UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2000
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 0-19807

SYNOPSYS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE 56-1546236
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

700 East Middlefield Road
Mountain View, CA 94043
(Address of principal executive offices)
Telephone: (650) 584-5000
(Registrant’s telephone number, including area code)

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.

Yes X No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest
practicable date.

71,509,137 shares of Common Stock as of June 2, 2000
SYNOPSYS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED APRIL 30, 2000

Table of Contents

PART I ........................................................................................................................................... 3
  ITEM 1. FINANCIAL STATEMENTS ................................................................................................. 3
  CONDENSED CONSOLIDATED BALANCE SHEETS ................................................................. 3
  CONDENSED CONSOLIDATED STATEMENTS OF INCOME ..................................................... 4
  CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS .......................................... 5
  NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS ............................... 6
  ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS .................................................................................................................. 10
  ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK .................. 18

PART II. OTHER INFORMATION ................................................................................................. 19
  ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS ......................... 19
  ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K ................................................................. 21
  SIGNATURES ............................................................................................................................ 22
### PART I

**Item 1. Financial Statements**

**SYNOPSIS, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

*(in thousands, except share data)*

*(unaudited)*

<table>
<thead>
<tr>
<th></th>
<th>April 30, 2000</th>
<th>October 31, 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 150,611</td>
<td>$ 309,394</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>466,101</td>
<td>399,995</td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>616,712</td>
<td>709,389</td>
</tr>
<tr>
<td>Accounts receivable, net of allowances of $8,504 and $10,563, respectively</td>
<td>160,365</td>
<td>130,253</td>
</tr>
<tr>
<td>Prepaid expenses, deferred taxes and other</td>
<td>61,282</td>
<td>66,814</td>
</tr>
<tr>
<td>Total current assets</td>
<td>838,359</td>
<td>906,456</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>141,302</td>
<td>135,118</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>83,037</td>
<td>57,651</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>53,451</td>
<td>56,240</td>
</tr>
<tr>
<td>Other assets</td>
<td>31,957</td>
<td>22,818</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$1,148,106</strong></td>
<td><strong>$1,178,283</strong></td>
</tr>
</tbody>
</table>

|                     |               |                  |
| **LIABILITIES AND STOCKHOLDERS’ EQUITY** |               |                  |
| Current liabilities: |               |                  |
| Accounts payable and accrued liabilities | $ 88,098     | $ 98,976         |
| Current portion of long-term debt | 12,303       | 8,658            |
| Accrued income taxes | 63,321       | 50,146           |
| Deferred revenue | 140,010       | 126,758          |
| **Total current liabilities** | **303,732** | **284,538** |
| Long-term debt | 1,497         | 11,304           |
| Deferred compensation | 15,017      | 9,844            |
| Stockholders’ equity: |               |                  |
| Preferred stock, $.01 par value; 2,000,000 shares authorized; no shares outstanding | --          | --               |
| Common stock, $.01 par value; 400,000,000 shares authorized; 68,381,000 and 70,750,000 shares outstanding, respectively | 684         | 708              |
| Additional paid-in capital | 556,034     | 542,052          |
| Retained earnings | 398,480       | 349,192          |
| Treasury stock, at cost | (147,315)  | (28,589)         |
| Accumulated other comprehensive income | 19,977      | 9,234            |
| **Total stockholders’ equity** | **827,860** | **872,597** |
| **Total liabilities and stockholders’ equity** | **$1,148,106** | **$1,178,283** |

The accompanying notes are an integral part of these financial statements.
<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th></th>
<th>Six Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>$ 123,033</td>
<td>$ 116,680</td>
<td>$ 253,582</td>
<td>$ 226,639</td>
</tr>
<tr>
<td>Service</td>
<td>81,820</td>
<td>73,506</td>
<td>168,139</td>
<td>143,773</td>
</tr>
<tr>
<td>Total revenue</td>
<td>204,853</td>
<td>190,186</td>
<td>421,721</td>
<td>370,412</td>
</tr>
<tr>
<td>Cost of revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>10,653</td>
<td>8,311</td>
<td>20,939</td>
<td>15,906</td>
</tr>
<tr>
<td>Service</td>
<td>19,273</td>
<td>16,381</td>
<td>37,872</td>
<td>30,492</td>
</tr>
<tr>
<td>Total cost of revenue</td>
<td>29,926</td>
<td>24,692</td>
<td>58,811</td>
<td>46,392</td>
</tr>
<tr>
<td>Gross margin</td>
<td>174,927</td>
<td>165,494</td>
<td>362,910</td>
<td>324,014</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>45,962</td>
<td>39,182</td>
<td>90,229</td>
<td>80,118</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>70,395</td>
<td>58,476</td>
<td>137,391</td>
<td>114,054</td>
</tr>
<tr>
<td>General and administrative</td>
<td>14,033</td>
<td>10,873</td>
<td>26,282</td>
<td>21,965</td>
</tr>
<tr>
<td>Amortization of intangible assets</td>
<td>3,690</td>
<td>1,470</td>
<td>7,211</td>
<td>1,470</td>
</tr>
<tr>
<td>In-process research and development</td>
<td>--</td>
<td>16,267</td>
<td>1,750</td>
<td>16,267</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>134,080</td>
<td>126,268</td>
<td>262,863</td>
<td>233,874</td>
</tr>
<tr>
<td>Operating income</td>
<td>40,847</td>
<td>39,226</td>
<td>100,047</td>
<td>90,140</td>
</tr>
<tr>
<td>Other income, net</td>
<td>9,694</td>
<td>9,708</td>
<td>18,634</td>
<td>18,192</td>
</tr>
<tr>
<td>Income before provision for income taxes</td>
<td>50,541</td>
<td>48,934</td>
<td>118,681</td>
<td>108,332</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>16,967</td>
<td>22,313</td>
<td>40,004</td>
<td>41,320</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 33,574</td>
<td>$ 26,621</td>
<td>$ 78,677</td>
<td>$ 67,012</td>
</tr>
<tr>
<td>Basic earnings per share:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ 0.49</td>
<td>$ 0.38</td>
<td>$ 1.12</td>
<td>$ 0.96</td>
</tr>
<tr>
<td>Weighted average common shares</td>
<td>69,153</td>
<td>70,286</td>
<td>70,054</td>
<td>69,739</td>
</tr>
<tr>
<td>Diluted earnings per share:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ 0.47</td>
<td>$ 0.36</td>
<td>$ 1.08</td>
<td>$ 0.92</td>
</tr>
<tr>
<td>Weighted average common shares and equivalents</td>
<td>71,089</td>
<td>73,873</td>
<td>72,964</td>
<td>73,207</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
SYNOPSYS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)  
( unaudited)

Six Months Ended
April 30, March 31,
2000 1999

Cash flows provided by operating activities:

Net income $ 78,677 $ 67,012

Adjustments to reconcile net income to cash flows provided by operating activities:

Depreciation and amortization 29,404 23,722
Tax benefit associated with stock options 9,563 18,893
Provision for doubtful accounts and sales returns (2,059) (192)
Interest accretion on notes payable 390 448
Deferred taxes (2,664) 426
Gain on sale of long-term investments (5,091) (9,282)
In-process research and development 1,750 16,267

Net changes in operating assets and liabilities:

Accounts receivable (27,187) (12,066)
Prepaid expenses and other current assets 372 894
Intangible assets, net 135 174
Other assets (9,574) (3,555)
Accounts payable and accrued liabilities (11,694) (15,680)
Accrued income taxes 12,997 5,145
Deferred revenue 12,546 9,190
Deferred compensation 5,173 3,670

Net cash provided by operating activities 92,738 94,776

Cash flows from investing activities:

Expenditures for property and equipment (27,388) (38,224)
Purchases of short-term investments (1,264,268) (2,847,672)
Sales and maturities of short-term investments 1,198,305 2,720,369
Proceeds from sale of long-term investments 8,647 10,947
Purchases of long-term investments (7,998) (3,885)
Acquisitions, net of cash acquired (5,646) (34,786)
Capitalization of software development costs (500) (500)

Net cash used in investing activities (98,848) (193,751)

Cash flows from financing activities:

Payments of debt obligations (7,200) (9,477)
Purchases of treasury stock (182,891) --
Issuances of long-term debt 727 --
Issuances of common stock 39,171 62,536

Net cash (used in) provided by financing activities (150,193) 53,059

Effect of exchange rate changes on cash (2,480) (116)

Net decrease in cash and cash equivalents (158,783) (46,032)

Cash and cash equivalents, beginning of period 309,394 164,548

Cash and cash equivalents, end of period $ 150,611 $ 118,516

The accompanying notes are an integral part of these financial statements.
1. Basis of Presentation

Synopsys, Inc. (Synopsys or the Company) is a leading supplier of electronic design automation (EDA) solutions to the global electronics market. The Company provides comprehensive design technologies to creators of advanced integrated circuits, electronic systems, and systems on a chip. The Company also provides consulting services and support to its customers to streamline the overall design process and accelerate time-to-market.

The unaudited condensed consolidated financial statements have been prepared by the Company and reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim periods presented. Such adjustments are of a normal recurring nature. The consolidated results of operations for the interim periods presented are not necessarily indicative of the results for any future interim period or for the entire fiscal year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted, although the Company believes that the disclosures included are adequate to make the information presented not misleading. The condensed consolidated financial statements and notes included herein should be read in conjunction with the consolidated financial statements and notes for the fiscal year ended September 30, 1999, included in the Company’s 1999 Annual Report on Form 10-K.

On July 15, 1999, the Board of Directors changed the Company’s fiscal year to end on the Saturday nearest to October 31. As a result, fiscal 2000 commenced on October 31, 1999 and will end on October 28, 2000. The period from October 3, 1999 through October 30, 1999 was accounted for as a transition period, information on which was filed with the Company’s quarterly report on Form 10-Q for the first quarter of fiscal 2000.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. A change in the facts and circumstances surrounding these estimates could result in a change to the estimates and impact future operating results.

2. Business Combinations

Acquisitions

During the first quarter of fiscal 2000, the Company acquired 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. The purchase price of the transaction was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the acquisition. Amounts allocated to developed technology, workforce and goodwill are being amortized on a straight-line basis over a five-year period. Approximately $1.8 million 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.

Pro forma results of operations have not been presented since the effects of the acquisition were not material to the Company’s consolidated financial position, results of operations or cash flows for the periods presented.

3. Stock Repurchase Program

In February 2000, the Board of Directors authorized a stock repurchase program under which Synopsys’ common stock with a market value of up to $200.0 million may be acquired in the open market over a ten month period. Repurchased shares are to be used for issuance under Synopsys’ stock option and employee stock plans and for other corporate purposes. During the second quarter of fiscal 2000, the Company purchased 2,392,000 shares for an aggregate amount of $99.9 million. During the first quarter of fiscal 2000, the Company purchased 1,330,000 shares for an aggregate amount of $83.0 million.
4. Comprehensive Income

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, as of the first quarter of fiscal 1999. SFAS No. 130 has no impact on the Company’s net income or total stockholders’ equity. The following table sets forth the components of comprehensive income, net of income tax expense:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th></th>
<th>Six Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 30, 2000</td>
<td>March 31, 1999</td>
<td>April 30, 2000</td>
<td>March 31, 1999</td>
</tr>
<tr>
<td>(in thousands)</td>
<td>(unaudited)</td>
<td>(unaudited)</td>
<td>(unaudited)</td>
<td>(unaudited)</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 33,574</td>
<td>$ 26,621</td>
<td>$ 78,677</td>
<td>$ 67,012</td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>(1,976)</td>
<td>(485)</td>
<td>(2,480)</td>
<td>(116)</td>
</tr>
<tr>
<td>Unrealized gain (loss) on investments</td>
<td>5,332</td>
<td>(193)</td>
<td>16,278</td>
<td>4,415</td>
</tr>
<tr>
<td>Reclassification adjustment for (losses) included in net income</td>
<td>(1,873)</td>
<td>(2,614)</td>
<td>(3,055)</td>
<td>(4,841)</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td>$ 35,057</td>
<td>$ 23,329</td>
<td>$ 89,420</td>
<td>$ 66,470</td>
</tr>
</tbody>
</table>

5. Earnings Per Share

Basic earnings per share is computed using the weighted-average number of common shares. Diluted earnings per share is computed using the weighted-average number of common and dilutive potential common shares outstanding during the period. Dilutive potential common shares consist of employee stock options using the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share:

|                                | Three Months Ended |       | Six Months Ended |       |
|                                | April 30, 2000     | March 31, 1999 | April 30, 2000  | March 31, 1999 |
| (in thousands, except per share amounts) | (unaudited)        | (unaudited)   | (unaudited)     | (unaudited)   |
| Numerator:                     |                    |               |                  |                |
| Numerator for basic and diluted earnings per share - |                    |               |                  |                |
| Net income                     | $ 33,574           | $ 26,621     | $ 78,677        | $ 67,012     |
| Denominator:                  |                    |               |                  |                |
| Denominator for basic earnings per share - |                    |               |                  |                |
| weighted-average shares        | 69,153             | 70,286       | 70,054          | 69,739       |
| Effect of dilutive securities: |                    |               |                  |                |
| Employee stock options         | 1,936              | 3,587        | 2,910           | 3,468        |
| Dilutive potential common shares | 71,089          | 73,873       | 72,964          | 73,207       |
| Basic earnings per share:      |                    |               |                  |                |
| Net income                     | $ 0.49             | $ 0.38       | $ 1.12          | $ 0.96       |
| Diluted earnings per share:    |                    |               |                  |                |
| Net income                     | $ 0.47             | $ 0.36       | $ 1.08          | $ 0.92       |
6. Effect of New Accounting Standards

In December 1998, the AICPA issued SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions, which amends SOP 97-2 and supercedes SOP 98-4. The Company adopted SOP 98-9 in the first quarter of fiscal 2000. The Company modified certain aspects of its license and pricing structure so that the impact of SOP 98-9 on its revenue recognition practices was not significant.

In June 1999, the Financial Accounting Standards Board (FASB) issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities, Deferral of the Effective Date of SFAS No. 133, which amends the effective date of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities and requires the Company to recognize all derivatives as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value would be accounted for based on the intended use of the derivative and whether it is designated and qualifies for hedge accounting. The Company will adopt SFAS No. 133 for its first quarter of fiscal 2001. The Company has not determined the impact that SFAS No. 133 will have on its financial statements and believes that such a determination will not be meaningful until closer to the date of the initial adoption.

In March 2000, the Emerging Issues Task Force (EITF) published their consensus on EITF Issue No. 00-2, Accounting for Web Site Development Costs, which requires that costs incurred during the development of web site applications and infrastructure, involving developing software to operate the web site, including graphics that affect the “look and feel” of the web page and all costs relating to software used to operate a web site should be accounted for under Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, (SOP 98-1). However, if a plan exists or is being developed to market the software externally, the costs relating to the software should be accounted for pursuant to FASB Statement No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed (SFAS No. 86). The Company will adopt EITF No. 00-2 in the fourth quarter of fiscal 2000.

In March 2000, the EITF published their consensus on EITF Issue No. 00-3, Application of AICPA Statement of Position 97-2, Software Revenue Recognition, to Arrangements That Include the Right to Use Software Stored on Another Entity’s Hardware. The Issue states that a software element covered by SOP 97-2 is only present in a hosting arrangement if the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty and it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. The Company recently introduced a software hosting service. Synopsys hosting services agreements now in place do not grant customers the right to take possession of hosted software without an additional charge.

In March 2000, the FASB issued Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25. This Interpretation clarifies the application of Opinion 25 for certain issues including: (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. In general, this Interpretation is effective July 1, 2000. We do not expect the adoption of Interpretation No. 44 to have a material effect on our consolidated financial position or results of operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (“SAB 101”), Revenue Recognition in Financial Statements. SAB 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements. The Company will adopt SAB 101 as required in the first quarter of fiscal 2001 and is evaluating the effect that such adoption may have on its consolidated results of operations and financial position. The SEC is expected to release an interpretation on SAB 101 in a question-and-answer format and there are uncertainties as to the impact this may have on the Company.
7. Segment Disclosure

In 1999, Synopsys adopted SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 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 No. 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 amortization of intangible assets and in-process research and development. 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 segments and those used on a consolidated basis. Revenue is defined as revenues from external customers. Prior period amounts have been restated to conform to the current composition of the Company segments.

The disaggregated financial information reviewed by the CODM is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th></th>
<th>Six Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 30, 2000</td>
<td>March 31, 1999</td>
<td>April 30, 2000</td>
<td>March 31, 1999</td>
</tr>
<tr>
<td>Revenue:</td>
<td>(in thousands)</td>
<td>(unaudited)</td>
<td>(in thousands)</td>
<td>(unaudited)</td>
</tr>
<tr>
<td>Product</td>
<td>$123,033</td>
<td>$116,680</td>
<td>$253,582</td>
<td>$226,639</td>
</tr>
<tr>
<td>Service</td>
<td>81,820</td>
<td>73,506</td>
<td>168,139</td>
<td>143,773</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$204,853</td>
<td>$190,186</td>
<td>$421,721</td>
<td>$370,412</td>
</tr>
<tr>
<td>Gross margin</td>
<td>$174,927</td>
<td>$165,494</td>
<td>$362,910</td>
<td>$324,014</td>
</tr>
<tr>
<td>Operating income</td>
<td>$44,537</td>
<td>$56,963</td>
<td>$109,008</td>
<td>$107,877</td>
</tr>
<tr>
<td>before amortization</td>
<td>(in thousands)</td>
<td>(unaudited)</td>
<td>(in thousands)</td>
<td>(unaudited)</td>
</tr>
<tr>
<td>of intangible assets</td>
<td>$44,537</td>
<td>$56,963</td>
<td>$109,008</td>
<td>$107,877</td>
</tr>
<tr>
<td>and in-process</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>research and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>development</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reconciliation of the Company’s segment profit and loss to the Company’s income before provision for income taxes is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th></th>
<th>Six Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 30, 2000</td>
<td>March 31, 1999</td>
<td>April 30, 2000</td>
<td>March 31, 1999</td>
</tr>
<tr>
<td>(in thousands)</td>
<td>(unaudited)</td>
<td>(unaudited)</td>
<td>(in thousands)</td>
<td>(unaudited)</td>
</tr>
<tr>
<td>Operating income</td>
<td>$40,847</td>
<td>$39,226</td>
<td>$100,047</td>
<td>$90,140</td>
</tr>
<tr>
<td>before amortization</td>
<td>(in thousands)</td>
<td>(unaudited)</td>
<td>(in thousands)</td>
<td>(unaudited)</td>
</tr>
<tr>
<td>of intangible assets</td>
<td>$44,537</td>
<td>$56,963</td>
<td>$109,008</td>
<td>$107,877</td>
</tr>
<tr>
<td>Amortization of</td>
<td>(3,690)</td>
<td>(1,470)</td>
<td>(7,211)</td>
<td>(1,470)</td>
</tr>
<tr>
<td>intangible assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In-process</td>
<td>--</td>
<td>(16,267)</td>
<td>(1,750)</td>
<td>(16,267)</td>
</tr>
<tr>
<td>research and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>development</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>$40,847</td>
<td>$39,226</td>
<td>$100,047</td>
<td>$90,140</td>
</tr>
</tbody>
</table>
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include the statements concerning expected cash flows from acquired technology, projections regarding acquired companies, effects of foreign currency hedging, adequacy of the Company’s cash as well as statements including the words “projects,” “expects,” “believes,” “anticipates” or similar expressions. Actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including those set forth under “Factors That May Affect Future Results.”

Results of Operations

Business Combinations. During the first quarter of fiscal 2000, the Company acquired Leda, for a purchase price of $7.7 million, including cash payments of $7.5 million. The purchase price of the transaction was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the acquisition. Amounts allocated to developed technology, workforce and goodwill are being amortized on a straight-line basis over a five-year period. Approximately $1.8 million 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.

Revenue. Revenue for the second quarter of fiscal 2000 increased 7.7% to $204.9 million from $190.2 million in the second quarter of fiscal 1999. Revenue for the first half of fiscal 2000 increased 13.9% to $421.7 million from $370.4 million for the comparable period in fiscal 1999. The increase in product revenue for both periods was primarily attributable to increased sales of physical synthesis, verilog simulation, and intellectual property (IP) products. The percentage of the Company’s total revenue attributed to products decreased slightly to 60.1% for the second quarter of fiscal 2000 compared to 61.4% for the second quarter of fiscal 1999. Product revenue as a percentage of total revenue for the first half of fiscal 2000 was 60.1%, compared to 61.2% for the comparable period in fiscal 1999.

International revenue as a percentage of total revenue increased to 43.7% in the second quarter of fiscal 2000 from 41.3% in the second quarter of fiscal 1999. This increase is primarily a result of relatively greater revenue growth in Europe than North America in the second quarter of fiscal 2000. For the first half of fiscal 2000, international revenue was 40.3% of total revenue, compared to 38.4% for the comparable period in fiscal 1999. This increase is primarily attributable to revenue growth in Europe and Asia Pacific.

Cost of Revenue. Cost of revenue as a percentage of total revenue increased slightly to 14.6% in the second quarter of fiscal 2000 from 13.0% for the comparable period in fiscal 1999. For the first half of fiscal 2000, cost of revenue as a percentage of total revenue was 13.9% compared to 12.5% for the comparable period in fiscal 1999. The increase in both periods presented is primarily a result of higher royalty expense and increased product support costs associated with our service business. Cost of revenue includes personnel and related costs, production costs, product packaging, documentation, amortization of capitalized software development and purchased software costs, and costs of the Company’s system products.

Research and Development. Research and development expenses as a percentage of total revenue increased to 22.4% in the second quarter of fiscal 2000 from 20.6% in the second quarter of fiscal 1999, and increased in absolute dollars to $46.0 million from $39.2 million. Research and development expenses were $90.2 million for the first half of fiscal 2000 in absolute dollars, compared to $80.1 million for the comparable period in fiscal 1999. As a percentage of total revenue, research and development decreased to 21.4% in the first half of fiscal 2000 compared to 21.6% for the comparable period in fiscal 1999. The increase in absolute dollars for all periods presented was primarily attributable to increases in personnel and personnel-related costs, and consulting expenses.

Sales and Marketing. Sales and marketing expenses as a percentage of total revenue increased to 34.4% in the second quarter of fiscal 2000 from 30.7% in the second quarter of fiscal 1999, and increased in absolute dollars to $70.4 million from $58.5 million. The increase in absolute dollars was primarily the result of additional spending in advertising, trade shows and hiring personnel to help expedite the company’s efforts to market and sell its Physical Synthesis products. Sales and marketing expenses were 32.6% of total revenue for
the first half of fiscal 2000, compared to 30.8% for the comparable period in fiscal 1999. In absolute dollars, sales and marketing expenses were $137.4 million for the first half of fiscal 2000, compared to $114.1 million for the comparable period in fiscal 1999. The increase, as a percentage of total revenue and absolute dollars, was primarily due to increases in personnel-related costs.

General and Administrative. General and administrative expenses as a percentage of total revenue increased to 6.9% in the second quarter of fiscal 2000 from 5.7% in the second quarter of fiscal 1999, and increased in absolute dollars to $14.0 million from $10.9 million. General and administrative expenses were 6.2% of total revenue for the first half of fiscal 2000, compared to 5.9% for the comparable period in fiscal 1999 and increased in absolute dollars to $26.3 million from $22.0 million. The increase, as a percentage of total revenue and in absolute dollars for all periods presented, was primarily due to increases in bad debt expense, personnel costs, facility expenditures and patent and proxy services.

Amortization of Intangible Assets. Amortization of intangible assets represents the excess of the aggregate purchase price over the fair value of the tangible and identifiable intangible assets acquired by the Company. Under the Company's accounting policies, intangible assets as of April 30, 2000, including goodwill, are being amortized over the estimated useful life of four to five-year periods. The Company assesses the recoverability of goodwill by determining whether the amortized asset over its useful life may be recovered through estimated useful cash flows. Amortization of intangible assets charged to operations in the second quarter of fiscal 2000 was $3.7 million and for the first half of fiscal 2000 was $7.2 million. Amortization of intangible assets for both the second quarter and first half of fiscal 1999 was $1.5 million.

In-process Research and Development. The Company incurred in-process research and development charges of $1.8 million in the first six months of fiscal 2000 related to the acquisition of Leda. The purchase price totaled $7.7 million, including cash payments of $7.5 million. The purchase price of the transaction was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the acquisition. Amounts allocated to developed technology, workforce and goodwill are being amortized on a straight-line basis over a five-year period. Approximately $1.8 million 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 in-process research and development projects were estimated to be approximately 71% complete in the aggregate, and the expected aggregate cost to complete the projects was estimated at $0.6 million. During the valuation process, core developed technology was identified in addition to the in-process research and development projects. The core developed technology was valued separately using a discount rate of 20% and is being amortized over its estimated useful life. The fair value of the in-process technology was based on a discounted cash flow model, similar to the traditional "Income Approach", which discounts expected future cash flows to present value, net of tax. In discounting the estimated cash flows, a discount rate of 30% was used, based on the risks associated with achieving such projected cash flows upon successful completion of the acquired projects, expected incremental revenues and expenses associated with the projects utilizing the acquired technology, and risks and uncertainties in incorporating the acquired technology into the Company's development projects. In developing cash flow projections, revenues were forecasted based on relevant factors, including aggregate revenue growth rates for the business as a whole, characteristics of the potential market for the technology and the anticipated life of the technology. Projected annual revenues for the in-process research and development projects were assumed to ramp up initially and decline significantly at the end of the in-process technology's economic life. Operating expenses and resulting profit margins were forecasted based on the characteristics and cash flow generating potential of the acquired in-process technology. Gross profit percentage and tax rate were assumed to approximate the Company's corporate gross profit percentage average and its effective tax rate. Associated risks include the inherent difficulties and uncertainties in completing each project and thereby achieving technological feasibility, and risks related to the impact of potential changes in market conditions and technology.

As of April 30, 2000, the Company's research and development expenditures since the acquisition of Leda in fiscal 2000 have not differed materially from expectations. The projections the Company used in performing its valuations with respect to each acquisition are still valid, in all material respects; however, there can be no assurance that the projected results will be achieved. With respect to the Company's acquisitions completed in fiscal 1999, management believes that the projections the Company used in performing its valuations with respect to each acquisition are still valid, in all material respects, however, there can be no assurance that the projected results will be achieved. Management expects to continue the development of each project and
believes that there is a reasonable chance of successfully completing such development efforts. However, there
is risk associated with the completion of the in-process projects and there can be no assurance that any project
will meet with either technological or commercial success. Failure to successfully develop and commercialize
these in-process projects would result in the loss of the expected economic return inherent in the fair value
allocation. Additionally, the value of other intangible assets acquired may become impaired. The risks
associated with the research and development are still considered high and no assurance can be made that
upcoming products will meet market expectations.

**Other Income, net.** Other income, net for the second quarter of fiscal 2000 remained flat at
$9.7 million in comparison to the second quarter of fiscal 1999 and decreased as a percentage of total revenue to
4.7% from 5.1%. For the first half of fiscal 2000, other income, net was $18.6 million, compared to
$18.2 million for the comparable period in fiscal 1999. Other income, net decreased as a percentage of total
revenue to 4.4% in the second quarter of fiscal 2000 from 4.9% in the second quarter of fiscal 1999. The
increase in absolute dollars was primarily due to higher interest income for the fiscal 2000 periods presented
compared to fiscal 1999 periods.

**Interest Rate Risk.** The Company’s exposure to market risk for changes in interest rates relate primarily to its
investment portfolio. The Company does not use derivative financial instruments for speculative or trading
purposes with respect to its cash and short-term investments. The Company places its investments in a mix of
tax exempt and taxable instruments that meet high credit quality standards, as specified in the Company’s
investment policy. The policy also limits the amount of credit exposure to any one issue, issuer and type of
instrument. The Company does not anticipate any material loss with respect to its investment portfolio.

The following table presents the carrying value and related weighted-average interest rates for the
Company’s investment portfolio. The carrying value approximates fair value at April 30, 2000. In accordance
with the Company’s investment policy, all investments mature in fifteen months or less.

<table>
<thead>
<tr>
<th>Principal (Notional) Amounts in U.S. Dollars:</th>
<th>Carrying Amount</th>
<th>Average Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash equivalents– fixed rate</strong></td>
<td>$31,997</td>
<td>4.08%</td>
</tr>
<tr>
<td><strong>Short-term investments – fixed rate</strong></td>
<td>$466,101</td>
<td>4.22%</td>
</tr>
<tr>
<td><strong>Total investment securities</strong></td>
<td>$498,098</td>
<td>4.21%</td>
</tr>
<tr>
<td><strong>Money market funds – variable rate</strong></td>
<td>$21,507</td>
<td>4.72%</td>
</tr>
<tr>
<td><strong>Total interest bearing instruments</strong></td>
<td>$519,605</td>
<td>4.23%</td>
</tr>
</tbody>
</table>

**Foreign Currency Risk.** At the present time, the Company hedges only those currency exposures associated
with certain assets and liabilities denominated in nonfunctional currencies and does not generally hedge
anticipated foreign currency cash flows. Hedging activities are undertaken by the Company and are intended to
offset the impact of currency fluctuations on these balances. The success of this activity depends upon
estimations of intercompany balances denominated in various currencies, primarily the Japanese yen and the
Euro. The Company had contracts for the sale and purchase of foreign currencies with a notional value
expressed in U.S. dollars of $66.5 million. These contracts were denominated in currencies that approximated
the fair value of such contracts and their underlying transactions as of April 30, 2000. There can be no
assurance in the future that these hedging transactions will be effective.

The following table provides information about the Company’s foreign exchange forward contracts at
April 30, 2000. Due to the short-term nature of these contracts, the contract rate approximates the
weighted-average contractual foreign currency exchange rate and the amount in U.S. dollars approximates the
fair value of the contract at April 30, 2000. These forward contracts mature in approximately thirty days.
Short-Term Forward Contracts to Sell and Buy Foreign Currencies in U.S. Dollars Related to Intercompany Balances:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japanese yen</td>
<td>$42,808</td>
<td>105.12</td>
</tr>
<tr>
<td>Euro</td>
<td>23,712</td>
<td>0.91</td>
</tr>
</tbody>
</table>

The unrealized gains/losses on the outstanding forward contracts at April 30, 2000 are expected to be substantially offset by the effect of the changes on the underlying transactions. The realized gains/losses on these contracts as they matured were not material to the Company’s consolidated financial position, results of operations, or cash flows for the periods presented.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments were $616.7 million, a decrease of $92.7 million from October 31, 1999. The decrease is primarily a result of cash outflows for investing and financing activities, mainly repurchase of treasury stock of $182.9 million, capital expenditures of $27.4 million, purchases of long-term investments of $8.0 million and cash paid on debt obligations of $7.2 million. These outflows were partially offset by cash generated by operations of $92.7 million and through investing and financing activities, mainly the exercise of stock options and purchases of stock through the employee stock purchase plan of $39.2 million and proceeds from the sale of long-term investments of $8.6 million.

Accounts receivable increased 23% from $130.3 million at October 31, 1999 to $160.4 million at April 30, 2000. Days sales outstanding in receivables increased to 70 days as of April 30, 2000 from 65 days at January 31, 2000.

At April 30, 2000, the Company had two foreign exchange lines of credit available totaling $120.0 million which expire in July 2000 and October 2000.

The Company’s management believes that its current cash, cash equivalents, short-term investments, lines of credit, and cash generated from operations will satisfy its expected working capital and capital expenditure requirements for at least the next twelve months.

Year 2000 Readiness

The failure of a computer program to accurately recognize and process date information beginning on January 1, 2000 is referred to as a “Year 2000 problem.” The Company completed its project to address potential Year 2000 problems as scheduled. As a result, the possibility of significant interruptions of normal operations has been reduced. As of April 29, 2000, to the Company’s knowledge, the Company’s products and computing and communications infrastructure systems have not experienced significant Year 2000 problems. The Company is not aware that any of its major vendors or service providers have experienced significant Year 2000 problems. Accordingly, the Company believes its critical internal systems will not be subject to Year 2000 problems. However, there is no guarantee that the Company has discovered all possible failure points. Specific factors contributing to this uncertainty include failure to identify all systems that might be affected by Year 2000 problems and lack of certainty as to the Year 2000 compliance status of third parties whose systems or operations could affect the Company. Year 2000 contingency plans are complete.

European Monetary Unit

Synopsys sales to European customers are primarily U.S. dollar based. However, we recognize the potential importance of the newly introduced European Monetary Unit (EMU) to our customers residing in the European union and have selected the Euro as the functional currency for our European treasury center. Our information systems are capable of functioning in multiple currencies.
Factors That May Affect Future Results

Our Revenue and Earnings May Fluctuate. Many factors affect our revenue and earnings, and as a result revenue and earnings may fluctuate. Among these factors are customer product and service demand, product license terms, and the timing of revenue recognition on products and services sold. The following specific factors could affect our revenues and earnings in a particular quarter or over several quarterly or annual periods:

- Our orders have been seasonal. Historically, our first fiscal quarter has been our weakest, with a book-to-bill ratio less than 1. The recent change in our fiscal year (see note 1 in accompanying notes to consolidated financial statements) may affect the seasonal pattern of our revenues.

- Our products are complex, and before buying them customers spend a great deal of time reviewing and testing them. Our customers’ evaluation and purchase cycles do not necessarily match our quarterly periods, and if by the end of any quarter we have not sold enough new licenses, our orders and revenues could be below our plan. Like many companies in the software industry, in the past we have received a disproportionate volume of orders in the last week of a quarter, and recognized a disproportionate amount of revenue in the last week of a quarter. In addition, a large proportion of our business is attributable to our largest customers. As a result, if any order, and especially a large order, is delayed beyond the end of a fiscal period, our orders and revenue for that period could be below our plan.

- In November 1999, we introduced, and in May 2000, we released for general sale, Physical Compiler, a new product that is intended to address the design challenges of the most advanced ICs. We expect that Physical Compiler will generally be sold as an upgrade to Design Compiler, our principal logic synthesis product. The market for Physical Compiler is potentially very large, but the introduction of Physical Compiler, like the introduction of any new product, may have a negative effect on demand for existing products, as customers purchasing or evaluating the new product may defer or reduce their purchases of existing products.

- The accounting rules we are required to follow require us to recognize revenue only when certain criteria are met. Orders for software support and professional services yield revenue over multiple quarters (often extending beyond the current fiscal year) or upon completion of performance rather than at the time of sale. The specific terms agreed to with a customer may have the effect of requiring deferral of product revenue in whole or in part or, alternatively, of requiring us to accelerate the recognition of such revenue for products to be used over multiple years. As a result, for a given quarter it is possible for us to fall short in our revenue and/or earnings plan even while orders and backlog remain on plan or, conversely, to meet our revenue and/or earnings plan even though orders are under plan, because of revenue produced by backlog and deferred revenue.

- Our product license mix is changing. Over the past two quarters, the proportion of product revenues derived from perpetual licenses has declined from 55% to 23%, and the proportion of product revenues derived from shorter term time-based or term-licenses has increased from 45% to 77%. Time-based and term licenses generally have terms of three years. Consistent with current revenue recognition rules, product revenue from these licenses is recognized in the quarter of booking and support revenue is recognized ratably over the term of the license. These shorter term licenses represent a potential source of renewable license revenue; although there is also a risk that customers will not renew their licenses at the end of the term. In addition, since a short term license generally costs less than a perpetual license, there is a risk that customers who purchase such licenses may spend less in the aggregate, over the term of the license, than if they had been required to purchase perpetual licenses. Our short term licenses are not subscription licenses, however, and with minor exceptions customers cannot license new products developed or acquired during the term of their original license without making an additional purchase.

Our Industry is Highly Competitive. The EDA industry is highly competitive. Synopsys’ competitors continue to offer aggressive discounts on their products, in particular on synthesis and simulation products, and
there is significant price competition. As a result, in some cases the sales cycle has lengthened, as customers evaluate the lower priced products, and in other cases we have lowered prices in order to secure a sale.

We compete against other EDA vendors, and with customers’ internally developed design tools and internal design capabilities, for a share of the overall EDA budgets of our potential customers. In general, competition is based on product quality and features, post-sale support, price and, as discussed below, the ability to offer a complete design flow. Our competitors include companies that offer a broad range of products and services, such as Cadence, Mentor and Avant!, as well as companies, including numerous start-up companies, that offer products focused on a discrete phase of the integrated circuit design process.

In order to compete successfully, we must continue to enhance our products and bring to market new products that address the needs of our customers. We also will have to expand our consulting services business. The failure to enhance existing products, develop and/or acquire new products or expand our ability to offer consulting services could have a material adverse effect on our business, financial condition and results of operations. Moreover, there is no guarantee that the expenditures required in connection with these activities will yield additional revenues.

Technology advances and customer requirements are fueling a change in the nature of competition among EDA vendors. Increasingly, EDA companies compete on the basis of “design flows” involving integrated logic and physical design tools rather than on the basis of individual “point” tools performing a discrete phase of the design process. The need to offer products linking logic and physical design will become increasingly important as IC complexity increases, chip production moves increasingly to 0.18 micron and below, and system-on-a-chip designs become more prevalent. We offer a wide range of logic design tools but have only recently introduced our first physical design tools. We are working on completing our design flow, although there is no assurance that we will be able to do so. The market for physical design tools is dominated by Cadence and Avant! Both companies have acquired logic synthesis technology and are offering products linking synthesis to their physical design products. If we are unsuccessful in developing a complete design flow on a timely basis or in convincing customers to adopt our physical design products and methodology, our competitive position could be significantly weakened.

Another area of potential competition is the internet. A number of start-ups and established companies, including Synopsys, have begun to make EDA software available via the internet or through other remote methods. The degree to which Synopsys’ competitors will succeed and their effects on our business cannot be predicted.

Our Revenue Growth Depends on New Physical Synthesis and Non-Synthesis Products. Historically, much of our growth and a significant portion of our revenue has been attributable to the strength of Design Compiler and our related traditional logic synthesis products. Opportunities for growth in market share in this area are limited, and revenues from our traditional synthesis products are expected to grow more slowly than our target for overall revenue growth. In order to meet our revenue plan, revenue from our new physical synthesis products (Physical Compiler, Chip Architect and FlexRoute), non-synthesis design creation products, certain high level verification products, deep submicron products and professional services must grow faster than our overall revenue growth target. If revenue growth for these products fails to meet our goals, it is unlikely that we will meet our overall revenue growth target.

In order to sustain revenue growth over the long term, we will have to introduce new products that are accepted by a broad range of customers and to significantly expand our consulting services business. Product success is difficult to predict. The introduction of new products and growth of a market for such products cannot be assured. In the past we, like all companies, have had products that have failed to meet our revenue expectations. Expanding revenue from consulting services will require us to recruit, hire and train a large number of skilled employees, and to implement management controls on bidding and executing on consulting engagements. The consulting business is significantly different from the software business, however, and expanding consulting orders and revenue while achieving an adequate level of profit can be difficult. There can be no assurance that we will be successful in expanding revenue from existing or new products at the desired rate or in expanding our services business, and the failure to do so would have a material adverse effect on our business, financial condition and results of operations.
Businesses We Acquire May Not Perform as Projected. We have acquired or merged with a number of companies in recent years including EPIC Design Technology, Inc., Viewlogic, Systems Science, Inc., Everest, Gambit, Smartech, Stanza, Apteq and Leda, and as part of our efforts to increase revenue and expand our product and services offerings we may acquire additional companies. In addition to direct costs, acquisitions pose a number of risks, including potential dilution of earnings per share, delays and other problems of integrating the acquired products and employees into our business, the failure to realize expected synergies or cost savings, the failure of acquired products to achieve projected sales, the drain on management time for acquisition-related activities, possible adverse effects on customer buying patterns due to uncertainties resulting from an acquisition, and assumption of unknown liabilities. While we attempt to review proposed acquisitions carefully and negotiate terms that are favorable to Synopsys, there is no assurance that any individual acquisition will have the projected effect on our performance.

Our Business Depends on the Semiconductor and Electronics Businesses. Our business has benefited from the rapid worldwide growth of the semiconductor industry. Demand for our products is largely dependent upon the commencement of new design projects by semiconductor manufacturers and their customers and the increasing complexity of designs. Demand for EDA products may also be affected by mergers in the semiconductor and systems industries, which may reduce the aggregate level of purchases of our products and services by the combined companies. Faltering growth in the semiconductor and systems industries, a reduced number of design starts, shifts in the types of integrated circuits manufactured, tightening of customers’ operating budgets or consolidation among our customers could have a material adverse effect on our business, financial condition and results of operations.

Continued Stagnation of International Economies Could Adversely Affect Our Performance. A significant portion of our revenue is derived from outside the United States, and thus there is a risk that our revenue and earnings could be reduced as a result of changes in foreign currency exchange rates, regional or worldwide economic weakness or political instability. Revenue from Japan and Asia Pacific have been adversely affected over the past two years by weakness of the Japanese economy and the Asian currency crisis and subsequent economic stagnation. In the current and future quarters:

- If the Japanese economy remains weak, revenue from Japan and the rest of Asia could be adversely affected. In addition, weakness or significant fluctuations in the value of the yen could adversely affect revenue from Japan.

- Our revenue from Korea will depend on continued recovery from that country’s economic crisis. Although Korea’s economy generally appears to be recovering, this has not yet resulted in the resumption of significant purchases by large Korean customers. In addition, two of our four largest Korean customers recently merged, which may result in a lower level of orders from the combined company than we might have received if the two companies remained separate.

- The recent decline in the value of the Euro versus the dollar may negatively affect our European customers and thus our revenue from Europe.

Our Success Depends on Recruiting and Retaining Key Personnel. Our success is dependent on technical and other contributions of key employees. We participate in a dynamic industry, with significant start-up activity, and our headquarters is in Silicon Valley, where skilled technical, sales and management employees are in high demand. There are a limited number of qualified EDA engineers, and the competition for such individuals is intense. Experience at Synopsys is highly valued in the EDA industry, and our employees are recruited aggressively by our competitors and by start-up companies, including those in internet-related businesses. Our salaries are competitive in the market, but under certain circumstances, start-up companies can offer more attractive stock option packages. As a result, we have experienced, and may continue to experience, significant employee turnover. There can be no assurance that we will continue to recruit and retain highly qualified technical and managerial personnel. Failure to successfully recruit and retain such personnel could have a material adverse effect on our business, financial condition and results of operations.

Dependence on Proprietary Technology. Our success is dependent, in part, upon our proprietary technology and other intellectual property rights. There can be no assurance that our competitors will not independently develop or acquire similar techniques or gain access to our proprietary technology or that we can protect our
rights to our technology. We rely on confidentiality agreements with collaborators, employees, vendors and consultants to protect our proprietary technology. There can be no assurance that these agreements will not be breached, that we would have adequate remedies for any breach or that our trade secrets will not otherwise become known or be independently developed by competitors. Failure to obtain or maintain patent or trade secret protection, for any reason, could have a material adverse effect on our business, financial condition and results of operations.

*Fixed Operating Expenses.* We expect to continue to increase operating expenses in order to generate and support continued growth in revenue. If we were unsuccessful in generating such revenue, our business, financial condition and results of operations could be materially adversely affected. Net income in a given quarter or fiscal year may be disproportionately affected by a reduction in revenue growth because only a small portion of our expenses varies with revenue.

*Anti-Takeover Provisions.* We have adopted a number of provisions that could have anti-takeover effects. The Board of Directors has adopted a Preferred Shares Rights Plan, commonly referred to as a “poison pill.” In addition, the Board of Directors has the authority, without further action by its stockholders, to issue additional shares of Common Stock and to fix the rights and preferences of, and to issue authorized but undesignated shares of Preferred Stock. These and other provisions of Synopsys’ 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 Synopsys, including transactions in which the stockholders of the Company might otherwise receive a premium for their shares over then current market prices.
Item 3. Quantitative and Qualitative Disclosure About Market Risk

Information relating to quantitative and qualitative disclosure about market risk is set forth under the captions “Interest Rate Risk” and “Foreign Currency Risk” in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations. Such information is incorporated herein by reference.
PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

On March 3, 2000, the Annual Meeting of Stockholders of Synopsys, Inc. was held in Mountain View, California. Six matters were submitted to the stockholders for action or approval.

1. The stockholders elected nine directors to hold office for a one-year term or until their respective successors are elected. The votes for these directors are set forth below.

<table>
<thead>
<tr>
<th>Director</th>
<th>Total Vote For Each Director</th>
<th>Total Vote Withheld From Each Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aart J. de Geus</td>
<td>53,912,026</td>
<td>9,412,748</td>
</tr>
<tr>
<td>Andy D. Bryant</td>
<td>53,912,610</td>
<td>9,412,164</td>
</tr>
<tr>
<td>Chi-Foon Chan</td>
<td>53,915,601</td>
<td>9,409,173</td>
</tr>
<tr>
<td>Deborah A. Coleman</td>
<td>53,902,136</td>
<td>9,422,638</td>
</tr>
<tr>
<td>Harvey C. Jones, Jr.</td>
<td>53,908,377</td>
<td>9,416,397</td>
</tr>
<tr>
<td>William W. Lattin</td>
<td>53,913,692</td>
<td>9,411,082</td>
</tr>
<tr>
<td>A. Richard Newton</td>
<td>53,910,348</td>
<td>9,414,426</td>
</tr>
<tr>
<td>Sasson Somekh</td>
<td>53,912,640</td>
<td>9,412,134</td>
</tr>
<tr>
<td>Steven C. Walske</td>
<td>53,912,965</td>
<td>9,411,809</td>
</tr>
</tbody>
</table>

2. The stockholders approved an amendment to the Company’s Amended and Restated Certificate of Incorporation to increase the number of shares of Common Stock that the Company is authorized to issue from 200,000,000 to 400,000,000 shares.

<table>
<thead>
<tr>
<th></th>
<th>For</th>
<th>Against</th>
<th>Abstain</th>
<th>Non-Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>49,356,997</td>
<td>13,935,793</td>
<td>31,936</td>
<td>48</td>
</tr>
</tbody>
</table>

3. The stockholders approved an amendment to the Company’s Employee Stock Purchase Plan and International Employee Stock Purchase Plan to increase the number of shares of Common Stock reserved for issuance thereunder by 1,200,000 shares.

<table>
<thead>
<tr>
<th></th>
<th>For</th>
<th>Against</th>
<th>Abstain</th>
<th>Non-Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>46,716,263</td>
<td>10,454,170</td>
<td>66,522</td>
<td>6,087,819</td>
</tr>
</tbody>
</table>

4. The stockholders approved an amendment to the Company’s 1992 Stock Option Plan (the “1992 Plan”) to change the limit on the number of options and/or stock appreciation rights that may be granted to any one individual from 1,000,000 during the term of the 1992 Plan to 750,000 annually, except in the case of an individual’s initial employment with the Company, in which case the individual may be granted an additional 250,000 options and/or stock appreciation rights.

<table>
<thead>
<tr>
<th></th>
<th>For</th>
<th>Against</th>
<th>Abstain</th>
<th>Non-Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>28,892,715</td>
<td>28,116,129</td>
<td>228,103</td>
<td>6,087,827</td>
</tr>
</tbody>
</table>

5. The stockholders voted upon but did not approve an amendment to the 1992 Plan that would have (i) increased the number of shares of Common Stock authorized for issuance thereunder by 1,000,000 shares per year on the dates of the 2000, 2001 and 2002 Annual Meetings of Stockholders and (ii) extended the term of the 1992 Plan from January 2002 until January 2007.

<table>
<thead>
<tr>
<th></th>
<th>For</th>
<th>Against</th>
<th>Abstain</th>
<th>Non-Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22,432,393</td>
<td>34,583,095</td>
<td>221,459</td>
<td>6,087,827</td>
</tr>
</tbody>
</table>
6. The stockholders approved a proposal to ratify the appointment of KPMG LLP as the Company’s independent auditors for the fiscal year ending October 28, 2000.

<table>
<thead>
<tr>
<th></th>
<th>For</th>
<th>Against</th>
<th>Abstain</th>
<th>Non-Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>56,756,765</td>
<td>6,513,569</td>
<td>54,440</td>
<td>0</td>
</tr>
</tbody>
</table>
Item 6. Exhibits and Reports on Form 8-K

(a.) Exhibits

3.1 Certificate of Amendment of Fourth Amended and Restated Certificate of Incorporation

10.1 1992 Stock Option Plan, as amended through March 3, 2000

10.2 Employee Stock Purchase Plan, as amended through March 8, 2000*

10.3 International Employee Stock Purchase Plan, as amended through March 8, 2000*

10.4 Schedule of Executive Employment Agreements

27.1 Financial Data Schedule

* Incorporated by reference from exhibit to the Company’s Registration Statement on Form S-8 (File No. 333-38810) as filed with the Securities and Exchange Commission on June 8, 2000.

(b.) Reports on Form 8-k

The Company filed a report on Form 8-K on February 18, 2000 announcing its financial results for the quarter ended January 29, 2000 and a stock repurchase program.

The Company filed a report on Form 8-K on May 19, 2000 announcing its financial results for the quarter-end and six months ended April 29, 2000.
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYNOPSYS, INC.

By: /s/ Richard Rowley
Richard Rowley
Vice President and Controller
(Principal Accounting Officer)

Date: June 13, 2000
SYNOPSYS, INC., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “Corporation”), DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of the Corporation approved a resolution by unanimous written consent to amend Article IV.A of the Fourth Amended and Restated Certificate of Incorporation of the Corporation to read in its entirety as follows:

“A. Classes of Stock. This Corporation is authorized to issue two classes of stock to be designated, respectively, as “Common Stock” and “Preferred Stock.” The total number of shares that the Corporation is authorized to issue is Four Hundred Two Million (402,000,000), par value of one cent ($.01) per share. Four Hundred Million (400,000,000) shares shall be Common Stock and Two Million (2,000,000) shares shall be Preferred Stock.”

SECOND: The Annual Meeting of Stockholders of the Corporation was duly called and held on March 3, 2000 in accordance with Section 222 of the General Corporation law of the State of Delaware at which meeting a majority of the outstanding shares of the Corporation were voted in favor of the proposed amendment.

THIRD: That said amendment was duly adopted by the Board of Directors and stockholders of the Corporation in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed on its behalf by the undersigned duly authorized officer of the Corporation on this 13th day of March, 2000.

/s/ Roger Klein
Roger Klein
Assistant Secretary
ARTICLE ONE
GENERAL

I. PURPOSE OF THE PLAN

A. This 1992 Stock Option Plan (“Plan”) is intended to promote the interests of Synopsys, Inc., a Delaware corporation (the “Corporation”), by providing (i) key employees (including officers and directors) of the Corporation (or its parent or subsidiary corporations) who are responsible for the management, growth and financial success of the Corporation (or its parent or subsidiary corporations) and (ii) consultants and other independent advisors who provide valuable services to the Corporation (or its parent or subsidiary corporations) with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to remain in the service of the Corporation (or its parent or subsidiary corporations).

B. The Plan shall become effective on the first date on which the shares of the Corporation’s common stock are registered under Section 12(g) of the Securities Exchange Act of 1934, as amended (the “1934 Act”). Such date is hereby designated as the Effective Date of the Plan.

C. This Plan shall serve as the successor to the Corporation’s 1988 Restricted Stock Plan (the “1988 Plan”), and no further option grants shall be made under the 1988 Plan from and after the Effective Date of this Plan. All options outstanding under the 1988 Plan on such Effective Date are hereby incorporated into this Plan and shall accordingly be treated as outstanding options under this Plan. However, each outstanding option so incorporated shall continue to be governed solely by the express terms and conditions of the instrument evidencing such grant, and no provision of this Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such incorporated options with respect to their acquisition of shares of the Corporation’s common stock thereunder. All outstanding unvested share issuances under the 1988 Plan shall continue to be governed solely by the express terms and conditions of the instruments evidencing such issuances, and no provision of this Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such unvested shares.

D. For purposes of the Plan, the following provisions shall be applicable in determining the parent and subsidiary corporations of the Corporation:

Any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation shall be considered to be a parent of the Corporation, provided each such corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Each corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation shall be considered to be a subsidiary of the Corporation, provided each such corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.
II. ADMINISTRATION OF THE PLAN

A. Administrator. The Plan shall be administered by the Board of Directors or a committee that will satisfy Rule 16b-3 of the Securities and Exchange Commission and Section 162(m) of the Internal Revenue Code, as in effect with respect to the Company from time to time (in either case, the “Administrator”). In connection with the administration of the Plan, the Administrator shall have the powers possessed by the Board. The Administrator may act only by a majority of its members, except that the Administrator may authorize any one or more of its members or any officer of the Company to execute and deliver documents on behalf of the Administrator. For so long as not otherwise required for the Plan to comply with Rule 16b-3, the Administrator or the Board may delegate to one or more directors of the Company authority to grant stock options to persons who are not subject to Section 16 of the Exchange Act, and may delegate administrative duties to such director(s) and such employees of the Company as it deems proper. The Board at any time may terminate the authority delegated to any committee of the Board pursuant to this Section III(a) and revest in the Board the administration of the Plan.

B. Authority. The Administrator shall grant options and authorize stock issuances (in either case an “Award”) to selected eligible employees and consultants. In particular and without limitation, the Administrator, subject to the terms of the Plan, shall:

(i) select the officers, other employees, and consultants to whom Awards may be granted;

(ii) determine whether and to what extent Awards are to be granted under the Plan;

(iii) determine the number of shares to be covered by each Award granted under the Plan; and

(iv) determine the terms and conditions of any Award granted under the Plan and any related loans to be made by the Company, based upon factors determined by the Administrator.

C. Administrator Determinations Binding. The Administrator may adopt, alter and repeal administrative rules, guidelines and practices governing the Plan as it from time to time shall deem advisable, may interpret the terms and provisions of the Plan, any Award and any Award agreement and may otherwise supervise the administration of the Plan. Any determination made by the Administrator pursuant to the provisions of the Plan with respect to any Award shall be made in its sole discretion at the time of the grant of the Award or, unless in contravention of any express term of the Plan or Award, at any later time. All decisions made by the Administrator under the Plan shall be binding on all persons, including the Company and Plan participants. No member of the Administrator shall be liable for any action that he or she has in good faith taken or failed to take with respect to this Plan or any Award.

III. ELIGIBILITY

A. The persons eligible to receive option grants (“Optionee”) are as follows:

(i) officers and other key employees of the Corporation (or its parent or subsidiary corporations) who render services which contribute to the management, growth and financial success of the Corporation (or its parent or subsidiary corporations);

(ii) those consultants or other independent advisors who provide valuable services to the Corporation (or its parent or subsidiary corporations).

B. Non-employee members of the Board shall not be eligible to participate in the Plan or in any other stock option, stock purchase, stock bonus or other stock plan of the Corporation (or its parent or subsidiary corporations), other than the 1994 Non-Employee Directors Stock Option Plan.
IV. STOCK SUBJECT TO THE PLAN

A. Shares of the Corporation’s common stock (the “Common Stock”) shall be available for issuance under the Plan and shall be drawn from either the Corporation’s authorized but unissued shares of Common Stock or from reacquired shares of Common Stock, including shares repurchased by the Corporation on the open market. The maximum number of shares of Common Stock which may be issued over the term of the Plan shall not exceed the sum of (i) 17,767,142 shares plus (ii) an additional number of shares equal to 5% of the number of shares of Common Stock and Common Stock equivalents outstanding on the first day of each of the 1997, 1998 and 1999 fiscal years. Such authorized share reserve includes the number of shares which remained available for issuance, as of the Effective Date, under the 1988 Plan as last approved by the Corporation’s stockholders prior to such Effective Date, including the shares subject to the outstanding options incorporated into this Plan and any other shares available for future option grant under the 1988 Plan as last approved by the stockholders, and such reserve shall be adjusted from time to time in accordance with the provisions of this Section IV. To the extent one or more outstanding options under the 1988 Plan which have been incorporated into this Plan are subsequently exercised, the number of shares issued with respect to each such option shall reduce, on a share- for-share basis, the number of shares available for issuance under this Plan.

B. In no event may the maximum number of shares which may be issued pursuant to Incentive Options granted under the Plan on or after the first day of the 1995 fiscal year (October 2, 1994) exceed 16,000,000 shares, subject to adjustment from time to time in accordance with the provisions of this Section IV. The maximum number of shares which may be issued pursuant to Incentive Options granted under the Plan prior to the first day of the 1995 fiscal year (October 2, 1994) shall not exceed 11,400,000 shares, subject to adjustment from time to time in accordance with the provisions of this Section IV.

C. In no event may the aggregate number of shares of Common Stock for which any one individual participating in the Plan may be granted stock options and/or separately-exercisable stock appreciation rights during any fiscal year exceed 750,000 shares, except in the case of an individual’s initial employment with the Company, in which case such individual may be granted stock options and/or stock appreciation rights for an additional 250,000 shares, subject to adjustment from time to time in accordance with the provisions of this Section IV. For purposes of such limitation, no stock options or stock appreciation rights granted prior to January 1, 1994 shall be taken into account.

D. Should one or more outstanding options under this Plan (including outstanding options under the 1988 Plan incorporated into this Plan) expire or terminate for any reason prior to exercise in full (including any option cancelled in accordance with the cancellation-regrant provisions of Section IV of Article Two of the Plan), then the shares subject to the portion of each option not so exercised shall be available for subsequent option grant under the Plan. Shares subject to any option or portion thereof surrendered or cancelled in accordance with Section V of Article Two and all shares issuances under the Plan, whether or not the shares are subsequently repurchased by the Corporation pursuant to its repurchase rights under the Plan, shall not be available for subsequent option grant under the Plan. In addition, should the exercise price of an outstanding option under the Plan be paid with shares of Common Stock, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option is exercised, and not by the net number of shares of Common Stock actually issued to the holder of such option.

E. In the event any change is made to the Common Stock issuable under the Plan by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation’s receipt of consideration, appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the maximum number and/or class of securities which may be issued pursuant to Incentive Options granted under the Plan, whether before or after the first day of the 1995 fiscal year, (iii) the total number and/or class of securities for which stock options and separately-exercisable stock appreciation rights may be granted to any one participant in the Plan after December 31, 1993, (iv) the number and/or class of securities and price per share in effect under each outstanding option under the Plan and (v) the number and/or class of securities and price per share in effect under each outstanding option incorporated into this Plan from the 1988 Plan. Such adjustments to the outstanding options are to be effected in a manner which shall preclude the enlargement or dilution of rights and benefits under such options.
The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

F. Common Stock issuable under the Plan may be subject to such restrictions on transfer, repurchase rights or other restrictions determined by the Plan Administrator.

ARTICLE TWO
OPTION GRANTS

I. TERMS AND CONDITIONS OF OPTIONS

Options granted pursuant to the Plan shall be authorized by action of the Plan Administrator and may, at the Plan Administrator’s discretion, be either Incentive Options or non-statutory options. Individuals who are not Employees of the Corporation or its parent or subsidiary corporations may only be granted non-statutory options. Each granted option shall be evidenced by one or more instruments in the form approved by the Plan Administrator; provided, however, that each such instrument shall comply with the terms and conditions specified below. Each instrument evidencing an Incentive Option shall, in addition, be subject to the applicable provisions of Section II of this Article Two.

A. Option Price.

(1) The option price per share shall be fixed by the Plan Administrator. In no event, however, shall it be less than one hundred percent (100%) of the fair market value per share of Common Stock on the date of the option grant.

(2) The option price shall become immediately due upon exercise of the option and, subject to the provisions of Article Three, Section I and the instrument evidencing the grant, shall be payable in one of the following alternative forms specified below:

- full payment in cash or check drawn to the Corporation’s order;
- full payment in shares of Common Stock held for at least six (6) months and valued at fair market value on the Exercise Date (as such term is defined below);
- full payment in a combination of shares of Common Stock held for at least six (6) months and valued at fair market value on the Exercise Date and cash or check; or
- full payment through a broker-dealer sale and remittance procedure pursuant to which the Optionee (I) shall provide irrevocable written instructions to a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate option price payable for the purchased shares plus all applicable Federal and State income and employment taxes required to be withheld by the Corporation in connection with such purchase and (II) shall provide written directives to the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale transaction.

For purposes of this subparagraph (2), the Exercise Date shall be the date on which written notice of the option exercise is delivered to the Corporation. Except to the extent the sale and remittance procedure is utilized in connection with the exercise of the option, payment of the option price for the purchased shares must accompany such notice.

(3) The fair market value per share of Common Stock on any relevant date under the Plan shall be determined in accordance with the following provisions:
- If the Common Stock is not at the time listed or admitted to trading on any national stock exchange but is traded on the Nasdaq National Market, the fair market value shall be the closing selling price per share of Common Stock on the date in question, as such price is reported by the National Association of Securities Dealers on the Nasdaq National Market System or any successor system. If there is no reported closing selling price for the Common Stock on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of fair market value.

- If the Common Stock is at the time listed or admitted to trading on any national stock exchange, then the fair market value shall be the closing selling price per share of Common Stock on the date in question on the stock exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no reported sale of Common Stock on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

B. Term and Exercise of Options. Each option shall be exercisable at such time or times and during such period as is determined by the Plan Administrator and set forth in the stock option agreement evidencing the grant; provided that at least 75% of the options granted hereunder shall become exercisable ratably over a four year period from the date of grant, with the vesting interval (i.e., monthly, quarterly, etc.) and any period prior to the commencement of vesting determined in each case by the Plan Administrator. No such option, however, shall have a maximum term in excess of ten (10) years from the grant date. During the lifetime of the Optionee, the option shall be exercisable only by the Optionee and shall not be assignable or transferable by the Optionee otherwise than by will or by the laws of descent and distribution following the Optionee’s death.

C. Termination of Service.

(1) Except to the extent otherwise provided pursuant to Section VI of this Article Two, the following provisions shall govern the exercise period applicable to any outstanding options under the Plan which are held by the Optionee at the time of his or her cessation of Service or death.

- Should the Optionee cease Service for any reason (including death or permanent disability as defined in Section 22(e)(3) of the Internal Revenue Code) while holding one or more outstanding options under the Plan, then none of those options shall (except to the extent otherwise provided pursuant to Section VI of this Article Two) remain exercisable beyond the limited post-Service period designated by the Plan Administrator at the time of the option grant and set forth in the option agreement.

- Any option granted to an Optionee under the Plan and exercisable in whole or in part on the date of the Optionee’s death may be subsequently exercised, by the personal representative of the Optionee’s estate or by the person or persons to whom the option is transferred pursuant to the Optionee’s will or in accordance with the laws of descent and distribution, provided and only if such exercise occurs prior to the earlier of (i) the expiration of the period designated by the Plan Administrator at the time of the option grant and set forth in the option agreement, which may be any period from one month to three years measured from the date of the Optionee’s death, or (ii) the specified expiration date of the option term. Upon the occurrence of the earlier event, the option shall terminate and cease to be exercisable.

- Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term.

- During the limited post-Service exercise period, the option may not be exercised for more than the number of shares for which the option is exercisable on the date of the Optionee’s cessation of Service. Upon the expiration of such limited exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable. However, upon
the Optionee’s cessation of Service, each outstanding option at the time held by the Optionee shall immediately terminate and cease to be outstanding with respect to any shares for which the option is not otherwise at that time exercisable or in which the Optionee is not otherwise vested.

- Should (i) the Optionee’s Service be terminated for misconduct (including, but not limited to, any act of dishonesty, willful misconduct, fraud or embezzlement) or (ii) the Optionee make any unauthorized use or disclosure of confidential information or trade secrets of the Corporation or its parent or subsidiary corporations, then in any such event all outstanding options held by the Optionee under this Article Two shall terminate immediately and cease to be exercisable.

(2) The Plan Administrator shall have complete discretion, exercisable either at the time the option is granted or at any time while the option remains outstanding, to permit one or more options held by the Optionee under this Article Two to be exercised, during the limited period of exercisability provided under subparagraph (1) above, not only with respect to the number of shares for which each such option is exercisable at the time of the Optionee’s cessation of Service but also with respect to one or more subsequent installments for which the option would otherwise have become exercisable had such cessation of Service not occurred.

(3) For purposes of the foregoing provisions of this Section LC (and for all other purposes under the Plan):

- The Optionee shall (except to the extent otherwise specifically provided in the applicable option agreement) be deemed to remain in the Service of the Corporation for so long as such individual renders services on a periodic basis to the Corporation (or any parent or subsidiary corporation) in the capacity of an Employee, a non-employee member of the Board or an independent consultant or advisor.

- The Optionee shall be considered to be an Employee for so long as he or she remains in the employ of the Corporation or one or more parent or subsidiary corporations, subject to the control and direction of the employer entity not only as to the work to be performed but also as to the manner and method of performance.

D. Stockholder Rights.

An Optionee shall have no stockholder rights with respect to any shares covered by the option until such individual shall have exercised the option, paid the option price for the purchased shares and been issued a stock certificate for such shares.

E. Repurchase Rights.

The shares of Common Stock acquired upon the exercise of options granted under this Article Two may be subject to repurchase by the Corporation in accordance with the following provisions:

(a) The Plan Administrator shall have the discretion to authorize the issuance of unvested shares of Common Stock under this Article Two. Should the Optionee cease Service while holding such unvested shares, the Corporation shall have the right to repurchase any or all of those unvested shares at the option price paid per share. The terms and conditions upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the instrument evidencing such repurchase right.

(b) All of the Corporation’s outstanding repurchase rights shall automatically terminate, and all shares subject to such terminated rights shall immediately vest in full, upon the occurrence of any Corporate Transaction under Section III of this Article Two, except to the extent:

(i) any such repurchase right is to be assigned to the successor corporation (or parent thereof) in connection with the Corporate Transaction or (ii) such termination is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.
(c) The Plan Administrator shall have the discretionary authority, exercisable either before or after the Optionee’s cessation of Service, to cancel the Corporation’s outstanding repurchase rights with respect to one or more shares purchased or purchasable by the Optionee under this Article Two and thereby accelerate the vesting of such shares in whole or in part at any time.

II. INCENTIVE OPTIONS

The terms and conditions specified below shall be applicable to all Incentive Options granted under the Plan. Incentive Options may only be granted to individuals who are Employees of the Corporation. Options which are specifically designated as “non-statutory” options when issued under the Plan shall not be subject to such terms and conditions.

A. Dollar Limitation. The aggregate fair market value (determined as of the respective date or dates of grant) of the Common Stock for which one or more options granted to any Employee after December 31, 1986 under this Plan (or any other option plan of the Corporation or its parent or subsidiary corporations) may for the first time become exercisable as incentive stock options under the Federal tax laws during any one calendar year shall not exceed the sum of One Hundred Thousand Dollars ($100,000). To the extent the Employee holds two or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as incentive stock options under the Federal tax laws shall be applied on the basis of the order in which such options are granted.

B. 10% Stockholder. If any individual to whom an Incentive Option is granted is the owner of stock (as determined under Section 424(d) of the Internal Revenue Code) possessing 10% or more of the total combined voting power of all classes of stock of the Corporation or any one of its parent or subsidiary corporations, then the option price per share shall not be less than one hundred and ten percent (110%) of the fair market value per share of Common Stock on the grant date, and the option term shall not exceed five (5) years, measured from the grant date.

Except as modified by the preceding provisions of this Section II, the provisions of Articles One, Two and Three of the Plan shall apply to all Incentive Options granted hereunder.

III. CORPORATE TRANSACTIONS/CHANGES IN CONTROL

A. In the event of any of the following stockholder-approved transactions to which the Corporation is a party (a “Corporate Transaction”):

(i) a merger or consolidation in which the Corporation is not the surviving entity, except for a transaction the principal purpose of which is to change the State of the Corporation’s incorporation,

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Corporation in liquidation or dissolution of the Corporation, or

(iii) any reverse merger in which the Corporation is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation’s outstanding securities are transferred to holders different from those who held such securities immediately prior to such merger,

then the exercisability of each option outstanding under the Plan shall automatically accelerate so that each such option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for all or any portion of such shares. However, an outstanding option under this Article Two shall not so accelerate if and to the extent: (i) such option is, in connection with the Corporate Transaction, to be assumed by the successor corporation or parent thereof or replaced with a comparable option to purchase shares of the capital stock of the successor corporation or parent thereof, (ii) such option is to be replaced by a
comparable cash incentive program of the successor corporation based on the option spread at the time of the
Corporate Transaction, or (iii) the acceleration of such option is subject to other limitations imposed by the Plan
Administrator at the time of the option grant. The determination of comparability under clause (i) or (ii) above
shall be made by the Plan Administrator, and its determination shall be final, binding and conclusive.

B. Immediately after the consummation of the Corporate Transaction, all outstanding options
under the Plan shall terminate and cease to be outstanding, except to the extent assumed by the successor
corporation or its parent company.

C. Each outstanding option under the Plan which is assumed in connection with the
Corporate Transaction or is otherwise to continue in effect shall be appropriately adjusted, immediately after
such Corporate Transaction, to apply and pertain to the number and class of securities which would have been
issued to the option holder, in consummation of such Corporate Transaction, had such person exercised the
option immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the
option price payable per share, provided the aggregate option price payable for such securities shall remain the
same. In addition, the maximum number and/or class of securities available for issuance under the Plan, the
maximum number and/or class of securities which may be issued pursuant to Incentive Options granted under
the Plan, whether before or after the first day of the 1995 fiscal year, and the total number and/or class of
securities for which stock options and separately-exercisable stock appreciation rights may be granted to any
one participant in the Plan after December 31, 1993 shall be appropriately adjusted following the consummation
of the Corporate Transaction to reflect the effect of such transaction upon the Corporation’s capital structure.

D. The grant of options under the Plan shall in no way affect the right of the Corporation to
adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate,
dissolve, liquidate or sell or transfer all or any part of its business or assets.

E. The Plan Administrator shall have the discretionary authority, exercisable at the time the
option is granted or at any time while the option remains outstanding, to provide for the automatic acceleration
of one or more outstanding options under this Article Two (and the termination of one or more of the
Corporation’s outstanding repurchase rights under this Article Two) upon the occurrence of a Change in
Control. Alternatively, the Plan Administrator shall have full power and authority to condition any such option
acceleration (and the termination of any outstanding repurchase rights) upon the subsequent termination of the
Optionee’s Service within a specified period following the Change in Control.

F. For purposes of this Section III, a Change in Control shall be deemed to occur in the event:

(i) any person or related group of persons (other than the Corporation or a person that directly
or indirectly controls, is controlled by, or is under common control with, the Corporation) directly or indirectly
acquires beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more
than fifty percent (50%) of the total combined voting power of the Corporation’s outstanding securities pursuant
to a tender or exchange offer made directly to the Corporation’s stockholders which the Board does not
recommend such stockholders to accept; or

(ii) there is a change in the composition of the Board over a period of twenty-four (24)
consecutive months or less such that a majority of the Board members ceases, by reason of one or more proxy
contests for the election of Board members, to be comprised of individuals who either (A) have been Board
members continuously since the beginning of such period or (B) have been elected or nominated for election as
Board members during such period by at least a majority of the Board members described in clause (A) who
were still in office at the time such election or nomination was approved by the Board.

G. Any options accelerated in connection with the Change in Control shall remain fully
exercisable until the expiration or sooner termination of the option term.

H. The exercisability as incentive stock options under the Federal tax laws of any options
accelerated under this Section III in connection with a Corporate Transaction or Change in Control shall remain
subject to the dollar limitation of Section II of this Article Two.
IV. [Intentionally Omitted.]

V. STOCK APPRECIATION RIGHTS

A. Provided and only if the Plan Administrator determines in its discretion to implement the stock appreciation right provisions of this Section V, one or more Optionees may be granted the right, exercisable upon such terms and conditions as the Plan Administrator may establish, to surrender all or part of an unexercised option under this Article Two in exchange for a distribution from the Corporation in an amount equal to the excess of (i) the fair market value (on the option surrender date) of the number of shares in which the Optionee is at the time vested under the surrendered option (or surrendered portion thereof) over (ii) the aggregate option price payable for such vested shares.

B. No surrender of an option shall be effective hereunder unless it is approved by the Plan Administrator. If the surrender is so approved, then the distribution to which the Optionee shall accordingly become entitled under this Section V may be made in shares of Common Stock valued at fair market value on the option surrender date, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

C. If the surrender of an option is rejected by the Plan Administrator, then the Optionee shall retain whatever rights the Optionee had under the surrendered option (or surrendered portion thereof) on the option surrender date and may exercise such rights at any time prior to the later of (i) five (5) business days after the receipt of the rejection notice or (ii) the last day on which the option is otherwise exercisable in accordance with the terms of the instrument evidencing such option, but in no event may such rights be exercised more than ten (10) years after the date of the option grant.

D. One or more officers of the Corporation subject to the short-swing profit restrictions of the Federal securities laws may, in the Plan Administrator’s sole discretion, be granted limited stock appreciation rights in tandem with their outstanding options under the Plan. Upon the occurrence of a Hostile Take-Over effected at any time when the Corporation’s outstanding Common Stock is registered under Section 12(g) of the 1934 Act, each outstanding option with such a limited stock appreciation right in effect for at least six (6) months shall automatically be cancelled, to the extent such option is at the time exercisable for fully-vested shares of Common Stock. The Optionee shall in return be entitled to a cash distribution from the Corporation in an amount equal to the excess of (i) the Take-Over Price of the vested shares of Common Stock at the time subject to the cancelled option (or cancelled portion of such option) over (ii) the aggregate exercise price payable for such shares. The cash distribution payable upon such cancellation shall be made within five (5) days following the consummation of the Hostile Take-Over. Neither the approval of the Plan Administrator nor the consent of the Board shall be required in connection with such option cancellation and cash distribution. The uncancelled portion of the option (if any) shall continue to remain outstanding and become exercisable in accordance with the terms of the agreement evidencing that grant.

E. For purposes of Section V.D, the following definitions shall be in effect:

A Hostile Take-Over shall be deemed to occur in the event (i) any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation’s outstanding securities pursuant to a tender or exchange offer made directly to the Corporation’s stockholders which the Board does not recommend such stockholders to accept and (ii) more than fifty percent (50%) of the securities so acquired in such tender or exchange offer are accepted from holders other than Corporation officers and directors participating in the Plan.

The Take-Over Price per share shall be deemed to be equal to the greater of (a) the fair market value per share on the date of cancellation, as determined pursuant to the valuation provisions of Section I.A. (3) of this Article Two, or (b) the highest reported price per share of Common Stock paid in effecting such
Hostile Take-Over. However, if the cancelled option is an Incentive Option, the Take-Over Price shall not exceed the clause (a) price per share.

F. The shares of Common Stock subject to any option surrendered or cancelled for an appreciation distribution pursuant to this Section V shall not be available for subsequent option grant under the Plan.

VI. EXTENSION OF EXERCISE PERIOD

The Plan Administrator shall have full power and authority to extend the period of time for which any option granted under this Article Two is to remain exercisable following the Optionee’s cessation of Service or death from the limited period in effect under Section I.C.(1) of this Article Two to such greater period of time as the Plan Administrator shall deem appropriate; provided, however, that in no event shall such option be exercisable after the specified expiration date of the option term.

ARTICLE THREE
MISCELLANEOUS

I. [Intentionally Omitted.]

II. AMENDMENT OF THE PLAN AND AWARDS

A. The Board has complete and exclusive power and authority to amend or modify the Plan in any or all respects whatsoever. However, no such amendment or modification may adversely affect the rights and obligations of an Optionee with respect to options at the time outstanding under the Plan, unless the Optionee consents to such amendment. In addition, the Board may not, without the approval of the Corporation’s stockholders, amend the Plan to (i) materially increase the maximum number of shares issuable under the Plan, the maximum number of shares issuable pursuant to Incentive Options granted under the Plan on or after the first day of the 1995 fiscal year or the number of shares for which any one individual participating in the Plan may be granted stock options and separately-exercisable stock appreciation rights in the aggregate after December 31, 1993 (except for permissible adjustments under Article One, Section IV) or (ii) materially modify the eligibility requirements for participation in the Plan or the benefits accruing to Optionees under the Plan.

B. Options to purchase shares of Common Stock may be granted in excess of the number of shares then available for issuance under the Plan, provided any excess shares actually issued are held in escrow until stockholder approval is obtained for a sufficient increase in the number of shares available for issuance under the Plan. If such stockholder approval is not obtained within twelve (12) months after the date the first such excess option grants are made, then (I) any unexercised excess options shall terminate and cease to be exercisable and (II) the Corporation shall promptly refund the purchase price paid for any excess shares actually issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow.

III. EFFECTIVE DATE AND TERM OF PLAN


B. Each option issued and outstanding under the 1988 Plan immediately prior to the Effective Date of this Plan shall be incorporated into this Plan and treated as an outstanding option under this Plan, but each such option shall continue to be governed solely by the terms and conditions of the instrument evidencing such grant, and nothing in this Plan shall be deemed to affect or otherwise modify the rights or obligations of
the holders of such options with respect to their acquisition of shares of Common Stock thereunder. Each unvested share of Common Stock outstanding under the 1988 Plan on the Effective Date of this Plan shall continue to be governed solely by the terms and conditions of the instrument evidencing such share issuance, and nothing in this Plan shall be deemed to affect or otherwise modify the rights or obligations of the holder of such unvested shares.

C. The sale and remittance procedure authorized for the exercise of outstanding options under this Plan shall be available for all options granted under this Plan on or after the Effective Date and for all non-statutory options outstanding under the 1988 Plan and incorporated into this Plan. The Plan Administrator may also allow such procedure to be utilized in connection with one or more disqualifying dispositions of Incentive Option shares effected after the Effective Date, whether such Incentive Options were granted under this Plan or the 1988 Plan.

D. The option/vesting acceleration provisions of Section III of Article Two relating to Corporate Transactions and Changes in Control may, in the Plan Administrator’s discretion, be extended to one or more stock options which are outstanding under the 1988 Plan on the Effective Date of this Plan but which do not otherwise provide for such acceleration.

E. The Plan shall terminate upon the earlier of (i) January 13, 2002 or (ii) the date on which all shares available for issuance under the Plan shall have been issued or cancelled pursuant to the exercise, surrender or cash-out of the outstanding options under the Plan. If the date of termination is determined under clause (i) above, then all option grants outstanding on such date shall thereafter continue to have force and effect in accordance with the provisions of the instruments evidencing such grants.

IV. USE OF PROCEEDS

Any cash proceeds received by the Company from the sale of shares under the Plan shall be used for general corporate purposes.

V. REGULATORY APPROVALS

A. The implementation of the Plan, the granting of any option under the Plan and the issuance of Common Stock upon the exercise or surrender of the option grants made hereunder shall be subject to the Corporation’s procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options granted under it, and the Common Stock issued pursuant to it.

B. No shares of Common Stock or other assets shall be issued or delivered under this Plan unless and until there shall have been compliance with all applicable requirements of Federal and State securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any securities exchange on which stock of the same class is then listed.

VI. NO EMPLOYMENT/SERVICE RIGHTS

Neither the action of the Company in establishing the Plan, nor any action taken by the Plan Administrator hereunder, nor any provision of the Plan shall be construed so as to grant any individual the right to remain in the employ or service of the Corporation (or any parent or subsidiary corporation) for any period of specific duration, and the Corporation (or any parent or subsidiary corporation retaining the services of such individual) may terminate such individual’s employment or service at any time and for any reason, with or without cause.
VII. MISCELLANEOUS PROVISIONS

A. The right to acquire Common Stock or other assets under the Plan may not be assigned, encumbered or otherwise transferred by any Optionee.

B. The provisions of the Plan shall be governed by the laws of the State of California, as such laws are applied to contracts entered into and performed in such State.

C. The provisions of the Plan shall inure to the benefit of, and be binding upon, the Corporation and its successors or assigns, whether by Corporate Transaction or otherwise, and the Optionees, the legal representatives of their respective estates, their respective heirs or legatees and their permitted assignees.

Exhibit 10.4 - Schedule of Executive Employment Agreements

The Company has entered into Employment Agreements in the form filed as Exhibit 10.29(a) to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended January 3, 1998 with the individuals listed below. Each such agreement is identical except for the references to their names, titles and annualized base salaries, which are shown in the schedule below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Annualized Base Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aart de Geus</td>
<td>Chief Executive Officer</td>
<td>$400,000</td>
</tr>
<tr>
<td>Chi-Foon Chan</td>
<td>Chief Operating Officer</td>
<td>$400,000</td>
</tr>
<tr>
<td>Robert Bradshaw Henske</td>
<td>Chief Financial Officer</td>
<td>$350,000</td>
</tr>
</tbody>
</table>