Amortization of intangible assets and deferred stock compensation........................... 28,649 17,012 15,129 ------------- - --------------- --------------- Total operating expenses............. 813,692 550,479 554,169 -------- ------ --------------- --------------- Operating (loss) income........................ (80,317) (251) 105,135 Other (expense) income, net.................... (208,623) 83,784 40,803 --------- ----- -------------- -------------- (Loss) income before provision for income taxes................................ (288,940) 83,533 145,938 (Benefit) provision for income taxes........... (88,947) 26,731 48,160 -------------- -------------- --- ------------ Net (loss) income.............................. $ (199,993) $ 56,802 $ 97,778 ============== =============== =============== Basic earnings per share: Net (loss) income per share.................. $ (2.99) $ 0.94 $ 1.43 Weighted average common shares............... 66,808 60,601 68,510 ============== =============== =============== Diluted earnings per share: Net (loss)~~

~~income per share.................. $ (2.99) $ 0.88 $ 1.38 Weighted average common shares and dilutive stock options outstanding....... 66,808 64,659 70,998 ============== =============== ===============~~

See accompanying notes to consolidated financial statements. 4

SYNOPSYS, INC. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (IN THOUSANDS) ADDITIONAL COMMON STOCK PAID-IN RETAINED TREASURY SHARES AMOUNT CAPITAL EARNINGS STOCK ----------------------- -----------------------------------

~~BALANCE AT OCTOBER 31, 1999............ 70,750 $708 $542,052 $349,192 $ (28,589) Comprehensive Income: Net income........................... - - -- -- 97,778 -- Other comprehensive income (loss), net of tax: Unrealized gain on investments..... -- -- -- -- -- Reclassification adjustment on unrealized gains on investments.. -- - - -- -- -- Foreign currency translation adjustment...................... -- -- -- -- -- Other comprehensive income......... Comprehensive income.................. Acquisition of treasury stock.......... (9,932) (99) 99 -- (397,466) Stock options assumed in connection with acquisition....................... -- -- 1,187 -- -- Stock issued under stock option and stock purchase plans..................... 2,059 20 4,514 (41,551) 96,562 Tax benefits associated with exercise of stock options..................... -- -- 10,864 -- -- ------------------- ----------------------------------- ---- BALANCE AT OCTOBER 31,~~

~~2000............ 62,877 629 558,716 405,419 (329,493) Comprehensive Income:~~

~~Net income............................ -- -- -- 56,802 -- Other comprehensive income (loss), net of tax: Unrealized loss on investments. -- -- -- -- -- Reclassification adjustment on unrealized gains on investments. -- -- -- -- -- Foreign currency translation adjustment...................... -- -- -- -- -- Other comprehensive loss........... Comprehensive income.................... Acquisition of treasury stock.......... (6,617) (66) 66 -- (331,882) Stock issued under stock option and stock purchase plans..................... 3,168 32 628 (25,559) 130,258 Tax benefits associated with exercise of stock options...................... -- -- 15,993 -- -- -- ---- BALANCE AT OCTOBER 31, 2001............ 59,428 $595 $575,403 $436,662 $(531,117)~~

5

SYNOPSYS, INC. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME - CONTINUED (IN THOUSANDS) ACCUMULATED OTHER DEFERRED COMPREHENSIVE COMPREHENSIVE COMPENSATION INCOME (LOSS) INCOME (LOSS) TOTAL ------------- -------------- ---------------- ----------- ~~BALANCE AT OCTOBER 31, 1999............ -- $9,234 $872,597 Comprehensive Income: Net income........................... -- 97,778 -- 97,778 Other comprehensive income (loss), net of tax: Unrealized gain on investments....... -- 50,689 Reclassification~~

~~adjustment on unrealized gains on investments.... -- (8,934) Foreign currency translation adjustment.........................~~

~~-- (3,431) -------------- Other comprehensive income......... 38,324 38,324 38,324 -------------- Comprehensive income................... $ 136,102 ============== Acquisition of treasury stock.......... -- -- (397,466) Stock options assumed in connection with acquisition.......................... -- -- 1,187 Stock issued under stock option and stock purchase plans....................... -- -- 59,545 Tax benefits associated with exercise of stock options.......................... -- -- 10,864 -------------- -------------------------- BALANCE AT OCTOBER 31, 2000............ -- 47,558 682,829 Comprehensive Income: Net income...................... .... -- 56,802 -- 56,802 Other comprehensive income (loss), net of tax: Unrealized loss on investments....... -- (4,063) Reclassification adjustment on unrealized gains on investments.... -- (33,713) Foreign currency translation adjustment......................... -- (5,669) -------------- Other comprehensive loss........... (43,445) (43,445) (43,445) -------------- Comprehensive income.................. $13,357 =============== Acquisition of treasury stock.......... -- -- (331,882) Stock issued under stock option and stock purchase plans....................... -- -- 105,359 Tax benefits associated with exercise of stock options........................ -- -- 15,993 -------------- --------------------------- BALANCE AT OCTOBER 31, 2001............ $ -- $ 4,113 $485,656~~

SYNOPSYS, INC. CONSOLIDATED

STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME - CONTINUED (IN THOUSANDS) ADDITIONAL COMMON STOCK PAID-IN RETAINED TREASURY SHARES AMOUNT CAPITAL EARNINGS STOCK ---------------------- ------------ ---------- -----------

~~BALANCE FORWARD: $ 59,428 $ 595 $575,403 $ 436,662 $ (531,117) BALANCE AT OCTOBER 31, 2001............ Comprehensive Income (Loss): Net loss............................ -- -- -- (199,993) -- Other comprehensive income (loss), net of tax: Unrealized loss on investments..... -- -- -- -- -- Unrealized gain on currency contracts -- -- -- -- -- Reclassification adjustment on unrealized gains on investments.. -- -- -- -- -- Foreign currency translation adjustment....................... -- -- -- -- -- Other comprehensive loss........... Comprehensive loss..................... Acquisition of Avant! Corporation...... 14,530 145 435,066 -- 431,312 Amortization of deferred stock compensation related to acquisitions -- -- (83) -- -- Acquisition of treasury stock.......... (3,884) (39) 39 -- (171,678) Stock options assumed in connection with acquisition of inSilicon and Co-Design -- -- 5,929 -- -- Stock issued under stock option and stock purchase plans...................... 3,488 34 3,572 (37,806) 154,984 Tax benefits associated with exercise of stock options...................... -- -- 19,460 -- -- -------------------- ------------------------ -----------~~

~~BALANCE AT OCTOBER 31, 2002............ $ 73,562 $ 735 $ 1,039,386 $ 198,863 $(116,499) ==================== ====================== ===========~~

See accompanying notes to the consolidated financial statements. 7

SYNOPSYS, INC. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME - CONTINUED (IN THOUSANDS) ACCUMULATED OTHER DEFERRED COMPREHENSIVE COMPREHENSIVE COMPENSATION INCOME (LOSS) INCOME (LOSS) TOTAL BALANCE FORWARD: -------------- -------------- ---------------- ---------- ~~BALANCE AT OCTOBER 31, 2001............ $ -- $ 4,113 $ 485,656 Comprehensive Income (Loss): Net loss............................ -- (199,993) -- (199,993) Other comprehensive income (loss), net of tax: Unrealized loss on investments..... -- (143) Unrealized gain on currency contracts -- 6,482 Reclassification adjustment on unrealized gains on investments.. -- (5,842) Foreign currency translation adjustment....................... -- (4,756) --------------- Other comprehensive loss........... (4,259) (4,259) (4,259) --------------- Comprehensive loss..................... $ (204,252) =============== Acquisition of Avant! Corporation...... (8,102) -- 858,421 Amortization of deferred stock compensation related to acquisitions 1,605 -- 1,522 Acquisition of treasury stock.......... -- -- (171,678) Stock options assumed in connection with acquisition of inSilicon and Co-Design (2,361) -- 3,568 Stock issued under stock option and stock purchase plans...................... -- -- 120,784 Tax benefits associated with exercise of stock options....................... -- -- 19,460 --------------- --------------------------- BALANCE AT OCTOBER 31, 2002............ $ (8,858) $ (146) $1,113,481 =============== ===========================~~

8

SYNOPSYS, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS) YEAR ENDED OCTOBER 31, -- --- 2002 2001 2000 -------------- --------------- --------------- ~~CASH FLOWS FROM OPERATING ACTIVITIES: Net (loss) income............................ $ (199,993) $ 56,802 $ 97,778 Adjustments to reconcile net (loss) income to net cash provided by operating activities: Amortization and depreciation............. 116,100 65,162 63,770 Provision for doubtful accounts and sales returns................................~~

~~7,042 5,759 3,528 Write-down of long term investments....... 11,326 5,848 -- Write-down of land and property........... 14,712 -- -- Gain on sale of long-term investments..... (21,299) (57,080) (11,455) Write-down of goodwill and intangible assets 3,785 2,200 -- Deferred taxes............................ (128,167) (58,831) (64,137) Deferred rent............................. 2,804 -- -- In-process research and development....... 87,700 -- 1,750 Non-cash gain on sale of silicon libraries -- (10,580) -- Non-cash compensation expense............. 1,761 -- -- Tax benefit associated with stock options. 19,460 15,993 10,864 Net changes in operating assets and liabilities: Accounts receivable..................... 5,275 (5,190) (19,186) Prepaid expenses and other current assets 2,930 (231) 4,316 Other assets............................ (14,814) (1,754) (8,787) Accounts payable and accrued liabilities (77,546) (8,072) 39,180 Accrued income taxes.................... (20,974) 54,563 5,980 Deferred revenue........................ 5,993 229,160 23,190 Deferred compensation................... 2,856 1,771 5,092 -------------- -------------- -------------- Net cash (used in) provided by operating activities............................ (181,049) 295,520 151,883 -------------- -------------- -------------- CASH FLOWS FROM INVESTING ACTIVITIES: Proceeds from sales and maturities of short-term investments.................... 876,298 2,003,589 2,782,613 Purchases of short-term investments.......... (769,102) (1,927,784) (2,667,112) Proceeds from sales of long-term investments. 56,033 77,777 24,336 Purchases of long-term investments........... (5,472) (12,076) (13,998) Proceeds from sale of silicon libraries business.................................. -- 4,122 -- Purchases of property and equipment.......... (48,755) (82,490) (68,500) Cash acquired in acquisitions (net of cash paid)....................................~~

~~168,311 -- (14,474) Intangible assets, net....................... -- (313) 3,697 Capitalization of software development costs. (1,592) (1,000) (1,000) ------------- --------------- --------------- Net cash provided by investing activities.... 275,721 61,825 45,562 --------------- --------------- --------------- CASH FLOWS FROM FINANCING ACTIVITIES: Proceeds from issuance of long-term debt..... -- -- 727 Principal payments on debt obligations....... -- (6,162) (13,507) Proceeds from sale of common stock........... 119,868 105,359 59,545 Purchases of treasury stock.................. (171,677) (331,882) (397,466) --------------- --------------- --------------- Net cash used in financing activities........ (51,809) (232,685) (350,701) Effect of exchange rate changes on cash...... (1,979) (5,669) (3,433) --------------- --------------- --------------- Net increase (decrease) in cash and cash 40,884 118,991 (156,689) equivalents.............................. Cash and cash equivalents, beginning of year. 271,696 152,705 309,394 --------------- --------------- --------------- Cash and cash equivalents, end of year....... $ 312,580 $ 271,696 $ 152,705 =============== =============== =============== SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash paid during the year for: Income taxes......................... $ 70,750 $ 25,262 $ 91,927 Non-cash transactions: Issuance of stock and options in exchange for net assets of Avant!... $ 858,421 $ -- $ -- Issuance of notes payable in Co-Design acquisition......................... $ 4,770 $ -- $ --~~

See accompanying notes to consolidated financial statements. 9 SYNOPSYS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 1. DESCRIPTION OF BUSINESS Synopsys, Inc. (Synopsys or the Company) is a leading supplier of EDA software to the global electronics industry. The Company develops, markets, and supports a wide range of integrated circuit (IC) design products that are used by designers of advanced ICs, including system-on-a-chip ICs, and the electronic systems (such as computers, cell phones, and internet routers) that use such ICs, to automate significant portions of their design process. ICs are distinguished by the speed at which they run, their area, the amount of power they consume and their cost of production. Synopsys' products offer its customers the opportunity to design ICs that are optimized for speed, area, power consumption and production cost, while reducing overall design time. The Company also provides consulting services to help its customers improve their IC designs and, where requested, to assist them with their IC designs, as well as training and support services. CURRENT YEAR ACQUISITIONS. On June 6, 2002, the Company completed its merger with Avant! Corporation (Avant!). Avant! was a leader in the development of software used in the physical design and physical verification phases of chip design. Under the terms of the merger agreement between Synopsys and Avant!, Avant! merged with and into a wholly-owned subsidiary of Synopsys. The results of operations of Avant! are included in the accompanying consolidated financial statements for the period from June 6, 2002 through October 31, 2002. On September 6, 2002, we completed our acquisition of Co-Design, a private company which was developing simulation software used in the high level verification stage of the chip design process, and a new design language that permits designers to describe the behavior of their chips more efficiently than current standard languages. The results of operations of Co-Design are included in the accompanying consolidated financial statements for the period from September 6, 2002 through October 31, 2002. On September 20, 2002, we completed our acquisition of inSilicon, a company that developed, marketed and licensed an extensive portfolio of complex "intellectual property blocks", or pre-designed, pre-verified subportions of a chip that can be used as building blocks for complex systems-on-a-chip, and therefore, accelerate the development of such chips. The results of operations of inSilicon are included in the accompanying consolidated financial statements for the period from September 20, 2002 through October 31, 2002. NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FISCAL YEAR END. The Company has a fiscal year that ends on the Saturday nearest October 31. Fiscal 2002 and 2000 were 52-week years and fiscal 2001 was a 53-week year. For presentation purposes, the consolidated financial statements and notes refer to the calendar month end. PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated. 10 USE OF 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 amounts recorded in the financial statements and accompanying notes. Actual amounts could differ from these estimates. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS. The Company classifies investments with original maturities of three months or less when acquired as cash equivalents. All of the Company's cash equivalents and short-term investments are classified as available-for-sale and are reported at fair value, with unrealized gains and losses included in stockholders' equity as a component of accumulated other comprehensive income, net of tax. The fair value of short-term investments is determined based on quoted market prices. The cost of securities sold is based on the specific identification method and realized gains and losses are included in other income, net. The Company has cash equivalents and investments with various high quality institutions and, by policy, limits the amount of credit exposure to any one institution. CONCENTRATION OF CREDIT RISK. The Company sells its products worldwide primarily to customers in the semiconductor industry. The Company performs on-going credit evaluations of its customers' financial condition and generally does not require collateral. The Company maintains reserves for potential credit losses, and such losses have been within management's expectations and have not been material in any year. FAIR VALUES OF FINANCIAL INSTRUMENTS. The fair value of the Company's cash, accounts receivable, long-term investments, forward contracts relating to certain investments in equity securities, accounts payable, long-term debt and foreign currency contracts, approximates the carrying amount, which is the amount for which the instrument could be exchanged in a current transaction between willing parties. FOREIGN CURRENCY TRANSLATION. The functional currency of each of the Company's foreign subsidiaries is the foreign subsidiary's local currency. Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Accumulated net translation adjustments are reported in stockholders' equity, net of tax, as a component of accumulated other comprehensive income (loss). The associated tax benefit for cumulative translation adjustments was $3.0 million, $3.6 million and $2.2 million in fiscal 2002, 2001 and 2000, respectively. Foreign exchange transaction gains and losses were not material for all periods presented and are included in the results of operations. FOREIGN CURRENCY CONTRACTS. The Company operates internationally and therefore is exposed to potentially adverse movements in currency exchange rates. The Company has entered into foreign currency forward contracts to reduce its exposure to foreign currency rate changes on non-functional currency denominated balance sheet positions. The objective of these contracts is to neutralize the impact of foreign currency rate movements on the Company's operating results. The Company also uses forward foreign currency contracts to hedge certain cash flow exposures resulting from the impact of currency exchange rate fluctuations on forecasted receivables denominated in non-functional currencies. These foreign currency contracts, carried at fair value, have a duration of approximately 30 days. Such cash flow exposures result from portions of the Company's forecasted accounts receivable generally associated with sales contracts with extended payment terms and accounts payable denominated in non-functional currencies. As of October 31, 2002, the unrealized gain of approximately $10.0 million on these forward contracts is recorded in stockholders' equity, net of tax, as a component of accumulated other comprehensive income. The Company enters into these foreign exchange contracts to hedge only (i) those currency exposures associated with certain assets and liabilities denominated in nonfunctional currencies and (ii) forecasted accounts receivable and accounts payable denominated in non-functional currencies in the normal course of business, and accordingly, they are not speculative in nature. 11 Foreign currency forward contracts require the Company to exchange currencies at rates agreed upon at the inception of the contracts. These contracts reduce the exposure to fluctuations in exchange rates because the gains and losses associated with non-functional currency balances and transactions are generally offset with the gains and losses of the hedge contracts. Because the impact of movements in currency exchange rates on forward contracts offsets the related impact on the underlying items being hedged, these financial instruments help alleviate the risk that might otherwise result from changes in currency exchange rates. The realized gain/loss on these contracts as they matured were not material to the consolidated financial position, results of operations or cash flows for the periods presented. REVENUE RECOGNITION AND COST OF REVENUE. Revenue consists of fees for perpetual and time-based licenses for the Company's software products, post-contract customer support (PCS), customer training and consulting. The Company classifies its revenues as product, service or ratable license. Product revenue consists primarily of sales of perpetual licenses. Service revenue consists of fees for consulting services, training, and PCS associated with non-ratable time-based licenses or perpetual licenses. PCS sold with perpetual licenses is generally renewable, after any bundled PCS period expires, in one-year increments for a fixed percentage of the perpetual list price or, for perpetual license arrangements in excess of $2 million, as a percentage of the net license fee. Ratable license revenue is all fees related to time-based licenses bundled with PCS and sold as a single package (commonly referred to by the Company as a Technology Subscription License or TSL), and time-based licenses in which the Company did not bundle PCS but has granted extended payment terms or under which the customer has a right to receive unspecified future products. Cost of product revenue includes cost of production personnel, product packaging, documentation, amortization of capitalized software development costs, and costs of the Company's systems products. Cost of service revenue includes personnel and the related costs associated with providing training, consulting and PCS. Cost of ratable license revenue includes the cost of products and services related to time-based licenses bundled with PCS and sold as a single package and to time-based licenses that include extended payment terms or unspecified future products. Cost of revenue also includes the amortization of the contract rights intangible, core technology and deferred stock compensation. The Company recognizes revenue in accordance with SOP 97-2, SOFTWARE REVENUE RECOGNITION, as amended by SOP 98-9 and SOP 98-4 and generally recognizes revenue when all of the following criteria are met as set forth in paragraph 8 of SOP 97-2: o Persuasive evidence of an arrangement exists, o Delivery has occurred, o The vendor's fee is fixed or determinable, and o Collectibility is probable. The Company defines each of the four criteria above as follows: PERSUASIVE EVIDENCE OF AN ARRANGEMENT EXISTS. It is the Company's customary practice to have a written contract, which is signed by both the customer and Synopsys, or a purchase order from those customers that have previously negotiated a standard end-user license arrangement or volume purchase agreement, prior to recognizing revenue on an arrangement. DELIVERY HAS OCCURRED. The Company's software may be either physically or electronically delivered to its customers. For those products that are delivered physically, the Company's standard transfer terms are FOB shipping point. For an electronic delivery of software, delivery is considered to have occurred when the customer has been provided with the access codes that allow the customer to take immediate possession of the software on its hardware. If an arrangement includes undelivered products or services that are essential to the functionality of the delivered product, delivery is not considered to have occurred. 12 THE VENDOR'S FEE IS FIXED OR DETERMINABLE. The fee the Company's customers pay for its products is negotiated at the outset of an arrangement, and is generally based on the specific volume of product to be delivered. The Company's license fees are not a function of variable-pricing mechanisms such as the number of units distributed or copied by the customer, or the expected number of users in an arrangement. Therefore, except in cases where the Company grants extended payment terms to a specific customer, the Company's fees are considered to be fixed or determinable at the inception of the arrangements. The Company's typical payment terms are such that a minimum of 75% of the arrangement revenue is due within one year or less. Arrangements with payment terms extending beyond the typical payment terms are not considered to be fixed or determinable. Revenue from such arrangements is recognized at the lesser of the aggregate of amounts due and payable or the amount of the arrangement fee that would have been recognized if the fees had been fixed or determinable. COLLECTIBILITY IS PROBABLE. Collectibility is assessed on a customer-by-customer basis. The Company typically sells to customers for which there is a history of successful collection. New customers are subjected to a credit review process that evaluates the customers' financial positions and ultimately their ability to pay. New customers are typically assigned a credit limit based on a formulated review of their financial position. Such credit limits are only increased after a successful collection history with the customer has been established. If it is determined from the outset of an arrangement that collectibility is not probable based upon the Company's credit review process, revenue is recognized on a cash-collected basis. MULTIPLE ELEMENT ARRANGEMENTS. The Company allocates revenue on software arrangements involving multiple elements to each element based on the relative fair values of the elements. The Company's determination of fair value of each element in multiple element arrangements is based on vendor-specific objective evidence (VSOE). The Company limits its assessment of VSOE for each element to the price charged when the same element is sold separately. The Company has analyzed all of the elements included in its multiple-element arrangements and determined that it has sufficient VSOE to allocate revenue to the PCS components of its perpetual license products and consulting. Accordingly, assuming all other revenue recognition criteria are met, revenue from perpetual licenses is recognized upon delivery using the residual method in accordance with SOP 98-9 and revenue from PCS is recognized ratably over the PCS term. The Company recognizes revenue from TSLs over the term of the ratable license period, as the license and PCS portions of a TSL are bundled and not sold separately. Revenue from contracts with extended payment terms is recognized as the lesser of amounts due and payable or the amount of the arrangement fee that would have been recognized if the fee were fixed or determinable. Certain of the Company's time-based licenses include the rights to unspecified additional products. Revenue from contracts with the rights to unspecified additional software products is recognized ratably over the contract term. The Company recognizes revenue from time-based licenses that include both unspecified additional software products and extended payment terms that are not considered to be fixed or determinable in an amount that is the lesser of amounts due and payable or the ratable portion of the entire fee. 13 CONSULTING SERVICES. The Company provides design methodology assistance, specialized services relating to telecommunication systems design and generalized turnkey design services. The Company's consulting services generally are not essential to the functionality of the software. The Company's software products are fully functional upon delivery and implementation does not require any significant modification or alteration. The Company's services to its customers often include assistance with product adoption and integration and specialized design methodology assistance. Customers typically purchase these professional services to facilitate the adoption of the Company's technology and dedicate personnel to participate in the services being performed, but they may also decide to use their own resources or appoint other professional service organizations to provide these services. Software products are billed separately and independently from consulting services, which are generally billed on a time-and-materials or milestone-achieved basis. The Company generally recognizes revenue from consulting services as the services are performed. Exceptions to the general rule above involve arrangements where the Company has committed to significantly alter the features and functionality of its software or build complex interfaces necessary for the Company's software to function in the customer's environment. These types of services are considered to be essential to the functionality of the software. Accordingly, contract accounting is applied to both the software and service elements included in these arrangements. PROPERTY AND EQUIPMENT. Property and equipment is recorded at cost. Depreciation and amortization of assets is provided using the straight-line method over estimated useful lives of the property or equipment ranging from three to five years. Leasehold improvements are amortized using the straight-line method over the remaining term of the lease or the economic useful life of the asset whichever is shorter. The cost of repairs and maintenance is charged to operations as incurred. A detail of property and equipment is as follows: OCTOBER 31, --------------------------------- 2002 2001 ---------------- --------------- (IN THOUSANDS) Computer and other equipment.......... $ 279,239 $ 271,264 Buildings............................. 21,821 22,092 Furniture and fixtures................ 26,446 23,160 Land.................................. 42,754 50,153 Leasehold improvements................ 61,796 35,775 ---------------- --------------- 432,056 402,444 Less accumulated depreciation and amortization. (247,016) (210,140) ---------------- --------------- $ 185,040 $ 192,304 ================ =============== SOFTWARE DEVELOPMENT COSTS. Capitalization of software development costs begins upon the establishment of technological feasibility, which is generally the completion of a working prototype. Software development costs capitalized were $1.6 million in fiscal 2002, $1.0 million in fiscal 2001, and $1.0 million in fiscal 2000. Amortization of software development costs is computed based on the straight-line method over the software's estimated economic life of approximately two years. The Company recorded amortization of $1.1 million, $1.0 million, and $1.0

million in fiscal 2002, 2001 and 2000, respectively. GOODWILL AND INTANGIBLE ASSETS. Goodwill represents the excess of the aggregate purchase price over the fair value of the tangible and identifiable intangible assets acquired by the Company. Intangible assets consist of purchased technology, contract rights intangibles, customer installed base/relationship, trademarks and tradenames, covenants not to compete, customer backlog and capitalized software. Intangible assets are amortized on a straight-line basis over their estimated useful lives which range from three to ten years. Amortization of intangible assets was $61.1 million, $17.0 million and $15.1 million in fiscal 2002, 2001 and 2000, respectively. The Company periodically evaluates its intangible assets for indications of impairment. If this evaluation indicates that the value of the intangible asset may be impaired, an assessment of the recoverability of the net carrying value of the asset over its remaining useful life is made. If this assessment indicates that the intangible asset is not recoverable, based on the estimated undiscounted future cash flows of the entity or technology acquired over the remaining amortization period, the net carrying value of the related intangible asset will be reduced to fair value and/or the remaining amortization period may be adjusted. In fiscal 2002, the Company recognized an aggregate impairment 14 charge of $3.8 million to reduce the amount of certain intangible assets associated with prior acquisitions to their estimated fair value. Approximately $3.7 million and $0.1 million are included in integration expense and amortization of intangible assets, respectively, on the statement of operations. The impairment charge is primarily attributable to certain technology acquired from, and goodwill related to the acquisition of Stanza, Inc. in 1999. During the fourth quarter of fiscal 2002, the Company determined that it would not allocate future resources to assist in the market growth of this technology as products offered by Avant! provide customers with similar capabilities as well as additional functionality and does not anticipate any future sales of the product. In fiscal 2001, the Company recognized an aggregate impairment charge of $2.2 million to reduce the amount of certain intangible assets associated with prior acquisitions to their estimated fair value. Approximately $1.8 million and $0.4 million are included in cost of revenues and amortization of intangible assets, respectively, on the statement of operations. The impairment charge is attributable to certain technology acquired from, and goodwill related to the acquisition of Eagle Design Automation, Inc. in 1997. During the fourth quarter of fiscal 2001, the Company determined that it would not allocate future resources to assist in the market growth of this technology and does not anticipate any future sales of the product. There were no impairments of intangible assets in fiscal 2000. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES. Accounts payable and accrued liabilities consist of: OCTOBER 31, --------------------------------- 2002 2001 ---------------- ---------------- (IN THOUSANDS) Payroll and related benefits......... $ 106,155 $ 90,356 Other accrued liabilities............ 121,995 25,487 Accounts payable..................... 18,639 19,429 ---------------- ---------------- Total...................... $ 246,789 $ 135,272 ================ ================ DEFERRED COMPENSATION PLAN. The Company maintains a deferred compensation plan (the Plan) which permits certain employees to defer up to 50% of their annual cash base compensation or 100% of their annual cash variable compensation. Distributions from the Plan are generally payable upon cessation of employment over five to 15 years or as a lump sum payment, at the option of the employee. Undistributed amounts under the Plan are subject to the claims of the Company's creditors. As of October 31, 2002 and 2001, the invested amounts under the Plan total $22.8 million and $15.6 million respectively, and are recorded as a long-term asset on the Company's balance sheet. As of October 31, 2002 and 2001, the Company has recorded $22.9 million and $16.7 million, respectively, as a long-term liability to recognize undistributed amounts due to employees. INCOME TAXES. The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. 15 EARNINGS PER SHARE. Basic earnings per share is computed using the weighted-average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted-average number of common shares and dilutive stock options outstanding during the period. The weighted-average dilutive stock options outstanding is computed using the treasury stock method. Due to the net loss incurred for fiscal 2002, the effect of employee stock options is anti-dilutive. The following is a reconciliation of the weighted-average common shares used to calculate basic net income per share to the weighted-average common shares used to calculate diluted net income per share.

YEAR ENDED OCTOBER 31, --- 2002 2001 2000 -------------- -------------- -------------- (IN THOUSANDS) ~~Weighted-average common shares for basic net income per share........ 66,808 60,601 68,510 Weighted-average~~

~~stock options outstanding......................... -- 4,058 2,488 -------------- -------------- -------------- Weighted-average shares for diluted net income per share.............. 66,808 64,659 70,998 ============== ============== ==============~~

The effect of dilutive employee stock options excludes approximately 28.0 million, 3.8 million and 13.0 million stock options for fiscal 2002, 2001 and 2000, respectively, which were anti-dilutive for earnings per share calculations. STOCK-BASED COMPENSATION. As permitted by Statement of Financial Accounting Standards No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION (SFAS 123), the Company has elected to use the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES (APB 25), to measure compensation expense for stock-based awards to employees. RECLASSIFICATIONS. Certain prior year amounts have been reclassified to conform to current year presentation. NOTE 3. BUSINESS COMBINATIONS AND DIVESTITURES PURCHASE COMBINATIONS. During fiscal 2002 and 2000, the Company made a number of purchase acquisitions. Pro forma results of operations have been presented only for the inSilicon and Avant! mergers since the effects of the remaining 2002 and 2000 acquisitions are not material to the Company's consolidated financial position, results of operations or cash flows for the periods presented. The consolidated financial statements include the operating results of each business from the date of acquisition. There were no purchase transactions during fiscal 2001. For each acquisition, the excess of the purchase price over the estimated value of the net tangible assets acquired was allocated to various intangible assets, consisting primarily of developed technology, customer- and contract-related assets and goodwill. The values assigned to developed technologies related to each acquisition were based upon future discounted cash flows related to the existing products' projected income streams. The amounts allocated to purchased in-process research and development were determined through established valuation techniques in the high-technology industry and were expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed. 16 ACQUISITION OF AVANT! CORPORATION. On June 6, 2002 (the closing date), the Company completed the merger with Avant!. REASONS FOR THE ACQUISITION. The Board of Directors unanimously approved the merger with Avant! at its December 1, 2001 meeting. In approving the merger agreement, the Board of Directors consulted with legal and financial advisors as well as with management and considered a number of factors. These factors include the fact that the merger is expected to enable Synopsys to offer its customers a complete end-to-end solution for system-on-chip design that includes Synopsys' logic synthesis and design verification tools with Avant!'s advanced place and route, physical verification and design integrity products, thus increasing customers' design efficiencies. By increasing customer design efficiencies, Synopsys expects to be able to better compete for customers designing the next generation of semiconductors. Further, by gaining access to Avant!'s physical design and verification products, as well as its broad customer base and relationships, Synopsys will gain new opportunities to market its existing products. The foregoing discussion of the information and factors considered by the Board of Directors is not intended to be exhaustive but includes the material factors considered by the Board of Directors. PURCHASE PRICE. Holders of Avant! common stock received 0.371 of a share of Synopsys common stock (including the associated preferred stock rights) in exchange for each share of Avant! common stock owned as of the closing date, aggregating 14.5 million shares of Synopsys common stock. The fair value of the Synopsys shares issued was based on a per share value of $54.74, which is equal to Synopsys' average last sale price per share as reported on the Nasdaq National Market for the trading-day period two days before and after December 3, 2001, the date of the merger agreement. The total purchase consideration consists of the following: (IN THOUSANDS) Fair value of Synopsys common stock issued $ 795,388 Acquisition related costs 37,397 Facilities closure costs 62,638 Employee severance costs 51,014 Fair value of options to purchase Synopsys common stock issued, less $8.1 million representing the portion of the intrinsic value of Avant!'s unvested options applicable to the remaining vesting period 63,033 ------------- $ 1,009,470 ============== The acquisition-related costs of $37.4 million consist primarily of banking, legal and accounting fees, printing costs, and other directly related charges including contract termination costs of $6.3 million. Facilities closure costs at the closing date include $54.2 million related to Avant!'s corporate headquarters. After the merger, the functions performed in the buildings were consolidated into Synopsys' corporate facilities. The lessors have brought a claim against Avant! for the future amounts payable under the lease agreements. The amount accrued at the closing date is equal to the future amounts payable under the related lease agreements, without taking into consideration in the accrual any defenses the Company may have to the claim. Resolution of this contingency at an amount different from that accrued will result in an increase or decrease in the purchase consideration and the amount will be allocated to goodwill. Subsequent to October 31, 2002, Synopsys settled all of the claims of the landlord of two of these buildings for $7.4 million. The remaining facilities closure costs at the closing date totaling $8.4 million represents the present value of the future obligations under certain of Avant!'s lease agreements which the Company has or intend to terminate under an approved facilities exit plan plus additional costs expected to be incurred directly related to vacating such facilities. 17 Employee severance costs include (i) $39.6 million in cash paid to Avant!'s Chairman of the Board, consisting of severance plus a cash payment equal to the intrinsic value of his in-the-money stock options at the closing date, (ii) $5.1 million in cash severance payments paid to redundant employees (primarily sales and corporate infrastructure personnel) terminated on or subsequent to the consummation of the merger under an approved plan of termination and (iii) $6.3 million in termination payments to certain executives in accordance with their respective pre-merger employment agreements. The total number of Avant! employees terminated as a result of the merger was approximately 250. As of October 31, 2002, $89.7 million of costs described in the three preceding paragraphs have been paid and $61.4 million of these costs have not yet been paid. The following table presents the components of acquisition-related costs recorded, along with amounts paid during fiscal 2002.

(IN THOUSANDS)	INITIAL TOTAL COST	ADDITIONS	SUBTOTAL	PAYMENTS THROUGH OCTOBER 31, 2002	BALANCE AT OCTOBER 31, 2002
Acquisition related costs	$ 37,342	$ 55	$37,397	$33,557	$ 3,840
Facilities closure costs	62,638	--	62,638	5,377	57,261
Employee severance costs	50,367	647	51,014	50,724	290
Total	$ 150,347	$ 702	151,049	$89,658	$ 61,391

During the fourth quarter of fiscal 2002, additions were made to increase the total acquisition related costs including an increase to employee severance costs totaling $0.6 million for actual amounts paid to such employees. The total purchase consideration has been allocated to the assets and liabilities acquired, including identifiable intangible assets, based on their respective fair values at the acquisition date and resulting in excess purchase consideration over the net tangible and identifiable intangible assets acquired of $369.5 million. The following unaudited condensed balance sheet data presents the fair value of the assets and liabilities acquired (after certain adjustments made during the fourth quarter to the preliminary fair values of the assets and liabilities acquired).

	(IN THOUSANDS)
Assets acquired	
Cash, cash equivalents and short-term investments	$ 241,313
Accounts receivable	65,971
Prepaid expenses and other current assets	18,082
Intangible assets	373,300
Goodwill	369,470
Other assets	3,875
Total assets acquired	$ 1,072,011
Liabilities acquired	
Accounts payable and accrued liabilities	$ 173,998
Deferred revenue	30,080
Income taxes payable	89,274
Other liabilities	4,651
Total liabilities acquired	$ 298,003

The initial allocation of the purchase price included certain assets and liabilities recorded using preliminary estimates of fair value. During the fourth quarter of 2002, the value assigned to Avant!'s investment in a venture capital fund was reduced from the preliminary value of $12.8 million to $5.0 million upon obtaining additional information on the venture funds non-public investments and subsequent sale of the investment to a third party. The decrease in the fair value of the investment increased the consideration allocated to goodwill by $7.8 million. During the fourth quarter of 2002, the Company also increased the value of the acquired customs and use-tax liabilities by $2.5 million, resulting in a corresponding increase in goodwill. 18 ASSET HELD FOR SALE. As a result of the merger, Synopsys acquired Avant!'s physical libraries business, and Synopsys was obligated to offer and sell such business to Artisan Components, Inc. under the terms of a January 2001 non-compete agreement, under which Synopsys agreed not to engage, directly or indirectly, in the physical libraries business before January 3, 2003. As of the closing date, the value allocated to the acquired libraries business had been recorded as net assets held for sale, based on the estimated future net cash flows from the libraries business in accordance with EITF 87-11, ALLOCATION OF PURCHASE PRICE TO ASSETS TO BE SOLD. During the fourth quarter of fiscal 2002, management determined that the libraries business would not be sold and, accordingly, allocated the fair value of the libraries business as of the closing date to the underlying tangible assets and intangible assets. The fair value allocated to the tangible and intangible assets was $8.3 million, with the remaining fair value allocated to goodwill. This allocation is reflected in the balance sheet as of October 31, 2002. GOODWILL AND INTANGIBLE ASSETS. Goodwill, representing the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired in the merger, will not be amortized, consistent with the guidance in SFAS 142 as discussed under Note 11 below. The goodwill associated with the Avant! acquisition is not deductible for tax purposes. In addition, a portion of the purchase price was allocated to the following identifiable intangible assets:

INTANGIBLE ASSET	(IN THOUSANDS)	ESTIMATED USEFUL LIFE
Core/developed technology	$189,800	3 years
Contract rights intangible	51,700	3 years
Customer installed base/relationship	102,900	6 years
Trademarks and tradenames	17,700	3 years
Covenants not to compete	9,100	The life of the related agreement (2 to 4 years)
Customer backlog	2,100	3 years
Total	$373,300	

CONTRACT RIGHTS INTANGIBLE. Avant! had executed signed license agreements and delivered the initial configuration of licensed technologies under ratable license arrangements and had executed signed contracts to provide PCS over a one to three year period, for which Avant! did not consider the fees to be fixed and determinable at the outset of the arrangement. There were no receivables or deferred revenues recorded on Avant!'s historical financial statements at the closing date as the related payments were not yet due under extended payment terms and deliveries are scheduled to occur over the terms of the arrangements. These ratable licenses and PCS arrangements require future performance by both parties and, as such, represent executory contracts. The contract rights intangible asset associated with these arrangements is being amortized to cost of revenue over the related contract lives of three years. The amortization of intangible assets, with the exception of the contract rights intangible and core/developed technology, is included in operating expenses in the statement of operations for the fiscal year ended October 31, 2002. Amortization of core/developed technology and contract rights intangible is included in cost of revenue. CADENCE LITIGATION. As the time of the acquisition of Avant!, Avant! was engaged in civil litigation with Cadence regarding alleged misappropriation of trade secrets, among other things, by Avant! and certain individuals. In connection with the merger, Synopsys entered into a policy with a subsidiary of American International Group, Inc., a AAA-rated insurance company, whereby insurance was obtained for certain compensatory, exemplary and punitive damages, penalties and fines and attorneys' fees arising out of pending litigation between Avant! and Cadence. The policy does not provide coverage for litigation other than the Avant!/Cadence litigation. 19 The Company paid a total premium of $335 million for the policy, of which $240 million was contingently refundable. The balance of the premium paid to the insurer ($95 million) is included in integration expense for the year ended October 31, 2002. Under the policy the insurer is obligated to pay covered loss up to a limit of liability equaling (a) $500 million plus (b) interest accruing at the fixed rate of 2%, compounded semi-annually, on $250 million (the interest component), as reduced by previous covered losses. Interest earned on $250 million is included in other income, net in the post-merger statement of operations. On November 13, 2002, Cadence and Synopsys reached a settlement of the litigation. Under the terms of the agreement, Cadence will be paid $265 million in two installments--$20 million on November 22, 2002 and $245 million on December 16, 2002. In addition, Cadence and Synopsys have entered into reciprocal licenses arrangements covering the intellectual property at issue in the litigation. As a result of the payment, Synopsys has recognized expense of approximately $240.8 million, which is equal to the contingently refundable portion of the insurance premium plus interest accrued on the restricted asset. This expense is included in other income and expense on the statement of operations. ACQUISITION OF CO-DESIGN. On September 6, 2002, the Company completed the acquisition of Co-Design. REASONS FOR THE ACQUISITION. In approving the merger agreement, management considered a number of factors, including (i) the acquisition will help promote the development and adoption of the Superlog language, which Synopsys believes can increase designer productivity; (ii) the combination of Co-Design's technology with Synopsys' high-level verification and design implementation tools is expected improve the performance Synopsys' products; and (iii) the acquisition gives Synopsys access to Co-Design's highly-skilled employees who will help Synopsys improve its existing products and facilitate the development of new products. The foregoing discussion of the information and factors considered by Synopsys' management is not intended to be exhaustive but includes the material factors considered. PURCHASE PRICE. Holders of Co-Design common stock received consideration consisting of cash and notes totaling $32.7 million in exchange for all shares of Co-Design common stock owned as of the merger date. The total purchase consideration consists of the following: (IN THOUSANDS) Cash paid and notes issued of $2.9 million for Co-Design common stock $ 32,651 Acquisition related costs 1,038 Fair value of options to purchase Synopsys common stock issued, less $0.7 million representing the portion of the intrinsic value of Co-Design's unvested options applicable to the remaining vesting period 593 ------------- $ 34,282 ============== The acquisition-related costs of approximately $1.0 million consist primarily of legal and accounting fees. As of October 31, 2002, substantially all of these acquisition-related costs have been paid. Total consideration for the acquisition and services provided has been allocated to the total assets acquired of $8.8 million, total liabilities assumed of $5.3 million and notes payable of $4.8 million, including identifiable intangible assets, based on their respective fair values at the acquisition date. The identifiable intangible assets consist of core/developed technology totaling $6.2 million which is being amortized over an estimated useful life of 10 years due to the fact that this technology is essentially a programming language. The $4.8 million of notes are payable to former Co-Design shareholders in 2007 of which $1.9 million has been included in integration expense for services performed in the statement of operations. If certain milestones are met, the notes may be prepaid in fiscal 2004 and upon prepayment, an additional interest component totaling approximately $1.0 million is also payable. The total purchase consideration has been allocated to the assets and liabilities acquired, including identifiable intangible assets, based on their respective fair values at the acquisition date and resulted in excess purchase consideration over the net tangible and identifiable intangible assets acquired of $27.7 million. 20 ACQUISITION OF INSILICON CORPORATION (INSILICON). On September 20, 2002, the Company completed the acquisition of inSilicon. REASONS FOR THE ACQUISITION. In approving the merger agreement, management considered a number of factors, including the complementary nature of inSilicon's portfolio of intellectual property blocks and Synopsys' own portfolio; the fact that inSilicon had established a per-use license model for its IP products, which would accelerate Synopsys' adoption of a per-use model for its new and development-stage IP, inSilicon's relationships with chip design teams, inSilicon's positive reputation as a vendor of high-quality IP and inSilicon's highly-skilled employee base. The foregoing discussion of the information and factors considered by Synopsys' management is not intended to be exhaustive but includes the material factors considered. PURCHASE PRICE. Holders of inSilicon common stock received $4.05 in exchange for each share of inSilicon common stock owned as of the merger date, or approximately $65.4 million. The total purchase consideration consists of the following: (IN THOUSANDS) Cash paid for inSilicon common stock $ 65,386 Acquisition related costs 6,221 Fair value of options to purchase Synopsys common stock issued, less $1.7 million representing the portion of the intrinsic value of inSilicon's unvested options applicable to the remaining vesting period 2,975 ------------ $ 74,582 =========== The acquisition-related costs of $6.2 million consist primarily of legal and accounting fees of $1.8 million, and other directly related charges including contract termination costs of $3.3 million, and restructuring costs of approximately $0.8 million. As of October 31, 2002, $3.4 million of acquisition-related costs have been paid. Of the balance remaining at October 31, 2002, $2.2 million represents outstanding contract termination costs. The total purchase consideration has been allocated to the assets and liabilities acquired, including identifiable intangible assets, based on their respective fair values at the acquisition date, resulting in goodwill of $22.2 million. The following unaudited condensed balance sheet data presents the fair value of the assets and liabilities acquired. (IN THOUSANDS) Assets acquired Cash, cash equivalents and short-term investments $ 24,908 Accounts receivable 2,428 Prepaid expenses and other current assets 7,463 Core/developed technology 15,100 Customer backlog

1,200 Goodwill 22,160 Other assets 1,290 ---------------- Total assets acquired $ 74,549 ================ Liabilities acquired Accounts payable and accrued liabilities $ 8,242 Deferred revenue 1,137 Income taxes payable 463 Other liabilities 1,736 ---------------- Total liabilities acquired $ 11,578 ================ 21 GOODWILL AND INTANGIBLE ASSETS. Goodwill, representing the excess of the purchase consideration over the fair value of tangible and identifiable intangible assets acquired in the merger will not be amortized, consistent with the guidance in SFAS 142 as discussed under Note 11 below. The goodwill associated with the inSilicon acquisition is not deductible for tax purposes. inSilicon had executed signed contracts with five of its major customers to provide IP licenses, including significant modifications to the IP license in order to meet unique customer requirements. The value associated with these contracts was determined by quantifying the projected cash flow related to these contracts, discounted to present value, and is recorded as customer backlog in intangible assets in the consolidated balance sheets. Intangible assets are being amortized over their estimated useful life of three years. The amortization of intangible assets is included in cost of revenue in the statement of operations for the fiscal year ended October 31, 2002. UNAUDITED PRO FORMA RESULTS OF OPERATIONS. The following table presents pro forma results of operations and gives effect to the Avant! and inSilicon mergers as if the mergers were consummated on November 1, 2000. The unaudited pro forma results of operations are not necessarily indicative of the results of operations had the Avant! and inSilicon mergers actually occurred at the beginning of fiscal 2001, nor is it necessarily indicative of future operating results: YEAR ENDED --------------------------------- OCTOBER 31, OCTOBER 31, 2002 2001 ---------------- ---------------- (IN THOUSANDS EXCEPT PER SHARE AMOUNTS) Revenues $ 1,186,916 $ 1,100,249 Net income $ 117,494 $ 78,909 Basic earnings per share $ 1.56 $ 1.05 Weighted average common shares outstanding 75,311 75,131 Diluted earnings per share $ 1.49 $ 0.98 Weighted average common shares and dilutive stock options outstanding 78,656 80,180 The unaudited pro forma results of operations for each of the periods presented exclude non-recurring merger costs of $335.8 million for the Avant! insurance policy premium, $82.5 million for IPRD resulting from the Avant! merger, $5.2 million for IPRD resulting from the inSilicon merger and $21.0 million and $268.1 million for Avant!'s pre-merger litigation settlement and other related costs incurred in fiscal 2002 and 2001, respectively. These expenses are included in the historical consolidated statement of operations. INTEGRATION COSTS. Non-recurring integration costs incurred relate to merger activities which are not included in the purchase consideration under Emerging Issues Task Force Number 95-3 (EITF 95-3), RECOGNITION OF LIABILITIES IN CONNECTION WITH A PURCHASE BUSINESS COMBINATION. These costs are expensed as incurred. During fiscal 2002, integration costs totaled $128.5 million. These costs consisted primarily of (i) $95.0 million related to the premium for the insurance policy acquired in conjunction with the Avant! merger, (ii) $14.7 million related to write-downs of Synopsys facilities and property under the approved facility exit plan for the Avant! merger, (iii) $10.0 million and $0.7 million related to severance costs for Synopsys employees who were terminated and costs associated with transition employees as a result of the Avant! and inSilicon mergers, respectively, (iv) $1.3 million related to the write-off of software licenses owned by Synopsys which were originally purchased from Avant!, (v) $3.7 million goodwill impairment charge related to a prior Synopsys acquisition as a result of the acquisition of Avant! and (vi) $1.2 million and $1.9 million of other expenses including travel and certain professional fees for the Avant! and Co-Design mergers, respectively. 22 PRIOR YEAR BUSINESS COMBINATIONs AND DIVESTITURES. On January 4, 2001, the Company sold the assets of its silicon libraries business to Artisan Components, Inc. for a total sales price of $15.5 million, including common stock with a fair value on the date of sale of $11.4 million, and cash of $4.1 million. The net book value of the assets sold was $1.4 million. Expenses incurred in connection with the sale were $3.5 million. The Company recorded a gain on the sale of the business of $10.6 million, which is included in other income, net in 2001. Direct revenue for the silicon libraries business was $0.2 million and $4.3 million for the fiscal years 2001 and 2000, respectively. There were no business combinations completed in fiscal 2001. In fiscal 2000, the Company acquired (i) VirSim, a software product, from Innoveda, Inc., for a purchase price of approximately $7.0 million in cash, (ii) The Silicon Group, Inc., a privately held provider of integrated circuit design and intellectual property integration services, for a purchase price of $3.0 million, including cash payments of $1.8 million and a reserve of approximately 34,000 shares of common stock for issuance under The Silicon Group's stock option plan which was assumed in the transaction, and (iii) Leda, S.A. (Leda), a privately held provider of RTL coding-style-checkers, for a purchase price of $7.7 million, including cash payments of $7.5 million. Approximately $1.7 million of the Leda purchase price was allocated to in-process research and development and charged to operations because the acquired technology had not reached technological feasibility and had no alternative uses. The purchase price of each of these transactions was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the respective acquisition. Amounts allocated to developed technology and goodwill are being amortized on a straight-line basis over periods ranging from three to five years. Beginning November 1, 2002, amounts allocated to goodwill will no longer be amortized in accordance with FAS 142 as discussed below under Note 11. NOTE 4. FINANCIAL INSTRUMENTS CASH, CASH EQUIVALENTS AND INVESTMENTS. All cash equivalents, short-term investments, and non-current investments have been classified as available-for-sale securities and are detailed as follows:

	COST	NET UNREALIZED GAINS	NET UNREALIZED LOSSES	ESTIMATED FAIR VALUE
OCTOBER 31, 2002 (IN THOUSANDS)				
Classified as current assets:				
Cash................................	$ 129,044	$ --	$ --	$ 129,044
Money market funds..................	183,536	--	--	183,536
Tax-exempt municipal obligations.....	101,904	249	--	102,153
Municipal auction rate preferred stock	--	--	--	--
	414,484	249	--	414,733
Classified as non-current assets: Equity securities....................	25,113	14,273	--	39,386
Total..............................	$ 439,597	$ 14,522	$ --	$ 454,119
OCTOBER 31, 2001				
Classified as current assets:				
Cash................................	$ 47,383	$ --	$ --	$ 47,383
Money market funds..................	224,313	--	--	224,313
Tax-exempt municipal obligations.....	188,714	1,751	--	190,465
Municipal auction rate preferred stock	14,275	--	--	14,275
	474,685	1,751	--	476,436
Classified as non-current assets: Equity securities....................	38,577	23,122	--	61,699
Total..............................	$ 513,262	$ 24,873	$ --	$ 538,135

Short-term investments include tax-exempt municipal obligations, which may have underlying maturities of more than one year. However, such investments may have put options or reset dates within three years that meet high credit quality standards as specified in the Company's investment policy. At October 31, 2002, the underlying maturities of the Company's investments are $8.0 million within one year, $39.9 million within one to five years, $15.1 million within five to ten years and $39.1 million after ten years. These investments are generally classified as available for sale, and are recorded on the balance sheet at fair market value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of tax. Realized gains and losses on sales of short-term investments have not been material. STRATEGIC INVESTMENTS. The Company's strategic investment portfolio consists of minority equity investments in publicly traded companies and investments in privately held companies, many of which can still be considered in the start-up or development stages. The securities of publicly traded companies are generally classified as available-for-sale securities accounted for under Statement of Financial Accounting Standards No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES (SFAS 115), and are reported at fair value, with unrealized gains or losses, net of tax, recorded as a component of other comprehensive income in stockholders' equity. The cost of securities sold is based on the specific identification method. The securities of privately held companies are reported at the lower of cost or fair value. During the years ended October 31, 2002 and 2001 the Company determined that certain strategic investments, with an aggregate value of $16.3 million and $9.4 million, respectively, were impaired, and that the impairment was other than temporary. Accordingly, the Company recorded a charge of approximately $11.3 million and $5.8 million during fiscal 2002 and 2001, respectively, to write down the carrying value of the investments. The impairment charge is included in other income, net. The Company reviews its investments in non-public companies on a quarterly basis and estimates the amount of any impairment incurred during the current period based on specific analysis of each investment, considering the activities of and events occurring at each of the underlying portfolio companies during the quarter. The Company's portfolio companies operate in industries that are rapidly evolving and extremely competitive. For equity investments in non-public companies for which there is not a market in which their value is readily determinable, the Company assesses each investment for indicators of impairment at each quarter end based primarily on achievement of business plan objectives and current market conditions, among other factors. The primary business plan objectives the Company considers include achievement of planned financial results, completion of capital raising activities, the launching of technology, the hiring of key employees and overall progress on the portfolio company's business plan. If it is determined that an impairment has occurred with respect to an investment in a portfolio company, in the absence of quantitative valuation metrics, management estimates the impairment and/or the net realizable value of the portfolio investment based on public- and private-company market comparable information and valuations completed for companies similar to Synopsys' portfolio companies. There were no impairment charges recorded during fiscal 2000. DERIVATIVE FINANCIAL INSTRUMENTS. Available-for-sale equity investments accounted for under SFAS 115 are subject to market price risk. From time to time, the Company enters into and designates forward contracts to hedge variable cash flows from anticipated sales of these investments. In accounting for a derivative designated as a cash flow hedge, the effective portion of the change in fair value of the derivative is initially recorded in other comprehensive income and reclassified into earnings when the hedged anticipated transaction affects earnings. The ineffective portion of the change in the fair value of the derivative is recognized in earnings immediately. The Company's objective for entering into derivative contracts is to lock in the price of selected equity holdings while maintaining the rights and benefits of ownership until the anticipated sale occurs. The forecasted sale selected for hedging is determined by market conditions, up-front costs, and other relevant factors. The Company has generally selected forward sale contracts to hedge its market price risk. 24 Changes in the spot rate of the forward sale contracts designated and qualifying as cash flow hedges of the forecasted sale of available-for-sale investments accounted for under SFAS 115 are reported in other comprehensive income. The notional amount of the forward designated as the hedging instrument is equal to the available-for-sale securities being hedged. In addition, hedge effectiveness is assessed based on the changes in spot prices. As such, the hedging relationship is perfectly effective, both at inception of the hedge and on an on-going basis. The difference between the contract price and the forward price, which is generally not material, is reflected in other income. The Company has entered into forward sale contracts in fiscal 2001 and 2000 with a major financial institution for the sale through April 10, 2003 of certain of the Company's strategic investments. During fiscal 2001, the Company physically settled certain forward contracts. The net gain on the forward contracts was offset by the net loss on the related available-for-sale investment since inception of the hedge, with any gain or loss reclassified from other comprehensive income to other income. As of October 31, 2002, the Company has forward sale contracts outstanding for 46,790 shares of Broadcom Corporation stock at a forward price of $222.72. As of October 31, 2002, the excess of the fair market value of the forward sale price over cost has been recorded in stockholders' equity as a component of accumulated other comprehensive income. In fiscal 2002, the Company recorded a net realized gain on the sale of the available-for-sale investments of $22.7 million (net of premium amortization). As of October 31, 2002, the Company has recorded $7.6 million in long-term investments due to locked-in unrealized gains on the available-for-sale investments. As of October 31, 2002, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows associated with the forward sale contracts is 6 months. FOREIGN CURRENCY HEDGING. The Company conducts business on a global basis. Consequently, the Company enters into foreign currency forward contracts to reduce the impact of certain currency exposures. As of October 31, 2002, 2001, and 2000, the Company had $305.1 million, $72.2 million and $47.5 million, respectively of short-term foreign currency forward contracts outstanding. These contracts are denominated primarily in the Euro and Japanese yen. The outstanding forward contracts have maturities that expire in approximately one month from the balance sheet date. For fair value hedges, foreign currency gains and losses on forward contracts and their underlying balance sheet exposures resulting from market adjustments are included in earnings. Gains and losses related to these instruments for the fiscal years ended October 31, 2002, 2001 and 2000 were not material. The Company also uses forward foreign currency contracts to hedge cash flow exposures resulting from the impact of currency exchange rate fluctuations on forecasted receivables. As of October 31, 2002, the unrealized gain of approximately $10.0 million on these forward contracts is recorded in stockholders' equity, net of tax, as a component of accumulated other comprehensive income. OTHER COMPREHENSIVE INCOME. Other comprehensive income includes a reclassification adjustment related to unrealized gains on investments, accumulated net translation adjustments and unrealized gains on certain foreign currency forward contracts that qualify as cash flow hedges. In fiscal 2002, 2001 and 2000, the reclassification adjustment is $5.8 million, $33.7 million and $8.9 million, respectively. The reclassification amount adjusts other comprehensive income for gains on the sale of available-for-sale securities realized during the current year and included in other comprehensive income as unrealized holding gains in the period in which such unrealized gains arose. The reclassification adjustment is net of income tax expense of $3.8 million, $21.6 million and $6.0 million, respectively, in fiscal 2002, 2001 and 2000. DEBT. As of October 31, 2002, the Company's debt consisted of $0.1 million for equipment leases and $5.1 million for notes payable related to acquisitions payable through 2007. In fiscal 2002, the Company was also assessed approximately $1.4 million to secure bonds related to certain property taxes. As of October 31, 2001, the Company's debt consisted of $0.1 million for equipment leases and $0.3 million of notes payable from acquisitions. The fair value of the Company's long-term debt approximates the carrying amount. 25 NOTE 5. COMMITMENTS AND CONTINGENCIES The Company leases its domestic and foreign facilities and certain office equipment under operating leases. Rent expense was $33.7 million, $30.0 million and $29.1 million in fiscal 2002, 2001 and 2000, respectively. During December 2000, the Company entered into a sublease agreement for a portion of its office space through May 2003. Monthly lease payments of $912,000 began on December 1, 2000. In November 2002, the sub-lessee prepaid monthly lease payments totaling $8.1 million. Future minimum lease payments on all facility operating leases (net of sublease income) as of October 31, 2002 are as follows:

FISCAL YEAR (IN THOUSANDS)	MINIMUM LEASE PAYMENTS (1)	LEASE INCOME	NET
2003	$ 31,222	$ (7,768)	$ 23,454
2004	30,163	-	30,163
2005	24,673	-	24,673
2006	24,286	-	24,286
2007	20,147	-	20,147
Thereafter	103,221	-	103,221
Total minimum payments required	$ 233,712	$ (7,768)	$ 225,944

(1) Minimum lease payments exclude leases related to Avant! facilities which the Company intends to terminate under its approved facilities exit plan as these payments are included in the Facilities Closure Costs portion of the Avant! merger accrual, described in Note 3. NOTE 6. STOCKHOLDERS' EQUITY STOCK REPURCHASE PROGRAMS. In July 2001, the Company's Board of Directors authorized stock repurchase programs under which Synopsys common stock with a market value up to $500 million may be acquired in the open market. This stock repurchase program replaced all prior repurchase programs authorized by the Board. Common shares repurchased are intended to be used for ongoing stock issuances under the Company's employee stock plans and for other corporate purposes. The July 2001 stock repurchase program expired on October 31, 2002. During fiscal 2002, 2001 and 2000, the Company purchased 3.9 million shares at an average price of $44.20 per share, 6.6 million shares at an average price of $50.00 per share, and 9.9 million shares at an average price of $40.02, respectively. PREFERRED SHARES RIGHTS PLAN. The Company has adopted a number of provisions that could have anti-takeover effects, including a Preferred Shares Rights Plan. In addition, the Board of Directors has the authority, without further action by its shareholders, to fix the rights and preferences and issue shares of authorized but undesignated shares of Preferred Stock. This provision and other provisions of the Company's Restated Certificate of Incorporation and Bylaws and the Delaware General Corporation Law may have the effect of deterring hostile takeovers or delaying or preventing changes in control or management of the Company, including transactions in which the stockholders of the Company might otherwise receive a premium for their shares over then current market prices. The preferred share rights expire on October 24, 2007. 26 EMPLOYEE STOCK PURCHASE PLAN. Under the Company's 1992 Employee Stock Purchase Plan 7,050,000 shares have been authorized for issuance as of October 31, 2002. Under the ESPP, employees are granted the right to purchase shares of common stock at a price per share that is 85% of the lesser of the fair market value of the shares at (i) the beginning of a rolling two-year offering period, or (ii) the end of each semi-annual purchase period. During fiscal 2002, 2001, and 2000 shares totaling 627,941, 567,254, and 512,988, respectively, were issued under the plan at average per share prices of $33.85, $33.20, and $32.63, respectively. As of October 31, 2002, 2,885,283 shares of common stock were reserved for future issuance under the plan. STOCK OPTION PLANS. Under the Company's 1992 Stock Option Plan (1992 Plan), 19,475,508 shares of common stock have been authorized for issuance. Pursuant to the 1992 Plan, the Board of Directors may grant either incentive or non-qualified stock options to purchase shares of the Company's common stock to eligible individuals at not less than 100% of the fair market value of those shares on the grant date. Stock options generally vest over a period of four years and expire ten years from the date of grant. As of October 31, 2002, 3,523,486 shares of common stock are reserved for future grants under the 1992 Plan. Under the Company's Non-Statutory Stock Option Plan (1998 Plan), 26,623,534 shares of common stock have been authorized for issuance. Pursuant to the 1998 Plan, the Board of Directors may grant non-qualified stock options to employees, excluding executive officers. Exercisability, option price and other terms are determined by the Board of Directors, but the option price shall not be less than 100% of the fair market value of the stock at the grant date. Stock options generally vest over a period of four years and expire ten years from the date of grant. At October 31, 2002, 4,817,722 shares of common stock were reserved for future grants. Under the Company's 1994 Non-Employee Directors Stock Option Plan (Directors Plan), a total of 750,000 shares have been authorized for issuance. The Directors Plan provides for automatic grants to each non-employee member of the Board of Directors upon initial appointment or election to the Board, reelection and for annual service on Board committees. Stock options are granted at not less than 100% of the fair market value of those shares on the grant date. Stock options granted upon appointment or election to the Board vest 25% annually but may be exercised immediately. Stock options granted upon reelection to the

Board and for committee service vest 100% after the first year of continuous service. As of October 31, 2002, 71,839 shares of common stock were reserved for future grants. The Company has assumed certain option plans in connection with business combinations. Generally, these options were granted under terms similar to the terms of the Company's stock option plans at prices adjusted to reflect the relative exchange ratios. All assumed plans were terminated as to future grants upon completion of each of the business combinations. 27 Additional information concerning stock option activity under all plans is as follows: WEIGHTED- OPTIONS AVERAGE OUTSTANDING EXERCISE PRICE ---------------- ----------------- (IN THOUSANDS) -------------- Outstanding at October 31, 1999..... 13,031 $38.75 Granted and assumed.............. 16,220 $36.05 Exercised........................ (1,554) $27.37 Canceled......................... (2,952) $41.35 ---------------- Outstanding at October 31, 2000..... 24,745 $37.39 Granted.......................... 5,967 $48.23 Exercised........................ (2,605) $33.14 Canceled......................... (2,187) $39.80 ---------------- Outstanding at October 31, 2001..... 25,920 $40.10 Granted.......................... 4,081 $47.88 Options assumed in acquisitions.. 2,511 $37.16 Exercised........................ (2,851) $34.43 Canceled......................... (1,681) $42.93 ---------------- Outstanding at October 31, 2002..... 27,980 $41.40 ================ Options exercisable at: October 31, 2000................. 6,619 $36.15 October 31, 2001................. 10,405 $38.23 October 31, 2002................. 15,230 $40.49 The following table summarizes information about stock options outstanding at October 31, 2002:

OPTIONS
OUTSTANDING

WEIGHTED-
EXERCISABLE
OPTIONS
AVERAGE -------

REMAINING
WEIGHTED-
WEIGHTED-
CONTRACTUAL
AVERAGE
AVERAGE
RANGE OF
NUMBER LIFE
(IN EXERCISE
NUMBER
EXERCISE
EXERCISE
PRICES
OUTSTANDING
YEARS) PRICE
EXERCISABLE
PRICE -------------
--------- ------------ -
------------- ----------
-- ------------ --------
---- (IN
THOUSANDS)
(IN
THOUSANDS)
~~$0.003-- $32.25~~
~~7,317 7.12~~
~~$29.45 4,197~~
~~$28.96 $32.38 --~~
~~$39.50 7,569~~
~~7.05 $37.31~~
~~4,863 $37.18~~
~~$39.81 -- $49.60~~
~~6,512 8.08~~
~~$45.17 2,998~~
~~$45.07 $49.83 --~~
~~$60.00 5,695~~
~~8.25 $54.68~~
~~2,591 $55.23~~

~~$60.06 --~~
~~$111.86 887~~
~~7.35 $61.79 581~~
~~$62.13 ------------~~
~~------------ $0.003-~~
~~-$111.86 27,980~~
~~7.56 $41.40~~
~~15,230 $40.49~~
~~============~~
~~============~~

STOCK-BASED COMPENSATION. In accordance with APB 25, the Company applies the intrinsic value method in accounting for employee stock options. Accordingly, the Company generally recognizes no compensation expense with respect to stock-based awards to employees. The Company has determined pro forma information regarding net income and earnings per share as if the Company had accounted for employee stock options under the fair value method as required by SFAS No. 123. The fair value of these stock-based awards to employees was estimated using the Black-Scholes option pricing model, assuming no expected dividends and using the following weighted-average assumptions: YEAR ENDED OCTOBER 31, -------- -------------------------------- 2002 2001 2000 ------------- ------------- ----------- STOCK OPTION PLANS Expected life (in years).... 4. 4.4 3.9 Risk-free interest rate..... 4.0% 4.8% 6.3% Volatility.................. 59.0% 62.0% 58.3% ESPP Expected life (in years).... 1.25 1.25 1.25 Risk-free interest rate..... 2.1% 4.1% 6.1% Volatility.................. 59.0% 62.0% 58.3% 28 For pro forma purposes, the estimated fair value of the Company's stock-based awards to employees is amortized over the options' vesting period of four years and the ESPP's six-month purchase period. The weighted-average estimated fair value of stock options issued during fiscal 2002, 2001 and 2000 was $25.74, $25.62 and $15.96 per share, respectively. The weighted-average estimated fair value of share purchase rights under the ESPP during fiscal 2002, 2001 and 2000 was $16.84, $16.57 and $14.32 per share, respectively. The Company's pro forma net income and earnings per share data under SFAS No. 123 is as follows:

YEAR ENDED OCTOBER 31, 2002 2001 2000 ---------------- ----------------- ----------------- (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) ~~Net income (loss) As reported under APB 25............ $ (199,993) $ 56,802 $ 97,778 Pro forma under SFAS No. 123........ $ (333,708) $ (80,107) $ (757) Earnings (loss) per share-- basic As reported under APB 25............ $ (2.99) $ 0.94 $ 1.43 Pro forma under SFAS No. 123........ $ (5.00) $ (1.32) $ (0.01) Earnings (loss) per share-- diluted As reported under APB 25............ $ (2.99) $ 0.88 $ 1.38 Pro forma under SFAS No. 123........ $ (5.00) $ (1.32) $ (0.01)~~

NOTE 7. INCOME TAXES The Company is entitled to a deduction for federal and state tax purposes with respect to employees' stock option activity. The net reduction in taxes otherwise payable arising from that deduction has been credited to additional paid-in capital. The components of the Company's total income before provision for income taxes are as follows: YEAR ENDED OCTOBER 31, --------------------------------------- 2002 2001 2000 ------------- ------------- ------------ (IN THOUSANDS) United States.................. $ (309,072) $ 93,187 $150,641 Foreign........................ 20,132 (9,654) (4,703) ------------- ------------- ------------ $ (288,940) $ 83,533 $ 145,938 ============ ============ =========== 29 The components of the provision (benefit) for income taxes are as follows: YEAR ENDED OCTOBER 31, --------------------------------------- 2002 2001 2000 ------------- ------------ ------------ (IN THOUSANDS) Current: Federal....................... $ 9,605 $ 80,783 $ 62,644 State......................... (1,319) 7,758 8,949 Foreign....................... 11,474 6,782 3,388 -------------- ------------ ------------ 19,760 95,323 74,981 Deferred: Federal....................... (104,041) (66,049) (30,025) State......................... (21,728) (13,076) (4,266) Foreign....................... (2,398) (5,460) (3,394) -------------- ------------ ------------ (128,167) (84,585) (37,685) Charge equivalent to the federal and state tax benefit related to employee stock options..... 19,460 15,993 10,864 -------------- ------------ ------------ Provision (benefit) for income taxes $ (88,947) $ 26,731 $ 48,160 ============= ============ ============ The provision (benefit) for income taxes differs from the amount obtained by applying the statutory federal income tax rate to income (loss) before income taxes as follows: YEAR ENDED OCTOBER 31, ------------------------------------ 2002 2001 2000 ------------ ------------ ----------- (IN THOUSANDS) Statutory federal tax................ $(101,129) $ 29,236 $ 51,078 State tax, net of federal effect..... (8,105) 2,611 5,555 Tax credits.......................... (10,745) (9,041) (7,248) Tax benefit from foreign sales corporation/extraterritorial income exclusion.................. (2,827) (2,780) (3,146) Tax exempt income.................... (1,865) (3,289) (5,508) Foreign tax in excess of (less than) U.S. statutory tax................ 1,553 2,679 (1,194) Non-deductible merger and acquisition expenses.......................... 4,367 5,601 5,454 In-process research and development expenses.......................... 30,695 -- 829 Other................................

(891) 1,714 2,340 ------------ ------------ ----------- $ (88,947) $ 26,731 $ 48,160 ============ ============ =========== 30 Net deferred tax assets of $276.3 million and $170.4 million were recorded at October 31, 2002 and October 31, 2001, respectively. The net deferred tax asset of $276.3 million for the year ended October 31, 2002 includes the tax effects of the parent corporation, Synopsys, and the newly acquired corporations, Avant!, inSilicon, and Co-Design. The tax effects of temporary differences and carryforwards which give rise to significant portions of the deferred tax assets and liabilities are as follows: OCTOBER 31, ------------------------ 2002 2001 ------------- ----------- (IN THOUSANDS) Net deferred tax assets: Deferred tax assets: Current: Net operating loss and tax credit carryovers $ 7,370 $ 5,157 Deferred revenue........................... 111,463 122,857 Reserves and other expenses not currently deductible............................... 62,414 17,831 Unrealized foreign exchange losses......... -- 1,839 Insurance premiums......................... 94,213 -- Other...................................... 10,491 1,555 ------------- ----------- 285,951 149,239 Non-current: Net operating loss and tax credit carryovers 52,529 6,496 Deferred compensation...................... 9,247 5,907 Deferred revenue........................... -- 11,883 Depreciation and amortization............. 32,335 6,698 Other...................................... 2,148 1,258 ------------- ------------ 96,259 32,242 ------------- ------------ Total deferred tax assets....................... 382,210 181,481 Deferred tax liabilities: Current: Unrealized foreign exchange losses......... (3,084) -- ------------- ------------ (3,084) -- Non-current: Unrealized gain on securities investments.. (5,256) (9,196) Net capitalized software development costs. (1,185) (397) Intangible assets.......................... (96,358) -- Other...................................... -- (1,482) ------------- ------------ (102,799) (11,075) ------------- ------------ Total deferred tax liabilities.................... (105,883) (11,075) ------------- ---------- Net deferred tax assets........................... $ 276,327 $ 170,406 ============= ============ At October 31, 2002, the Company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. The Company's United States income tax returns for fiscal years ended September 30, 1996 and September 30, 1995 are under examination and the Internal Revenue Service has proposed certain adjustments. Management believes that adequate amounts have been provided for any adjustments that may ultimately result from these examinations. 31 The Company has federal tax loss carryforwards of approximately $117.5 million at October 31, 2002. The loss carryforwards will expire in 2010 through 2020. Because of the change in ownership provisions of the Internal Revenue Code, a portion of the Company's loss carryforwards may be subject to annual limitations. The annual limitation may result in the expiration of the net operating loss before utilization. The Company also has net operating loss carryforwards from Ireland operations of approximately $25.2 million. These loss carryforwards will expire in 2005 through 2006. Management believes that all net operating losses will be utilized and a valuation allowance is not necessary. NOTE 8. SEGMENT DISCLOSURE Statement of Financial Accounting Standards No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION (SFAS 131), requires disclosures of certain information regarding operating segments, products and services, geographic areas of operation and major customers. The method for determining what information to report under SFAS 131 is based upon the "management approach," or the way that management organizes the operating segments within a company, for which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources and in assessing performance. Synopsys' CODM is the Chief Executive Officer and Chief Operating Officer. The Company provides comprehensive design technology products and consulting services in the electronic design automation software industry. The CODM evaluates the performance of the Company based on profit or loss from operations before income taxes not including merger-related costs, in-process research and development and amortization of intangible assets. For the purpose of making operating decisions, the CODM primarily considers financial information presented on a consolidated basis accompanied by disaggregated information about revenues by geographic region. There are no differences between the accounting policies used to measure profit and loss for the Company segment and those used on a consolidated basis. Revenue is defined as revenues from external customers. The disaggregated financial information reviewed by the CODM is as follows:

	YEAR ENDED OCTOBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
Revenue:			
Product	245,193	163,924	434,077
Service	287,747	341,833	340,796
Ratable license	373,594	174,593	8,905
Total revenue	$ 906,534	$ 680,350	$ 783,778
Gross margin before amortization of intangible assets and deferred stock compensation	$ 767,311	$ 550,228	$ 659,304
Operating income before integration costs, in-process research and development, amortization of intangible assets and deferred stock compensation, and $95 million of the insurance premium related to the Cadence litigation (1)	$ 198,496	$ 16,761	$ 122,014

(1) The total premium paid to the insurer was $335.8 million of which $95.0 million is included in operating income but is excluded from this table and $240.8 million is included in other income and expense in the Company's consolidated statement of operations. 32 There were no integration, amortization of deferred stock compensation or insurance settlement costs during fiscal 2001 and 2000. There were no in-process research and development costs during fiscal 2001. A reconciliation of the Company's segment gross margin to the Company's gross margin is as follows:

	YEAR ENDED OCTOBER 31.		
	2002	2001	2000
	(IN THOUSANDS)		
Gross margin before amortization of intangible assets and deferred stock compensation	$ 767,311	$ 550,228	$ 659,304
Amortization of intangible assets and deferred stock compensation	(33,936)	--	--
Gross margin	$ 733,375	$ 550,228	$ 659,304

Reconciliation of the Company's segment profit and loss to the Company's operating income (loss) is as follows:

YEAR ENDED OCTOBER 31, ------------------------------------- 2002 2001 2000 -------------- -------------- ------------- (IN THOUSANDS) ~~Operating income before integration costs, in-process research and development, amortization of intangible assets and deferred stock compensation, and $95 million of the insurance premium related to the Cadence litigation (1)... $ 198,496 $ 16,761 $ 122,014 Integration costs........................ (128,528) -- -- In-process research and development...... (87,700) -- (1,750) Amortization of intangible assets and deferred stock compensation............ (62,585) (17,012)~~

~~(15,129) -------------- -------------- ------------- Operating (loss) income................... $ (80,317) $ (251) $ 105,135 ============== ============== =============~~

(1) The total premium paid to the insurer was $335.8 million of which $95.0 million is included in operating income but is excluded from this table and $240.8 million is included in other income and expense in the Company's consolidated statement of operations. 33 Revenue and long-lived assets related to operations in the United States and other geographic areas are as follows: YEAR ENDED OCTOBER 31, -- 2002 2001 2000 -------------- -------------- ------------- (IN THOUSANDS) Revenue: United States......... $ 591,526 $ 426,527 $ 456,759 Europe................ 145,758 125,380 141,306 Japan................. 95,413 69,850 130,698 Other................. 73,837 58,593 55,015 -------------- -------------- ------------- Consolidated........ $ 906,534 $ 680,350 $ 783,778 ============== ============== ============= OCTOBER 31, OCTOBER 31, 2002 2001 -------------- -------------- Long-lived assets: United States.............. $ 162,360 $ 176,330 Other...................... 22,680 15,974 -------------- -------------- Consolidated............. $ 185,040 $ 192,304 ============== ============== Geographic revenue data for multi-region, multi-product transactions reflects internal allocations and is therefore subject to certain assumptions and the Company's methodology. Revenue is not reallocated among geographic regions to reflect any re-mixing of licenses between different regions following the initial product shipment. No one customer accounted for more than ten percent of the Company's consolidated revenue in the periods presented. The Company segregates revenue into five categories for purposes of internal management reporting: Design Implementation, Verification and Test, Design Analysis, Intellectual Property (IP) and Professional Services. The following table summarizes the revenue attributable to each of the various categories. Revenue attributable to products acquired from Avant!, inSilicon and Co-Design that was recognized by the acquired companies prior to the respective acquisition date is not reflected in the following tables. Revenue attributable to such acquired products after the acquisition date of the respective company is included in fiscal 2002. As a result of the Avant! merger, the Company has redefined its product groups. Prior period amounts have been reclassified to conform to the new presentation.

	YEAR ENDED OCTOBER 31, 2002	2001	2000
	(IN THOUSANDS)		
Revenue:			
Design Implementation	$ 397,109	$ 270,357	$ 305,192
Verification and Test	269,098	222,776	266,489
Design Analysis	119,469	40,658	44,220
IP	62,177	64,859	86,393
Professional Services	58,681	81,700	81,484
Consolidated	$ 906,534	$ 680,350	$ 783,778

34 NOTE 9. TERMINATION OF AGREEMENT TO ACQUIRE IKOS SYSTEMS, INC. On July 2, 2001, the Company entered into an Agreement and Plan of Merger and Reorganization (the IKOS Merger Agreement) with IKOS Systems, Inc. (IKOS). The IKOS Merger Agreement provided for the acquisition of all outstanding shares of IKOS common stock by Synopsys. On December 7, 2001, Mentor Graphics Corporation (Mentor) commenced a cash tender offer to acquire all of the outstanding shares of IKOS common stock at $11.00 per share, subject to certain conditions. On March 12, 2002, Synopsys and IKOS executed a termination agreement by which the parties terminated the IKOS Merger Agreement and pursuant to which IKOS paid Synopsys the $5.5 million termination fee required by the IKOS Merger Agreement. This termination fee and $2.4 million of expenses incurred in conjunction with the acquisition are included in other income, net on the consolidated statement of operations for the year ended October 31, 2002. Synopsys subsequently executed a revised termination agreement with Mentor and IKOS in order to add Mentor as a party thereto. NOTE 10. DEFERRED STOCK COMPENSATION In connection with the current year mergers, the Company also assumed unvested stock options held by Avant!, inSilicon and Co-Design employees. The Company has recorded deferred stock compensation totaling $8.1 million, $1.7 million and $0.7 million based on the intrinsic value of these assumed unvested stock options for Avant!, inSilicon and Co-Design, respectively. The deferred stock compensation is amortized over the options' remaining vesting period of one to three years. During fiscal 2002, the Company recorded amortization of deferred stock compensation in each of the following expense classifications in the statement of operations: (IN THOUSANDS) Cost of revenues $ 207 Research and development 499 Sales and marketing 234 General and administrative 582 ---------- Total $ 1,522 ========== NOTE 11. EFFECT OF NEW ACCOUNTING STANDARDS In July 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 141, BUSINESS COMBINATIONS (SFAS 141), and GOODWILL AND OTHER INTANGIBLE ASSETS (SFAS 142). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS 142. The Company adopted SFAS 142 on November 1, 2002. As of October 31, 2002, unamortized goodwill is $434.6 million, which will no longer be amortized subsequent to the adoption of SFAS 142. Related goodwill amortization expense for fiscal 2002, 2001 and 2000 is $16.2 million, $17.0 million and $15.1 million, respectively. The Company adopted the provisions of SFAS 141 on July 1, 2001. Under SFAS 141, goodwill and intangible assets with indefinite useful lives acquired in a purchase business combination completed after June 30, 2001, but before SFAS 142 is adopted, will not be amortized but will continue to be evaluated for impairment in accordance with SFAS 121. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized and tested for impairment in accordance with current accounting guidance until the date of adoption of SFAS 142. 35 Upon adoption of SFAS 142, the Company must evaluate its existing intangible assets and goodwill acquired in purchase business combinations prior to July 1, 2001, and make any necessary reclassifications in order to conform with the new criteria in SFAS 141 for recognition apart from goodwill. Upon adoption of SFAS 142, the Company has assessed useful lives and residual values of all intangible assets acquired. The Company has also tested goodwill for impairment in accordance with the provisions of SFAS 142. In completing its impairment analysis, the Company has determined that it has one reporting unit as the company operates in one reportable segment. In conjunction with the implementation of SFAS No. 142, the Company has completed a goodwill impairment review as of the beginning of fiscal 2003 and found no impairment. This impairment review was based on the fair value of the Company as determined by its market capitalization. In July 2001, the FASB issued Statement of Financial Accounting Standards No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS (SFAS 143). SFAS 143 requires that asset retirement obligations that are identifiable upon acquisition, construction or development and during the operating life of a long-lived asset be recorded as a liability using the present value of the estimated cash flows. A corresponding amount would be capitalized as part of the asset's carrying amount and amortized to expense over the asset's useful life. The Company is required to adopt the provisions of SFAS 143 effective November 1, 2002. The adoption of SFAS 143 will not have a significant impact on its financial position and results of operations. In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, ACCOUNTING FOR THE

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of APB Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS FOR A DISPOSAL OF A SEGMENT OF A BUSINESS. The Company is required to adopt the provisions of SFAS 144 no later than November 1, 2002. The adoption of SFAS 144 will not have a significant impact on the Company's financial position and results of operations. In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146 (SFAS 146), ACCOUNTING FOR EXIT OR DISPOSAL ACTIVITIES. SFAS 146 addresses the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including costs related to terminating a contract that is not a capital lease and termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS 146 supersedes Emerging Issues Task Force Issue No. 94-3, LIABILITY RECOGNITION FOR CERTAIN EMPLOYEE TERMINATION BENEFITS AND OTHER COSTS TO EXIT AN ACTIVITY (INCLUDING CERTAIN COSTS INCURRED IN A RESTRUCTURING) and requires liabilities associated with exit and disposal activities to be expensed as incurred. SFAS 146 will be effective for exit or disposal activities of the Company that are initiated after December 31, 2002. The Company believes that the adoption of SFAS 146 will not have a significant impact on the Company's financial position and results of operations. In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE. SFAS 148 amends FASB Statement No. 123 (SFAS 123), ACCOUNTING FOR STOCK-BASED Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company is currently evaluating the impact of adoption of SFAS 148 on its financial position and results of operations. 36 In November 2002, the EITF reached a consensus on Issue No. 00-21 (EITF 00-21), REVENUE ARRANGEMENTS WITH MULTIPLE DELIVERABLES. EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which the vendor will perform multiple revenue generating activities. EITF 00-21 will be effective for fiscal years beginning after June 15, 2003. The Company does not expect the adoption of EITF 00-21 to have a material impact on its financial position and results of operations. In November 2002, the FASB Interpretation No. 45 (Interpretation 45), GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS, which clarifies disclosure and recognition/measurement requirements related to certain guarantees. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition/measurement requirements are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The Company is currently evaluating the impact of adoption of Interpretation 45 on its financial position and results of operations. NOTE 12. RELATED PARTY TRANSACTIONS Approximately 8% of fiscal 2002 revenues were derived from a company whose Chief Financial and Enterprise Officer serves on the Synopsys Board of Directors. Management believes the transactions between the two parties were carried out under the Company's normal terms and conditions. The Company has a joint venture with Davan Tech Co., Ltd, of Korea (Davan Tech) whereby Davan Tech acts as a non-exclusive distributor for the Company subject to certain conditions as defined in the distribution agreement. As of October 31, 2002, the Company owned approximately 10% of Davan Tech and the investment is accounted for under the cost basis. During the period from June 6, 2002 through October 31, 2002, the Company recognized revenues totaling $1.3 million from Davan Tech. The Chairman of the Company's Audit Committee is also the Chairman of the Board of Directors for a company in which Synopsys has invested $500,000. During the first quarter of fiscal 2003, Synopsys invested an additional $300,000 in this company. NOTE 13. SUBSEQUENT EVENTS RENEWAL OF STOCK REPURCHASE PROGRAM. In December 2002, the Company's Board of Directors renewed its stock repurchase program originally approved in July 2001. Under the renewed program, the Company may repurchase Synopsys common stock with a market value up to $500 million (not including amounts purchased to date under the July 2001 program on the open market). Common shares repurchased are intended to be used for ongoing stock issuances, such as for existing employee stock option and stock purchase plans and acquisitions. PROPOSED ACQUISITION OF NUMERICAL TECHNOLOGIES, INC. On January 13, 2003, the Company entered into an Agreement and Plan of Merger with Numerical Technologies, Inc. (Numerical) under which the Company commenced a cash tender offer to acquire all of the outstanding shares of Numerical common stock at $7.00 per share, followed by a second-step merger in which the Company would acquire any untendered Numerical shares at the same price per share. The total transaction value is expected to be approximately $250 million. Following the consummation of the cash tender offer, Numerical will merge with and into a wholly owned subsidiary of the Company. The acquisition is subject to certain conditions, including the tender of a majority of the fully diluted shares of Numerical, compliance with regulatory requirements and customary closing conditions. WORKFORCE REDUCTION. During the first quarter of fiscal 2003, the Company implemented a workforce reduction. The purpose was to reduce expenses by decreasing the number of employees in all departments in domestic and foreign locations. As a result, the Company expects to record a charge of between $4.8 million and $5.3 million during the first quarter of fiscal 2003. The charge consists of severance and other special termination benefits. 37 NOTE 14. SELECTED QUARTERLY DATA (UNAUDITED)

QUARTER
ENDED ---------

-- JANUARY
31, APRIL 30,
JULY 31,
OCTOBER

31, ------------- - ----------- --------- --- ------------- (IN THOUSANDS, EXCEPT PER SHARE DATA) ~~2002: Revenue $ 175,545 $ 185,638 $ 236,095 $ 309,256 Gross margin 140,355 151,246 188,409 253,365 Income (loss) before income taxes 20,179 30,716 (161,380) (178,455) Net income (loss) 14,052 21,380 (137,589) (97,836) Earnings (loss) per share Basic $ 0.23 $ 0.35 $ (1.93) $ (1.31) Diluted $ 0.22 $ 0.33 $ (1.93) $ (1.31) Market stock price range (1): High $ 59.70 $ 55.21 $ 55.30 $ 47.25 Low $ 49.46 $ 41.71 $ 40.24 $ 32.63 2001: Revenue $ 157,154 $ 163,524 $176,110 $183,562 Gross margin 125,099 132,568 143,390 149,171 Income before income taxes 13,919 18,368 21,250 29,996 Net income 9,465 12,490 14,450 20,397 Earnings per share Basic $~~

~~0.15 $ 0.21 $ 0.24 $ 0.34 Diluted $ 0.15 $ 0.19 $ 0.22 $ 0.33 Market~~

~~stock price range (1): High $ 55.37 $ 61.87 $ 62.75 $ 54.35 Low $ 34.12 $ 43.12 $ 44.05 $ 37.04~~

(1) Company's common stock is traded on The Nasdaq Stock Market under the symbol "SNPS." The stock prices shown represent quotations among dealers without adjustments for retail markups, markdowns or commissions and may not represent actual transactions. As of October 31, 2002, there were approximately 568 shareholders of record. To date, the Company has paid no cash dividends on its capital stock, and has no current intention to do so. 38 PART IV ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K (a) The following documents are filed as part of this Annual Report on Form 10-K: (1) Financial Statements The following documents are included as Part II, Item 8, of this Annual Report on Form 10-K: PAGE (2) Financial Statement Schedule The information required by this item is incorporated by reference herein from Amendment No. 1 to this Annual Report on Form 10-K. (3) Exhibits See Item 15(c) below. (b) Reports on Form 8-K None. (c) Exhibits EXHIBIT NUMBER EXHIBIT DESCRIPTION 2.1 Agreement and Plan of Merger, dated as of December 3, 2001, among Synopsys, Inc., Maple Forest Acquisition L.L.C., and Avant! Corporation. (1) 3.1 Fourth Amended and Restated Certificate of Incorporation (2) 3.2 Certificate of Designation of Series A Participating Preferred Stock(3) 3.3 Certificate of Amendment of Fourth Amended and Restated Certificate of Incorporation (10) 3.4 Restated Bylaws of Synopsys, Inc. (2) 39 4.1 Amended and Restated Preferred Shares Rights Agreement dated November 24, 1999 (3) 4.3 Specimen Common Stock Certificate (4) 10.1 Form of Indemnification Agreement (4) 10.2 Director's and Officer's Insurance and Company Reimbursement Policy (4) 10.3 Lease Agreement, dated August 17, 1990, between the Company and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Separate Property Trust), as amended, and Richard T. 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Richard Newton Dated November 1, 2001 (11)(19) 21.1 Subsidiaries of the Company 23.1 Report on Financial Statement Schedule (9) 23.2 Consent of KPMG LLP, Independent Auditors 24.1 Power of Attorney (9) ---------- (1) Incorporated by reference from exhibit to Current Report on Form 8-K filed with the Securities and Exchange Commission on December 5, 2001. (2) Incorporated by reference from exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 3, 1999. (3) Incorporated by reference from exhibit to Amendment No. 1 to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on December 13, 1999. (4) Incorporated by reference from exhibit to the Company's Registration Statement on Form S-1 (File No. 33-45138) which became effective February 24, 1992. (5) Incorporated by reference from exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1992. (6) Incorporated by reference from exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1993. (7) Incorporated by reference from exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1995. (8) Confidential Treatment requested for certain portions of this document. (9) Filed as exhibit to Annual Report on Form 10-K for the fiscal year ended October 31, 2002. (10) Incorporated by reference from exhibit to the Company's Quarterly Report on Form 10-Q

for the quarterly period ended March 31, 1996. (11) Compensatory plan or agreement in which an executive officer or director participates (12) Incorporated by reference from exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2001. 41 (13) Incorporated by reference from exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2001. (14) Incorporated by reference from exhibit to the Registration Statement on Form S-4 (File No. 333-21129) of Synopsys, Inc. filed with the Securities and Exchange Commission on February 5, 1997. (15) Incorporated by reference from exhibit to the Company's Registration Statement on Form S-8 (file No. 333-77597) filed with the Securities and Exchange Commission on May 3, 1999. (16) Incorporated by reference from exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 3, 1998. 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SHEVICK ---------------------------------- Steven K. Shevick Senior Vice President, Finance and Chief Financial Officer (Principal Financial Officer) By: /S/ RICHARD T. ROWLEY ---------------------------------- Richard T. Rowley Vice President, Corporate Controller (Principal Accounting Officer) Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated: SIGNATURE TITLE DATE /S/ AART J. DE GEUS* Chief Executive Officer March 17, 2003 ------------------------- (Principal Executive Aart J. de Geus Officer) and Chairman of the Board of Directors /S/ CHI-FOON CHAN* President, Chief Operating March 17, 2003 ------------------------- Chi-Foon Chan Officer and Director /S/ ANDY D. BRYANT* Director March 17, 2003 ------------------------- Andy D. Bryant /S/ BRUCE R. CHIZEN* Director March 17, 2003 ------------------------- Bruce R. Chizen /S/ DEBORAH A. COLEMAN* Director March 17, 2003 ------------------------- Deborah A. Coleman /S/ A. RICHARD NEWTON* Director March 17, 2003 ------------------------- A. Richard Newton /S/ SASSON SOMEKH* Director March 17, 2003 ------------------------- Sasson Somekh /S/ STEVEN C. WALSKE* Director March 17, 2003 ------------------------- Steven C. Walske By: Steven K. Shevick, Attorney-in-Fact EXHIBIT INDEX EXHIBIT NUMBER EXHIBIT DESCRIPTION 2.1 Agreement and Plan of Merger, dated as of December 3, 2001, among Synopsys, Inc., Maple Forest Acquisition L.L.C., and Avant! Corporation. (1) 3.1 Fourth Amended and Restated Certificate of Incorporation (2) 3.2 Certificate of Designation of Series A Participating Preferred Stock(3) 3.3 Certificate of Amendment of Fourth Amended and Restated Certificate of Incorporation (10) 3.4 Restated Bylaws of Synopsys, Inc. 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EXHIBIT 23.2 Consent of Independent Auditors The Board of Directors Synopsys, Inc.: We consent to the incorporation by reference in registration statements (Nos. 333-75638 and 333-67184) on Form S-4 and (Nos. 333-45056, 333-38810, 333-32130, 333-90643, 333-84279, 333-77597, 333-56170, 333-63216, 333-71056, 333-50947, 333-77000, 333-97317, 333-97319, 333-99651, 333-100155, 333-103418, 333-103635, and 333-103636) on Form S-8 of Synopsys, Inc. of our reports dated November 20, 2002, except as to Note 13, which is as of January 13, 2003, relating to the consolidated balance sheets of Synopsys, Inc. and subsidiaries as of October 31, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended October 31, 2002, and the related consolidated financial statement schedule, which reports appear in this annual report on Form 10-K of Synopsys, Inc. /s/ KPMG LLP Mountain View, California March 17, 2003 CERTIFICATIONS I, Aart J. de Geus, certify that: 1. I have reviewed this annual report on Form 10-K of Synopsys, Inc.; 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report; 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: March 17, 2003 /s/ AART J. DE GEUS ---------------------- Aart J. de Geus Chief Executive Officer (Principal Executive Officer) I, Steven K. Shevick, certify that: 1. I have reviewed this annual report on Form 10-K of Synopsys, Inc.; 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report; 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: March 17, 2003 /S/ STEVEN K. SHEVICK --------------------- Steven K. Shevick Chief Financial Officer (Principal Financial Officer)