

**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, 2002

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

SYNOPSIS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

56-1546236

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
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 No

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

76,293,192 shares of Common Stock as of June 7, 2002

SYNOPSISYS, INC.
QUARTERLY REPORT ON FORM 10-Q
APRIL 30, 2002

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PART I

ITEM 1. FINANCIAL STATEMENTS

SYNOPSYS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	APRIL 30, 2002	OCTOBER 31, 2001
	----- (UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 483,570	\$ 271,696
Short-term investments	48,170	204,740

Total cash and short-term investments	531,740	476,436
Accounts receivable, net of allowances of \$10,912 and \$11,027, respectively	151,953	146,294
Deferred taxes	152,486	149,239
Prepaid expenses and other	30,919	19,413

Total current assets	867,098	791,382
Property and equipment, net	194,225	192,304
Long-term investments	54,634	61,699
Intangible assets, net	26,974	35,077
Other assets	53,358	48,445

Total assets	\$ 1,196,289	\$ 1,128,907
	=====	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 108,741	\$ 135,272
Current portion of long-term debt	515	535
Accrued income taxes	55,756	110,561
Deferred revenue	327,319	290,052

Total current liabilities	492,331	536,420

Deferred compensation and other liabilities	23,392	17,124
Long-term deferred revenue	69,545	89,707
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000 shares authorized; no shares outstanding	--	--
Common stock, \$.01 par value; 400,000 shares authorized; 61,637 and 59,428 shares outstanding, respectively	616	595
Additional paid-in capital	588,595	575,403
Retained earnings	451,318	436,662
Treasury stock, at cost	(434,937)	(531,117)
Accumulated other comprehensive income	5,429	4,113

Total stockholders' equity	611,021	485,656

Total liabilities and stockholders' equity	\$ 1,196,289	\$ 1,128,907
	=====	

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

SYNOPSYS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	APRIL 30,		APRIL 30,	
	2002	2001	2002	2001
Revenue:				
Product	\$ 52,293	\$ 33,102	\$ 91,848	\$ 72,294
Service	65,765	91,501	134,858	178,470
Ratable license	67,580	38,921	134,477	69,914
Total revenue	185,638	163,524	361,183	320,678
Cost of revenue:				
Product	3,221	4,956	7,287	9,546
Service	17,391	19,922	38,075	40,290
Ratable license	13,780	6,078	24,220	13,175
Total cost of revenue	34,392	30,956	69,582	63,011
Gross margin	151,246	132,568	291,601	257,667
Operating expenses:				
Research and development	46,649	47,636	95,355	93,857
Sales and marketing	63,201	69,202	123,000	138,781
General and administrative	17,537	15,104	36,245	31,793
Amortization of intangible assets	4,356	4,179	8,400	8,351
Total operating expenses	131,743	136,121	263,000	272,782
Operating (loss) income	19,503	(3,553)	28,601	(15,115)
Other income, net	11,213	21,921	22,294	47,402
Income before provision for income taxes	30,716	18,368	50,895	32,287
Provision for income taxes	9,336	5,878	15,463	10,332
Net income	\$ 21,380	\$ 12,490	\$ 35,432	\$ 21,955
Basic earnings per share	\$ 0.35	\$ 0.21	\$ 0.58	\$ 0.35
Weighted average common shares outstanding	61,232	60,776	60,670	62,822
Diluted earnings per share	\$ 0.33	\$ 0.19	\$ 0.55	\$ 0.33
Weighted average common shares and dilutive stock options outstanding	64,934	65,384	64,956	66,836

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

SYNOPSISYS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	SIX MONTHS ENDED APRIL 30,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 35,432	\$ 21,955
Adjustments to reconcile net income to net cash flows (used in) provided by operating activities:		
Depreciation and amortization	34,266	31,991
Tax benefit associated with stock options	12,222	8,496
Provision for doubtful accounts and sales returns	1,767	1,237
Interest accretion on notes payable	--	276
Deferred rent	1,736	56
Deferred taxes	(3,191)	--
Gain on sale of long-term investments	(11,062)	(29,553)
Write-down of long-term investments	3,500	4,348
Gain on sale of silicon libraries business	--	(10,580)
Net changes in operating assets and liabilities:		
Accounts receivable	(7,426)	12,921
Prepaid expenses and other current assets	(11,506)	964
Other assets	(5,993)	(505)
Accounts payable and accrued liabilities	(26,931)	(38,815)
Accrued income taxes	(54,805)	(14,160)
Deferred revenue	17,105	106,723
Deferred compensation	5,256	1,567
Net cash (used in) provided by operating activities	(9,630)	96,921
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(26,542)	(33,592)
Purchases of short-term investments	(504,788)	(1,213,513)
Proceeds from sales and maturities of short-term investments	659,931	1,248,923
Purchases of long-term investments	(3,205)	(8,500)
Proceeds from sale of long-term investments	20,024	47,773
Proceeds from the sale of silicon libraries business	--	4,122
Intangible assets, net	--	(252)
Capitalization of software development costs	(796)	(500)
Net cash (used in) provided by investing activities	144,624	44,461
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of debt obligations	--	(5,068)
Issuances of common stock	76,395	65,302
Purchases of treasury stock	--	(206,320)
Net cash provided by (used in) financing activities	76,395	(146,086)
Effect of exchange rate changes on cash	485	(2,826)
Net increase (decrease) in cash and cash equivalents	211,874	(7,530)
Cash and cash equivalents, beginning of period	271,696	153,120
Cash and cash equivalents, end of period	\$ 483,570	\$ 145,590

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

SYNOPSYS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF COMPANY AND BASIS OF PRESENTATION

Synopsys, Inc. (Synopsys or the Company) is a leading supplier of electronic design automation (EDA) software to the global electronics industry. The Company develops, markets, and supports a wide range of integrated circuit (IC) design products that are used by designers of advanced ICs, including system-on-a-chip ICs, and the electronic systems (such as computers, cell phones, and internet routers) that use such ICs, to automate significant portions of their design process. ICs are distinguished by the speed at which they run, their area, the amount of power they consume and their cost of production. Synopsys' products offer its customers the opportunity to design ICs that are optimized for speed, area, power consumption and production cost, while reducing overall design time. The Company also provides consulting services to help its customers improve their IC design processes and, where requested, to assist them with their IC designs, as well as training and support services.

The Company's fiscal year ends on the Saturday nearest October 31. Fiscal year 2001 was a 53-week year with the extra week added to the first quarter and fiscal year 2002 will be a 52-week year. For presentation purposes, the unaudited condensed consolidated financial statements and notes refer to the calendar month end.

The unaudited condensed consolidated financial statements include the accounts of Synopsys and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position and results of operations of the Company have been made. Operating results for the interim periods are not necessarily indicative of the results that may be expected for any future period or the full fiscal year. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended October 31, 2001 included in the Company's 2001 Annual Report on Form 10-K.

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

2. SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION AND COST OF REVENUE

Revenue consists of fees for perpetual and time-based licenses for the Company's software products, sales of hardware system products, post-contract customer support (PCS), customer training and consulting. The Company classifies its revenues as product, service or ratable license. Product revenue consists primarily of sales of perpetual licenses.

Service revenue consists of fees for consulting services, training, and PCS associated with non-ratable time-based licenses or perpetual licenses. PCS sold with perpetual licenses is generally renewable, after any bundled PCS period expires, in one year increments for a fixed percentage of the perpetual list price, or, for perpetual license arrangements in excess of \$2 million, as a percentage of the net license fee.

Ratable license revenue is all fees related to time-based licenses bundled with PCS and sold as a single package (commonly referred to by the Company as a Technology Subscription License or TSL), and time-based licenses that include extended payment terms or unspecified additional products.

Cost of product revenue includes cost of production personnel, product packaging, documentation, amortization of capitalized software development costs, and costs of the Company's systems products. Cost of service revenue includes personnel and the related costs associated with providing training, consulting and PCS. Cost of ratable license revenue includes the cost of products and services related to time-based licenses bundled with PCS and sold as a single package and to time-based licenses that include extended payment terms or unspecified additional products.

The Company recognizes revenue in accordance with SOP 97-2, SOFTWARE REVENUE RECOGNITION, as amended by SOP 98-9 and SOP 98-4, and generally recognizes revenue when all of the following criteria are met as set forth in paragraph 8 of SOP 97-2:

- o Persuasive evidence of an arrangement exists,
- o Delivery has occurred,
- o The vendor's fee is fixed or determinable, and
- o Collectibility is probable.

The Company defines each of the four criteria above as follows:

PERSUASIVE EVIDENCE OF AN ARRANGEMENT EXISTS. It is the Company's customary practice to have a written contract, which is signed by both the customer and Synopsys, or a purchase order from those customers that have previously negotiated a standard end-user license arrangement or volume purchase agreement, prior to recognizing revenue on an arrangement.

DELIVERY HAS OCCURRED. The Company's software may be either physically or electronically delivered to its customers. For those products that are delivered physically, the Company's standard transfer terms are FOB shipping point. For an electronic delivery of software, delivery is considered to have occurred when the customer has been provided with the access codes that allow the customer to take immediate possession of the software on its hardware.

If undelivered products or services exist in an arrangement that are essential to the functionality of the delivered product, delivery is not considered to have occurred.

THE VENDOR'S FEE IS FIXED OR DETERMINABLE. The fee the Company's customers pay for its products is negotiated at the outset of an arrangement, and is generally based on the specific volume of products to be delivered. The Company's license fees are not a function of variable-pricing mechanisms such as the number of units distributed or copied by the customer, or the expected number of users in an arrangement. Therefore, except in cases where the Company grants extended payment terms to a specific customer, the Company's fees are considered to be fixed or determinable at the inception of its arrangements.

The Company's customary payment terms are such that a minimum of 75% of the arrangement fee is due within one year or less. Arrangements with payment terms extending beyond the customary payment terms are considered not to be fixed or determinable. Revenue from such arrangements is recognized at the lesser of the aggregate of amounts due and payable or the amount of the arrangement fee that would have been recognized if the fees had been fixed or determinable.

COLLECTIBILITY IS PROBABLE. Collectibility is assessed on a customer-by-customer basis. The Company typically sells to customers for which there is a history of successful collection. New customers are subjected to a credit review process, which evaluates the customers' financial positions and, ultimately, their ability to pay. New customers are typically assigned a credit limit based on a formulated review of their financial position. Such credit limits are only increased after a successful collection history with the customer has been established. If it is determined from the outset of an arrangement that collectibility is not probable based upon the Company's credit review process, revenue is recognized on a cash-collected basis.

MULTIPLE-ELEMENT ARRANGEMENTS. The Company allocates revenue on software arrangements involving multiple elements to each element based on the relative fair values of the elements. The Company's determination of fair value of each element in multiple-element arrangements is based on vendor-specific objective evidence (VSOE). The Company limits its assessment of VSOE for each element to the price charged when the same element is sold separately.

The Company has analyzed all of the elements included in its multiple-element arrangements and determined that it has sufficient VSOE to allocate revenue to the PCS components of its perpetual license products and consulting. Accordingly, assuming all other revenue recognition criteria are met, revenue from perpetual licenses is recognized upon delivery using the residual method in accordance with SOP 98-9, and revenue from PCS is recognized ratably over the PCS term. The Company recognizes revenue from TSLs over the term of the ratable license period, as the license and PCS portions of a TSL are bundled and not sold separately. Revenue from contracts with extended payment terms is recognized as the lesser of amounts due and payable or the amount of the arrangement fee that would have been recognized if the fee were fixed or determinable.

Certain of the Company's time-based licenses include unspecified additional products. Revenue from contracts with unspecified additional software products is recognized ratably over the contract term. The Company recognizes revenue from time-based licenses that include both unspecified additional software products and extended payment terms that are not considered to be fixed or determinable in an amount that is the lesser of amounts due and payable or the ratable portion of the entire fee.

CONSULTING SERVICES. The Company provides design methodology assistance, specialized services relating to telecommunication systems design and turnkey design services. The Company's consulting services generally are not essential to the functionality of the software. The Company's software products are fully functional upon delivery and implementation does not require any significant modification or alteration. The Company's services to its customers often include assistance with product adoption and integration and specialized design methodology assistance. Customers typically purchase these professional services to facilitate the adoption of the Company's technology and dedicate personnel to participate in the services being performed, but they may also decide to use their own resources or appoint other professional service organizations to provide these services. Software products are billed separately and independently from consulting services, which are generally billed on a time-and-materials or milestone-achieved basis. The Company generally recognizes revenue from consulting services as the services are performed.

Exceptions to the general rule above involve arrangements where the Company has committed to significantly alter the features and functionality of its software or build complex interfaces necessary for the Company's software to function in the customer's environment. These types of services are considered to be essential to the functionality of the software. Accordingly, contract accounting is applied to both the software and service elements included in these arrangements.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, **BUSINESS COMBINATIONS (SFAS 141)**, and No. 142, **GOODWILL AND OTHER INTANGIBLE ASSETS (SFAS 142)**. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS 142.

The Company adopted the provisions of SFAS 141 on July 1, 2001. Under SFAS 141, goodwill and intangible assets with indefinite useful lives acquired in a purchase business combination completed after June 30, 2001, but before SFAS 142 is adopted, will not be amortized but will continue to be evaluated for impairment in accordance with SFAS 121. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized and tested for impairment in accordance with current accounting guidance until the date of adoption of SFAS 142.

Upon adoption of SFAS 142, the Company must evaluate its existing intangible assets and goodwill acquired in purchase business combinations prior to July 1, 2001, and make any necessary reclassifications in order to conform with the new criteria in SFAS 141 for recognition apart from goodwill. Upon adoption of SFAS 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments. The Company will also be required to test goodwill for impairment in accordance with the provisions of SFAS 142 within the six-month period following adoption. Any impairment loss will be measured as of the date of adoption and recognized immediately as the cumulative effect of a change in accounting principle. Any subsequent impairment losses will be included in operating activities.

The Company expects to adopt SFAS 142 on November 1, 2002. As of April 30, 2002, unamortized goodwill is \$27.0 million which, in accordance with the Statements, will continue to be amortized until the date of adoption of SFAS 142. Amortization of goodwill for the six-month period ended April 30, 2002 is \$7.9 million. The Company does not have any intangible assets with an indefinite useful life. Because of the extensive effort needed to comply with adopting SFAS 142, it is not practicable to reasonably estimate the impact of adopting this Statement on the Company's financial statements at the date of this report, including whether the Company will be required to recognize any transitional impairment losses.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, **ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS (SFAS 143)**. SFAS 143 requires that asset retirement obligations that are identifiable upon acquisition, construction or development and during the operating life of a long-lived asset be recorded as a liability using the present value of the estimated cash flows. A corresponding amount would be capitalized as part of the asset's carrying amount and amortized to expense over the asset's useful life. The Company is required to adopt the provisions of SFAS 143 effective November 1, 2002. The Company is currently evaluating the impact of adoption of this Statement on its financial position and results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of APB Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS FOR A DISPOSAL OF A SEGMENT OF A BUSINESS. The Company is required to adopt the provisions of SFAS 144 no later than November 1, 2002. The Company does not expect that the adoption of SFAS 144 will have a significant impact on its financial position and results of operations.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to current year presentation.

3. STOCK REPURCHASE PROGRAM

In July 2001, the Company's Board of Directors authorized a stock repurchase program under which Synopsys common stock with a market value up to \$500 million may be acquired in the open market. This stock repurchase program replaced all prior repurchase programs authorized by the Board. Common shares repurchased are intended to be used for ongoing stock issuances under the Company's employee stock plans and for other corporate purposes. The July 2001 stock repurchase program expires on October 31, 2002. During the three-month and six-month periods ended April 30, 2001, the Company purchased 1.2 million and 4.2 million shares, respectively, of Synopsys common stock in the open market under a prior stock repurchase program, at average prices of \$52 per share and \$49 per share, respectively. The Company did not repurchase any shares during the three-month and six-month periods ended April 30, 2002. At April 30, 2002, approximately \$481.9 million remained available for repurchases under the July 2001 program.

4. COMPREHENSIVE INCOME

The following table sets forth the components of comprehensive income, net of income tax expense:

	THREE MONTHS ENDED APRIL 30,		SIX MONTHS ENDED APRIL 30,	
	2002	2001	2002	2001
	(IN THOUSANDS)			
Net income	\$ 21,380	\$ 12,490	\$ 35,432	\$ 21,955
Foreign currency translation adjustment	(2,113)	1,262	454	(2,826)
Unrealized gain (loss) on investments	1,032	(6,039)	6,704	(20,138)
Reclassification adjustment for realized gains on investments	(2,873)	(9,363)	(5,842)	(1,128)
Total comprehensive income (loss)	\$ 17,426	\$ (1,650)	\$ 36,748	\$ (2,137)

5. EARNINGS PER SHARE

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

The following is a reconciliation of the weighted-average common shares used to calculate basic net earnings per share to the weighted-average common shares used to calculate diluted net income per share:

	THREE MONTHS ENDED APRIL 30,		SIX MONTHS ENDED APRIL 30,	
	2002	2001	2002	2001
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
NUMERATOR				
Net income	\$ 21,380	\$ 12,490	\$ 35,432	\$ 21,955
DENOMINATOR:				
Weighted-average common shares outstanding	61,232	60,776	60,670	62,822
Effect of dilutive employee stock options	3,702	4,608	4,286	4,014
Diluted common shares	64,934	65,384	64,956	66,836
Basic earnings per share	\$ 0.35	\$ 0.21	\$ 0.58	\$ 0.35
Diluted earnings per share	\$ 0.33	\$ 0.19	\$ 0.55	\$ 0.33

The effect of dilutive employee stock options excludes approximately 5,511,000 and 2,720,000 stock options for the three-month periods ended April 30, 2002 and 2001, respectively, and 4,623,000 and 3,276,000 stock options for the six-month periods ended April 30, 2002 and 2001, respectively, which were anti-dilutive for earnings per share calculations.

6. SEGMENT DISCLOSURE

Statement of Financial Accounting Standards No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION (SFAS 131), requires disclosures of certain information regarding operating segments, products and services, geographic areas of operation and major customers. The method for determining what information to report under SFAS 131 is based upon the "management approach," or the way that management organizes the operating segments within a Company for which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources and in assessing performance. Synopsys' CODM is the Chief Executive Officer and Chief Operating Officer.

The Company provides comprehensive design technology products and consulting services in the EDA software industry. The CODM evaluates the performance of the Company based on profit or loss from operations before income taxes not including merger-related costs, in-process research and development and amortization of intangible assets. For the purpose of making operating decisions, the CODM primarily considers financial information presented on a consolidated basis accompanied by disaggregated information about revenues by geographic region. There are no differences between the accounting policies used to measure profit and loss for the Company segment and those used on a consolidated basis. Revenue is defined as revenues from external customers.

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

	THREE MONTHS ENDED APRIL 30,		SIX MONTHS ENDED APRIL 30,	
	2002	2001	2002	2001
(IN THOUSANDS)				
Revenue:				
Product	\$ 52,293	\$ 33,102	\$ 91,848	\$ 72,294
Service	65,765	91,501	134,858	178,470
Ratable license	67,580	38,921	134,477	69,914
Total revenue	\$ 185,638	\$ 163,524	\$ 361,183	\$ 320,678

	=====	=====	=====	=====
Gross margin	\$ 151,246	\$ 132,568	\$ 291,601	\$ 257,667
Operating income (loss) before amortization of intangible assets, and in-process research and development	\$ 23,859	\$ 626	\$ 37,001	\$ (6,764)

There were no merger related or in-process research and development costs in the periods presented.

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

	THREE MONTHS ENDED APRIL 30,		SIX MONTHS ENDED APRIL 30,	
	2002	2001	2002	2001

	(IN THOUSANDS)			
Operating income (loss) before amortization of intangible assets	\$ 23,859	\$ 626	\$ 37,001	\$ (6,764)
Amortization of intangible assets	(4,356)	(4,179)	(8,400)	(8,351)

Operating income (loss)	\$ 19,503	\$ (3,553)	\$ 28,601	\$ (15,115)
	=====			

Revenue and long-lived assets related to operations in the United States and other geographic areas are as follows:

	THREE MONTHS ENDED APRIL 30,		SIX MONTHS ENDED APRIL 30,	
	2002	2001	2002	2001

	(IN THOUSANDS)			
Revenue:				
United States	\$ 127,319	\$ 101,111	\$ 236,028	\$ 195,915
Europe	29,524	30,269	63,592	57,719
Japan	17,007	17,779	34,025	34,655
Other	11,788	14,365	27,538	32,389

Consolidated	\$ 185,638	\$ 163,524	\$ 361,183	\$ 320,678
	=====			

	APRIL 30, 2002	OCTOBER 31, 2001

	(IN THOUSANDS)	
Long-lived assets:		
United States	\$ 178,574	\$ 176,330
Other	15,651	15,974

Consolidated	\$ 194,225	\$ 192,304
	=====	

Geographic revenue data for multi-region, multi-product transactions reflect internal allocations and is therefore subject to certain assumptions and to the Company's methodology. Revenue is not reallocated among geographic regions to reflect any re-mixing of licenses between different regions following the initial product shipment. No one customer accounted for more than ten percent of the Company's consolidated revenue in the periods presented.

The Company segregates revenue into five categories for purposes of internal management reporting: IC Implementation, including both the Design Compiler (DC) Family and Physical Synthesis; Verification and Test; Intellectual Property (IP) and System Level Design; Transistor Level Design; and Professional Services. Revenue for each of the categories is as follows:

	THREE MONTHS ENDED APRIL 30,	SIX MONTHS ENDED APRIL 30,
--	---------------------------------	-------------------------------

	2002	2001	2002	2001
	(IN THOUSANDS)			
Revenue:				
IC Implementation				
DC Family	\$ 58,260	\$ 53,578	\$ 113,748	\$ 107,423
Physical Synthesis	20,327	10,495	35,364	16,655
Verification and Test	56,560	45,321	113,506	89,543
IP and System Level Design	19,972	19,938	39,773	38,379
Transistor Level Design	15,072	10,730	29,832	24,195
Professional Services	15,447	23,462	28,960	44,483
Consolidated	\$ 185,638	\$ 163,524	\$ 361,183	\$ 320,678

7. DERIVATIVE FINANCIAL INSTRUMENTS

Available-for-sale equity investments accounted for under Statement of Financial Accounting Standards No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES, (SFAS 115) are subject to market price risk. From time to time, the Company enters into and designates forward contracts to hedge variable cash flows from anticipated sales of these investments. The Company recorded a net realized gain on the sale of the available-for-sale investments including the settlement of forward contracts of \$6.8 million and \$15.3 million, respectively, during the three-month periods ended April 30, 2002 and 2001 and \$12.4 million and \$28.8 million, respectively, during the six-month periods ended April 30, 2002 and 2001 (net of premium amortization). As of April 30, 2002, the Company has recorded \$17.9 million in long-term investments due to locked-in unrealized gains on the available-for-sale investments. As of April 30, 2002, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows associated with the forward sale contracts is 12 months.

8. TERMINATION OF AGREEMENT TO ACQUIRE IKOS SYSTEMS, INC.

On July 2, 2001, the Company entered into an Agreement and Plan of Merger with IKOS Systems, Inc. (IKOS). The Agreement provided for the acquisition of all outstanding shares of IKOS common stock by Synopsys.

On December 7, 2001, Mentor Graphics Corporation (Mentor) commenced a cash tender offer to acquire all of the outstanding shares of IKOS common stock at \$11.00 per share, subject to certain conditions. On March 12, 2002, Synopsys and IKOS executed a termination agreement by which the parties terminated the Synopsys-IKOS merger agreement and pursuant to which IKOS paid Synopsys the \$5.5 million termination fee required under the Synopsys-IKOS merger agreement. This termination fee and \$2.4 million of expenses incurred in conjunction with the acquisition are included in other income, net on the unaudited condensed consolidated statement of income. Synopsys subsequently executed a revised termination agreement with Mentor and IKOS in order to add Mentor as a party thereto.

9. WORKFORCE REDUCTION

In March 2002, the Company implemented a workforce reduction. The purpose was to reduce expenses by decreasing the number of employees in all departments, both domestically and internationally. As a result, the Company's workforce was decreased by approximately 175 employees and a charge of approximately \$3.9 million is included in operating expenses during the second quarter of fiscal 2002. This charge consists of severance and other special termination benefits.

10. SUBSEQUENT EVENT - ACQUISITION OF AVANT! CORPORATION

On June 6, 2002 (the "closing date"), the Company completed the merger with Avant! Corporation (Avant!), a company which develops, markets, licenses and supports electronic design automation software products that assist design engineers in the physical layout, design, verification, simulation, timing and analysis of advanced integrated circuits. Under the terms of the merger agreement between the Company and Avant!, Avant! merged with and into a wholly-owned subsidiary of Synopsys. The merger will be accounted for under the purchase method of accounting. The results of operations of Avant! are not included in the accompanying condensed consolidated financial statements because the merger occurred subsequent to the date of the Company's balance sheet.

REASONS FOR THE ACQUISITION. The Synopsys Board of Directors unanimously approved the merger agreement at its December 1, 2001 meeting. In approving the merger agreement and making these determinations and recommendations, the Board of Directors consulted with legal and financial advisors as well as with management and considered a number of factors. These factors include the fact that the merger is expected to enable Synopsys and Avant! to offer their semiconductor customers a complete end-to-end solution for system-on-chip design that includes Synopsys' logic synthesis and design verification tools with Avant!'s advanced place and route, physical verification and design integrity products, thus increasing customers' design efficiencies. By increasing customer design efficiencies, Synopsys expects to be able to better compete for customers designing the next generation of semiconductors. Further, by gaining access to Avant!'s physical design and verification products, as well as its broad customer base and relationships, Synopsys will gain new opportunities to market its existing products. The foregoing discussion of the information and factors considered by the Synopsys Board of Directors is not intended to be exhaustive but includes the material factors considered by the Synopsys Board of Directors.

PURCHASE PRICE. Holders of Avant! common stock received 0.371 of a share of Synopsys common stock (including the associated preferred stock rights) in exchange for each share of Avant! common stock (the exchange ratio) owned as of the closing date, aggregating 14.5 million shares of Synopsys common stock. The fair value of the Synopsys shares issued was based on a per share value of \$54.74, which is equal to Synopsys' average last sale price per share as reported on the Nasdaq National Market for the trading-day period two days before and after December 3, 2001, the date of the merger agreement.

The purchase consideration will include (a) the fair value of Synopsys common stock issued of approximately \$795.4 million, (b) the estimated fair value of options to purchase Synopsys common stock to be issued, less the portion of the intrinsic value of Avant!'s unvested options applicable to the remaining vesting period, the determination of which amount is not complete as of the date of this filing, (c) estimated merger related costs of approximately \$25 million, (d) employee severance costs, and (e) restructuring charges related to exiting certain of Avant!'s activities, including certain facilities, and workforce reductions, in accordance with Emerging Issues Task Force (EITF) Issue No. 95-3.

The estimated merger-related costs consist primarily of banking, legal and accounting fees, printing costs, and other directly related charges.

Employee severance costs consist of a cash severance payment due upon the closing of the merger of \$41.8 million to Avant!'s Chairman of the Board and cash severance payments to other employees of Avant!, the determination of which amount is not complete as of the date of this filing.

As of the date of filing this Form 10-Q, the valuation of Avant!'s assets and liabilities, including identifiable intangible assets, as of the closing date has not been completed. Furthermore, completion of integration planning will result in additional accruals for severance costs and/or facilities closures. Such accruals will increase the purchase consideration and the allocation of the purchase consideration to goodwill. Due to acceleration provisions related to certain of Avant!'s stock options and the completion of the integration planning, including workforce reductions, the estimated fair value of options to purchase Synopsys common stock to be issued in the merger has not been determined as of the date of this filing.

CADENCE LITIGATION. In connection with the merger, Synopsys has entered into a policy with a subsidiary of American International Group, Inc., a AAA rated insurance company, whereby insurance has been obtained for certain compensatory, exemplary and punitive damages, penalties and fines and attorneys' fees arising out of pending litigation between Avant! and Cadence Design Corporation, Inc. (the "Avant!/Cadence litigation" or the "covered loss"). The Avant!/Cadence litigation is described in the section entitled "Factors that May Affect Future Results". The policy does not provide coverage for litigation other than the Avant!/Cadence litigation.

In return for a premium of \$335 million, the insurer will be obligated to pay covered loss up to a limit of liability equaling (a) \$500 million plus (b) interest accruing at the fixed rate of 2%, compounded semi-annually, on \$250 million (the "interest component"), as reduced by previous covered losses. The policy will expire following a final judgment or settlement of the Avant!/Cadence litigation or any earlier date upon Synopsys' election. Upon such expiration, Synopsys will be entitled to a payment equal to \$240 million plus the interest component less any covered loss (which, for this purpose, shall include legal fees only to the extent that the aggregate amount of such fees exceeds \$10 million).

The contingently refundable portion of the insurance premium (\$240 million) will be included in the post-merger balance sheet as a long-term restricted asset. Interest earned on that amount will be included in other income, net in the post-merger statement of operations. The balance of the premium paid to the insurer (\$95 million) will be recognized as expense in the third quarter of fiscal 2002.

At the closing date, the Avant!/Cadence litigation has been accounted for as a pre-merger contingency because a litigation judgment or settlement amount, if any, is not probable or estimable. If a litigation loss becomes probable and estimable after the date of the merger, such loss will be included in net income.

GOODWILL AND INTANGIBLE ASSETS. Goodwill, representing the excess of the purchase price over the fair value of tangible and identifiable intangible assets, acquired in the merger will not be amortized, consistent with the guidance with SFAS 142. Upon completion of the valuation of Avant!'s assets and liabilities, including identifiable intangible assets, any resulting allocation to acquired in-process research and development will be reflected in the post-merger statement of income. In addition, a portion of the purchase price will be allocated to identifiable intangible assets, including the following:

Intangible Asset	Estimated Useful Life
Core/developed technology	3 years
Contract right intangible	3 years
Customer installed base/relationship	6 years
Trademarks and tradenames	3 years
Covenants not to compete	The life of the related agreement (2 to 4 years)

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 the effect of Technology Subscription Licenses on our revenue, expectations for revenue and costs of revenue, expectations about gains from the sale of investments, effects of foreign currency hedging, adequacy of our cash as well as statements including the words "projects," "expects," "believes," "anticipates", "will" 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."

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, bad debts, investments, intangible assets and income taxes. Our estimates are based on historical experience and on various other assumptions we believe are reasonable under the circumstances. Actual results may differ from these estimates.

The accounting policies described below are the ones that most frequently require us to make estimates and judgments, and are therefore critical to understanding our results of operations.

REVENUE RECOGNITION AND COST OF REVENUE. Our revenue recognition policy is detailed in Note 2 of the Notes to Unaudited Condensed Consolidated Financial Statements. Management has made significant judgments related to revenue recognition; specifically, evaluating whether our fee relating to an arrangement is fixed or determinable and assessing whether collectibility is probable. These judgments are discussed below.

THE VENDOR'S FEE IS FIXED OR DETERMINABLE. In order to recognize revenue, we must make a judgment as to whether the arrangement fee is fixed or determinable. Except in cases where we grant extended payment terms to a specific customer, we have determined that our fees are fixed or determinable at the inception of our arrangements based on the following:

- o The fee our customers pay for our products is negotiated at the outset of an arrangement and is generally based on the specific volume of products to be delivered.
- o Our license fees are not a function of variable-pricing mechanisms such as the number of units distributed or copied by the customer or the expected number of users of the product delivered.

Our customary payment terms are such that a minimum of 75% of the arrangement fee is due within one year or less. These customary payment terms are supported by historical practice and concessions have not been granted to customers under this policy. Arrangements with payment terms extending beyond the customary payment terms are considered not to be fixed or determinable. Revenue from such arrangements is recognized at the lesser of the aggregate of amounts due and payable or the amount of the arrangement fee that would have been recognized if the fees had been fixed or determinable.

COLLECTIBILITY IS PROBABLE. In order to recognize revenue, we must make a judgment of the collectibility of the arrangement fee. Our judgment of the collectibility is applied on a customer-by-customer basis pursuant to our credit review policy. We typically sell to customers for which there is a history of successful collection. New customers are subjected to a credit review process, which evaluates the customers' financial positions and ability to pay. New customers are typically assigned a credit limit based on a formulated review of their financial position. Such credit limits are only increased after a successful collection history with the customer has been established. If it is determined from the outset of an arrangement that collectibility is not probable based upon our credit review process, revenue is recognized on a cash-collected basis.

VALUATION OF STRATEGIC INVESTMENTS. As of April 30, 2002, the adjusted cost of our strategic investments totaled \$29.3 million. We review our investments in non-public companies and estimate the amount of any impairment incurred during the current period based on specific analysis of each investment, considering the activities of and events occurring at each of the underlying portfolio companies during the quarter. Our portfolio companies operate in industries that are rapidly evolving and extremely competitive. For equity investments in non-public companies for which there is not a market in which their value is readily determinable, we assess each investment for indicators of impairment at each quarter end based primarily on achievement of business plan objectives and current market conditions, among other factors, and information available to us at the time of this quarterly assessment. The primary business plan objectives we consider include, among others, those related to financial performance such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature such as the launching of technology or the hiring of key employees. If it is determined that an impairment has occurred with respect to an investment in a portfolio company, in the absence of quantitative valuation metrics, management estimates the impairment and/or the net realizable value of the portfolio investment based on public- and private-company market comparable information and valuations completed for companies similar to our portfolio companies. Future adverse changes in market conditions, poor operating results of underlying investments and other information obtained after our quarterly assessment could result in losses or an inability to recover the current carrying value of the investments thereby possibly requiring an impairment charge in the future. Based on these measurements, an impairment loss of \$3.5 million was recorded during the current quarter.

VALUATION OF INTANGIBLE ASSETS. Intangible assets, net of accumulated amortization, totaled \$27.0 million as of April 30, 2002. We periodically evaluate our intangible assets for indications of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets include goodwill, purchased technology and capitalized software. Factors we consider important which could trigger an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business or significant negative industry or economic trends. If this evaluation indicates that the value of the intangible asset may be impaired, an evaluation of the recoverability of the net carrying value of the asset over its remaining useful life is made. If this evaluation indicates that the intangible asset is not recoverable, based on the estimated undiscounted future cash flows of the entity or technology acquired over the remaining amortization period, the net carrying value of the related intangible asset will be reduced to fair value and the remaining amortization period may be adjusted. Any such impairment charge could be significant and could have a material adverse effect on our reported financial statements if and when an impairment charge is recorded. If an impairment charge is recognized, the amortization related to goodwill and other intangible assets would decrease during the remainder of the fiscal year. No impairment losses were recorded during the current quarter based on these measurements.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. As of April 30, 2002, the allowance for doubtful accounts totaled \$10.9 million. Management estimates the collectibility of our accounts receivable on an account-by-account basis. We record an increase in the allowance for doubtful accounts when the prospect of collecting a specific account receivable becomes doubtful. In addition, we provide for a general reserve on all accounts receivable, using a specified percentage of the outstanding balance in each aged group. Management specifically analyzes accounts receivable and historical bad debt experience, customer creditworthiness, current economic trends, international exposures (such as currency devaluation), and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

INCOME TAXES. Our effective tax rate is directly affected by the relative proportions of domestic and international revenue and income before taxes. We are also subject to changing tax laws in the multiple jurisdictions in which we operate. As of April 30, 2002, net deferred tax assets totaled \$174.1 million. We believe that it is more likely than not that the results of future operations will generate sufficient taxable income to utilize these net deferred tax assets. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for any valuation allowance, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

RESULTS OF OPERATIONS

REVENUE. Revenue consists of fees for perpetual and ratable licenses of our software products, sales of hardware system products, post-contract customer support (PCS), customer training and consulting. We classify revenues as product, service or ratable license. Product revenue consists primarily of perpetual license product revenue. Service revenue consists of PCS under perpetual licenses and fees for consulting services and training. Ratable license revenue consists of all revenue from our technology subscription licenses (TSLs) and from time-based licenses sold prior to the adoption of TSLs in August 2000 that include extended payment terms or unspecified additional products.

TSLs are time-limited rights to use our software. Since TSLs include bundled product and services, both product and service revenue is generally recognized ratably over the term of the license, or, if later, as payments become due. The terms of TSLs, and the payments due thereon, may be structured flexibly to meet the needs of the customer. With minor exceptions, under TSLs, customers cannot obtain major new products developed or acquired during the term of their license without making an additional purchase.

We introduced TSLs in the fourth quarter of fiscal 2000. The replacement of the prior form of time-based licenses by TSLs has impacted and will continue to impact our reported revenue. When a customer buys a TSL, relatively little revenue is recognized during the quarter the product is initially delivered. The remaining amount will be either recorded as deferred revenue on our balance sheet or considered backlog by the Company and not recorded on the balance sheet. The amount recorded as deferred revenue is equal to the portion of the license fee that has been invoiced or paid but not recognized. This amount moves out of backlog and is recorded as deferred revenue as invoiced or as additional payments are made. Under the prior form of time-based licenses, a high proportion of all license revenue was recognized in the quarter that the product was delivered, with relatively little recorded as deferred revenue or as backlog. Therefore, an order for a TSL will result in significantly lower current-period revenue than an equal-sized order under the prior form of time-based licenses.

Since our introduction of TSLs the average TSL duration has been approximately 3.25 years. This means that on a standalone basis the transition of our license base to TSLs will continue to impact our reported revenue until at least the first quarter of fiscal year 2004. This transition period will be extended as a result of our merger with Avant!. Avant!'s historical license mix has a higher proportion of perpetual licenses and a lower proportion of ratable licenses than ours. We expect that the license mix of the combined company will be closer to Synopsys' than Avant!'s. We anticipate that this transition will reduce reported revenue by approximately \$50 million for the remainder of fiscal year 2002. Our initial estimate of the impact for fiscal year 2003 is that the transition will reduce reported revenue by approximately \$60 million.

We set revenue targets for any given quarter based, in part, upon an assumption that we will achieve a certain license mix of perpetual licenses and TSLs. The actual mix of licenses sold affects the revenue we recognize in the period. If we are unable to achieve our target license mix, we may not meet our revenue targets. Our target license mix for total new software license orders for the remainder of fiscal year 2002 is 25% to 30% perpetual licenses and 70% to 75% ratable licenses. For fiscal year 2003 our target license mix for total new software license orders is 22% to 27% perpetual licenses and 73% to 78% ratable licenses. In the second quarter of fiscal 2002, the license mix was approximately 21% perpetual licenses and 79% TSLs, in comparison to 23% perpetual licenses and 77% TSLs in the second quarter of fiscal 2001.

As expected, total revenue for the second quarter of fiscal 2002 increased 14% to \$185.6 million as compared to \$163.5 million for the second quarter of fiscal 2001. Revenue for the six months ended April 30, 2002 increased 13% to \$361.2 million compared to \$320.7 million for the six months ended April 30, 2001. The increase in total revenue for the three- and six months ended April 30, 2002 compared to the same periods in 2001 is due primarily to increased product orders and to the additional quarters that the TSL license model has been used and the related increase in revenue due to the timing of revenue recognition under this license model.

Product revenue increased 58% to \$52.3 million for the second quarter of fiscal 2002, compared to \$33.1 million for the second quarter of fiscal 2001 and 27% to \$91.8 million for the six months ended April 30, 2002 compared to \$72.3 million for the same period in fiscal 2001. The increase in product revenue is directly related to the increase in orders for perpetual licenses during the periods, since, in most cases, product revenue is recognized in the same quarter that an order for a perpetual license is received. During the second quarter, we began offering variable maintenance arrangements to certain customers that entered into perpetual license technology in excess of \$2.0 million. Under these arrangements, the annual fee for PCS is calculated as a percentage of the net license fee rather than a fixed percentage of the list price.

Service revenue was \$65.8 million and \$91.5 million for the second quarters of 2002 and 2001, respectively, and \$134.9 million and \$178.5 million for the six-month periods ended April 30, 2002 and 2001, respectively. The 24% decrease in service revenue in 2002 is due, in part, to economic factors and to a decrease in maintenance renewals. Since the middle of 2001, customers have reduced their use of outside consultants as part of their overall cost-cutting efforts. As a result, we received a lower volume of new consulting orders than expected, which has reduced the backlog of projects available to produce revenue. In addition, customers have deferred delivery dates (and thus payments) on certain existing projects and having cancelled others. Training revenue has been reduced by our customers' efforts to curtail training and travel expenses. Service revenue attributable to maintenance was lower than expected because a number of customers have failed to renew their annual PCS contracts on their installed base of perpetual licenses. In addition, service revenue attributable to maintenance is also impacted by three trends. First, new licenses structured as TSLs include bundled PCS. Second, customers with existing perpetual licenses are entering into new TSLs rather than renewing the PCS on the existing perpetual licenses. Third, customers with existing perpetual licenses are converting their existing perpetual licenses to TSLs. In each case, revenue attributable to PCS that otherwise would have been reflected in service revenue is not reflected in ratable license revenue.

REVENUE EXPECTATIONS. For the full fiscal year 2003, we expect revenue to consist of 15% to 20% product revenue, 50% to 55% TSLs and 30% to 35% services revenue, including the impact of the acquisition with Avant!.

INTERNATIONAL REVENUE. The following table summarizes the performance of the various regions as a percent of total Company revenue:

	THREE MONTHS ENDED APRIL 30,		SIX MONTHS ENDED APRIL 30,	
	2002	2001	2002	2001
North America	69%	62%	65%	61%
Europe	16%	18%	18%	18%
Japan	9%	11%	9%	11%
Other	6%	9%	8%	10%
Total	100%	100%	100%	100%

International revenue as a percentage of total revenue for the quarter ended April 30, 2002 decreased to 31% from 38% for the quarter ended April 30, 2001 and to 35% from 39% for the six-month periods ended April 30, 2002 and 2001, respectively. In any given period, the geographic mix of revenue is influenced by the particular contracts closed during the quarter. International sales are vulnerable to regional or worldwide economic or political conditions. In particular, a number of our largest European customers are in the telecommunications equipment business, which has weakened considerably. The majority of our international sales are denominated in the U.S. dollar. There were no foreign exchange gains or losses that were material to our financial results during the three- and six-month periods ended April 30, 2002 and 2001.

REVENUE - PRODUCT GROUPS. For management reporting purposes, our products have been organized into four distinct product groups -- IC Implementation, Verification and Test, Intellectual Property and System Level Design, Transistor Level Design -- and a services group -- Professional Services. The following table summarizes the revenue attributable to the various groups as a percentage of total Company revenue for the last seven quarters:

	Q2-2002	Q1-2002	Q4-2001	Q3-2001	Q2-2001	Q1-2001	Q4-2000
Revenue							
IC Implementation							
DC Family	31%	32%	32%	32%	33%	34%	33%
Physical Synthesis	11	9	11	7	6	4	6
Verification and Test	42	41	43	39	39	38	39
IP and System Level Design	31	32	30	30	28	28	26
Transistor Level Design	11	11	12	13	12	12	14
Professional Services	8	8	6	8	7	9	7
Total Company	8	8	9	10	14	13	14
	100%	100%	100%	100%	100%	100%	100%

IC IMPLEMENTATION. IC implementation includes two product categories, the Design Compiler (DC) Family and Physical Synthesis and, as a percent of revenue, has increased from 39% to 42% over the last seven quarters. Over the same period, the DC Family, including Design Compiler and all ancillary and related logic design products, as a percentage of total revenue, has decreased from 33% to 31% and Physical Synthesis products have increased from 6% to 11% of total revenues.

Included in the Physical Synthesis family are Physical Compiler, a product that unifies synthesis, placement and global routing, Chip Architect, a chip floor-planning product, Flex Route, a top level router and our recently introduced products - ClockTree Compiler, a clock tree synthesis product, and Route Compiler, a standard cell router integrated into Physical Compiler that completes detailed routing.

VERIFICATION AND TEST. Verification and Test includes our simulation, timing analysis, formal verification and test products. As a percent of revenue, revenue from this product family has increased from 26% to 31% since the introduction of our ratable license model. This increase in revenue as a percent of total revenue is primarily due to increased subscription revenue for PrimeTime as a result of the quarterly amortization of deferred revenue which is an inherent result of the use of the ratable license model.

INTELLECTUAL PROPERTY AND SYSTEM LEVEL DESIGN (IP&S). Our IP&S products include the DesignWare library of design components and verification models, and system design products. Revenue as a percent of total revenue decreased from the fourth quarter of fiscal 2000 to the first quarter of fiscal 2001. Revenue has remained relatively flat over the last six quarters, ranging from 11% to 14% due in part to the fact that the term of many of these licenses has increased from one to three years.

TRANSISTOR LEVEL DESIGN. Our transistor level design product group includes tools that are used in transistor level simulation and analysis. Revenue from this product group as a percentage of total revenues have fluctuated from 6% to 9% since the introduction of TSLs as a result of the mix of license types for orders received during a particular quarter.

PROFESSIONAL SERVICES. The Professional Services group includes consulting and training activities. This group provides consulting services, including design methodology assistance, specialized telecommunications systems design services and turnkey design. Revenue from professional services as a percentage of total revenues has declined from 14% in the fourth quarter of fiscal 2000 to 8% in the first quarter of fiscal 2002, reflecting, as described above under "Revenue" the impact of the economic environment.

COST OF REVENUE. Cost of revenue consists of the cost of product revenue, cost of service revenue and cost of ratable license revenue. Cost of product revenue includes personnel and related costs, production costs, product packaging, documentation, amortization of capitalized software development costs and purchased technology, and costs of the components of our hardware system products. The cost of internally developed capitalized software is amortized based on the greater of the ratio of current product revenue to the total of current and anticipated product revenue or the straight-line method over the software's estimated economic life of approximately two years. Cost of service revenue includes consulting services, personnel and related costs associated with providing training and PCS on perpetual licenses. Cost of ratable license revenue includes the costs of product and services related to our TSLs, since TSLs include bundled product and services. Cost of ratable license revenue, cost of product revenue and cost of service revenue is heavily dependent on an absolute basis on the mix of software orders received during the period.

Cost of product revenue decreased to 6% of total product revenue for the three months ended April 30, 2002, as compared to 15% for the same period during 2001. Cost of product revenue was 8% and 13% for the six months ended April 30, 2002 and 2001, respectively. This decrease in cost of product revenue as a percentage of total product revenue for the three- and six-month periods ended April 30, 2002 as compared to 2001 is due in part to the wind-down of our internet business unit during the third quarter of fiscal 2001 and in part to the mix of software orders received during the periods.

Cost of service revenue as a percentage of total service revenue was 26% and 22% for the second quarters of fiscal 2002 and 2001, respectively and increased to 28% from 22% for the six months ended April 30, 2002 and 2001, respectively. The increase in cost of service revenue as a percentage of total service revenue is due primarily to the decline in total service revenue and to decreased utilization of our professional services personnel, both as a result of the economic environment.

Cost of ratable license revenue was 20% in the second quarter of fiscal 2002 compared to 16% for the second quarter of 2001 and was 18% and 19% for the six months ended April 30, 2002 and 2001, respectively. The cost of ratable license revenue as a percent of the related revenue is impacted by the mix of orders between product, service and ratable revenue during the particular quarter.

COST REDUCTION PROGRAM. During the first quarter of fiscal 2002, the Company implemented a cost reduction program which included a workforce reduction in March 2002. The purpose was to reduce expenses by decreasing the number of employees in all departments, both domestically and internationally. As a result, the Company's workforce was decreased by approximately 175 employees and a charge of approximately \$3.9 million is included in operating expenses during the second quarter of fiscal 2002. This charge consists of severance and other special termination benefits.

RESEARCH AND DEVELOPMENT. Research and development expenses remained relatively flat at \$46.6 million compared to \$47.6 million for the second quarter of fiscal 2001. Research and development expenses represented 25% and 29% of total revenue in the second fiscal quarter of 2002 and 2001, respectively. The decrease in terms of dollars is due to a decrease of \$1.0 million in consulting and contractor costs and \$0.8 million related to our workforce reduction program. These decreases are offset by an increase in compensation and compensation-related costs of \$0.4 million related to higher levels of research and development staffing compared to the prior year and an increase in depreciation expense of \$0.7 million.

Research and development expenses were \$95.4 million for the six-month period ended April 30, 2002 and \$93.9 million for the six-month period ended April 30, 2001. As a percentage of total revenue, research and development expenses represented 26% and 29% for the six-month periods ended April 30, 2002 and 2001, respectively. The increase in terms of dollars is due to the increase in compensation and compensation-related costs of \$5.2 million related to higher levels of research and development staffing and annual merit and cost of living increases, which were implemented in the second quarter of 2001. These increases are offset by lower employee benefit costs related to a change in our health and welfare benefit programs. Depreciation expense also increased \$1.2 million. Expenses related to consultants and other expenses, including facilities, travel, communications, supplies and recruiting, decreased \$2.5 million and \$2.2 million, respectively, as a result of our cost reduction programs.

SALES AND MARKETING. Sales and marketing expenses decreased by 9% to \$63.2 million in the second quarter of fiscal 2002 from \$69.2 million in the same quarter last year. Sales and marketing expenses represented 34% and 42% of total revenue in the second fiscal quarter of 2002 and 2001, respectively. The decrease in the three-month period in fiscal 2002 in comparison to fiscal 2001 in terms of dollars resulted in part from a decrease in compensation and compensation-related costs of \$1.4 million due to a decline in sales commissions as well as a decrease in the cost of benefits related to a change in our health and welfare benefit programs. These decreases were offset in part by annual merit and cost of living increases, which were implemented in the second quarter of 2001. Employee functions, consulting expenses and other expenses, including facilities, travel and information technology also decreased \$0.5 million, \$1.4 million and \$2.6 million as a result of the Company's cost reduction efforts.

Sales and marketing expenses were \$123.0 million and \$138.8 million (34% and 43% of total revenue) for the six-month periods ended April 30, 2002 and 2001, respectively. The decrease in the six-month period in fiscal 2002 in comparison to fiscal 2001 period in terms of dollars resulted in part from a decrease in compensation and compensation-related costs of \$7.7 million due to a decline in sales commissions as well as a decrease in the cost of benefits related to a change in our health and welfare benefit programs. These decreases were offset by annual merit and cost of living increases, which were implemented in the second quarter of 2001. Employee functions, consulting expenses and other expenses including facilities, travel and information technology also decreased \$1.8 million, \$2.4 million and \$3.9 million as a result of the Company's cost reduction efforts.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 16% to \$17.5 million in the second quarter of fiscal 2002, compared to \$15.1 million in the same quarter last year. General and administrative expenses represented 9% of total revenue for both the three-month periods ended April 30, 2002 and 2001, respectively. This increase is due in part to an increase in litigation expenses relating to certain legal actions initiated by Synopsys. Equipment and maintenance expense also increased \$2.0 million due to new maintenance contracts associated with the upgrade of our infrastructure systems. Further, there were increases in bad debt expense and depreciation expense of \$0.5 million and \$0.7 million. These increases were offset by a decrease in compensation and compensation-related costs of \$0.7 million as a result of the Company's cost reduction efforts.

General and administrative expenses increased 14% to \$36.2 million from \$31.8 million for the six months ended April 30, 2002 and 2001, respectively. General and administrative expenses represented 10% of total revenue for both the six-month periods ended April 30, 2002 and 2001. This increase is due in part to an increase in litigation expenses relating to certain legal actions initiated by Synopsys. Equipment and maintenance expense also increased in comparison to the prior year by approximately \$6.4 million due primarily to new maintenance contracts associated with the upgrade of our infrastructure systems. Further, there was an increase in bad debt expense of approximately \$0.6 million. These increases were offset by decreases in compensation and compensation-related costs as a result of the reorganization of certain human resource functions which occurred during the first quarter of fiscal 2002 and the Company's cost reduction efforts.

AMORTIZATION OF INTANGIBLE ASSETS. Goodwill represents the excess of the aggregate purchase price over the fair value of the tangible and identifiable intangible assets we have acquired. Intangible assets and goodwill are amortized over their estimated useful life of three to five years. We assess the recoverability of goodwill by estimating whether the unamortized cost will be recovered through estimated future undiscounted cash flows. Amortization of intangible assets charged to operations in the second quarter of fiscal 2002 was \$4.4 million compared to \$4.2 million for the same period last year. Amortization of intangible assets charged to operations was \$8.4 million and \$8.4 million for the six months ended April 30, 2002 and 2001, respectively. The Financial Accounting Standards Board recently issued new guidance with respect to the amortization and evaluation of goodwill. This new guidance is discussed below under Effect of New Accounting Standards.

OTHER INCOME, NET. Other income, net was \$11.2 million in the second quarter of fiscal 2002, as compared to \$21.9 million in the same quarter in the prior year. This decrease is due in part to the gains recognized on the sale of securities during the second quarter of fiscal 2002 of \$6.8 million, compared to \$15.3 million for the same period during 2001. Interest income for the second quarter of 2002 was \$2.3 million compared to \$3.6 million for the second quarter of 2001. Although cash balances were higher as of April 30, 2002 than a year ago, significantly lower interest rates the Company's shift of its investments into shorter maturity instruments in anticipation of the Avant! merger resulted in a decrease in interest income. The second quarters of 2002 and 2001 include investment impairment charges of approximately \$3.5 million and \$1.0 million, respectively, to write down the carrying value of certain assets held in our venture fund to the best estimate of net realizable value. The second quarter of fiscal 2002 also includes a net gain of \$3.1 million related to the termination fee for the IKOS agreement net of costs incurred. The remaining changes to other income, net relate to rental income, the amortization of premium on equity forwards and foreign exchange gains and losses recognized during the quarter.

Other income, net was \$22.3 million and \$47.4 million for the six months ended April 30, 2002 and 2001, respectively. The six-month decrease is due in part to the gain of \$10.6 million on the sale of our silicon libraries business to Artisan during 2001 and in part to realized gains on investments, which were \$12.4 million for fiscal 2002 as compared to \$29.6 million for fiscal 2001. These gains were partially offset by the write-down of certain assets in our venture portfolio in the amount of \$3.5 million and \$4.3 million for the six months of fiscal 2002 and 2001, respectively. Interest income in the six months ended April 30, 2002 was \$4.5 million million, as compared to \$7.8 million in the same quarter last year. Although cash balances were higher as of April 30, 2002 than a year ago, a significantly lower interest rate environment and a shortened average investment maturity in anticipation of the Avant! acquisition resulted in a decrease in interest income. The second quarter of fiscal 2002 also includes a net gain of \$3.1 million related to the termination fee for the IKOS agreement net of costs incurred. Further, rental income was \$4.8 million and \$3.7 for the six-month periods ended April 30, 2002 and 2001, respectively. The remaining changes to other income, net relate to the amortization of premium forwards and foreign exchange gains and losses recognized during the quarter.

During the six months ended April 30, 2002 and 2001, we determined that certain of the assets held in our venture fund valued at \$4.0 million and \$7.8 million, respectively, were impaired and that the impairment was other than temporary. Accordingly, we recorded charges of approximately \$3.5 million and \$4.3 million for the six months ended April 30, 2002 and 2001, respectively, to write down the carrying value of the investments to the best estimate of net realizable value. Impairment charges relate to certain investments in non-public companies and represent management's estimate of the impairment incurred during the period as a result of specific analysis of each investment, considering the activities of and events occurring at each of the underlying portfolio companies during the quarter.

Our portfolio companies operate in industries that are rapidly evolving and extremely competitive. For equity investments in non-public companies for which there is not a market in which their value is readily determinable, we assess each investment for indicators of impairment at each quarter-end based primarily on achievement of business plan objectives and current market conditions, among other factors, and information available to us at the time of this quarterly assessment. The primary business plan objectives we consider include, among others, those related to financial performance such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature such as the launching of technology or the hiring of key employees. If it is determined that an impairment has occurred with respect to an investment in a portfolio company, in the absence of quantitative valuation metrics, management estimates the impairment and/or the net realizable value of the portfolio investment based on public- and private-company market comparable information and valuations completed for companies similar to our portfolio companies.

INTEREST RATE RISK. Our exposure to market risk for a change in interest rates relates to our investment portfolio. We place our investments in a mix of short-term tax exempt and taxable instruments that meet high credit quality standards, as specified in our investment policy. This policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. We do not anticipate any material losses with respect to our short-term investment portfolio.

The following table presents the carrying value and related weighted-average interest return for our investment portfolio. The carrying value approximates fair value at April 30, 2002. In accordance with our investment policy, the weighted-average duration of our invested funds portfolio does not exceed one year.

Principal (Notional) Amounts in U.S. Dollars:

(IN THOUSANDS, EXCEPT INTEREST RATES)	CARRYING AMOUNT	WEIGHTED-AVERAGE AFTER TAX INTEREST RETURN
	-----	-----
Short-term investments - fixed rate	48,170	2.26%
Money market funds - variable rate	436,256	1.36%

Total interest bearing instruments	\$ 484,426	1.45%
	=====	

FOREIGN CURRENCY RISK. At the present time, we do not generally hedge anticipated foreign currency cash flows but hedge only those currency exposures associated with certain assets and liabilities denominated in nonfunctional currencies. Hedging activities undertaken are intended to offset the impact of currency fluctuations on these balances. The success of this activity depends upon the accuracy of our estimates of balances denominated in various currencies, primarily the Euro, Japanese yen, Taiwan dollar, British pound sterling, Canadian dollar, and Singapore dollar. We had contracts for the sale and purchase of foreign currencies with a notional value expressed in U.S. dollars of \$110.1 million as of April 30, 2002. Looking forward, we do not anticipate any material adverse effect on our consolidated financial position, results of operations, or cash flows resulting from the use of these instruments. There can be no assurance that these hedging transactions will be effective in the future.

The following table provides information about our foreign exchange forward contracts at April 30, 2002. Due to the short-term nature of these contracts, the contract rate approximates the weighted-average contractual foreign currency exchange rate at April 30, 2002. These forward contracts mature in approximately thirty days.

Short-Term Forward Contracts to Sell and Buy Foreign Currencies in U.S. Dollars:

(IN THOUSANDS, EXCEPT FOR CONTRACT RATES)	USD AMOUNT	CONTRACT RATE
	-----	-----
Forward Net Contract Values:		
Euro	\$ 83,734	1.1112
Japanese yen	15,274	128.79
Taiwan dollar	987	34.665
British pound sterling	2,921	0.6872
Canadian dollar	4,557	1.5683
Singapore dollar	2,587	1.8110

	\$ 110,060	
	=====	

The unrealized gains/losses on the outstanding forward contracts at April 30, 2002 were immaterial to our consolidated financial statements. The realized gain/losses on these contracts as they matured were not material to our consolidated financial position, results of operations or cash flows for the periods presented.

We apply Statement of Financial Accounting Standards No. 133 (SFAS 133), ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, as amended, in accounting for our derivative financial instruments. SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires that all derivatives be recognized as either assets or liabilities at fair value. Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings. If the derivative is designated as a hedging instrument, depending on the nature of the exposure being hedged, changes in fair value will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged anticipated transaction affects earnings. The ineffective portion of the hedge is recognized in earnings immediately. We do not believe that ongoing application of SFAS 133 will significantly alter our hedging strategies. However, its application may increase the volatility of other income and expense and other comprehensive income. Apart from our foreign currency hedging and forward sales of certain equity investments, we do not use derivative financial instruments. In particular, we do not use derivative financial instruments for speculative or trading purposes.

TERMINATION OF AGREEMENT TO ACQUIRE IKOS SYSTEMS, INC. On July 2, 2001, we entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") with IKOS Systems, Inc. (IKOS). The Merger Agreement provided for the acquisition of all outstanding shares of IKOS common stock by Synopsys.

On December 7, 2001, Mentor Graphics Corporation (Mentor) commenced a cash tender offer to acquire all of the outstanding shares of IKOS common stock at \$11.00 per share, subject to certain conditions. On March 12, 2002, Synopsys and IKOS executed a termination agreement by which the parties terminated the Synopsys-IKOS merger agreement and pursuant to which IKOS paid Synopsys the \$5.5 million termination fee required by the Synopsys-IKOS merger agreement. This termination fee and \$2.4 million of expenses incurred in conjunction with the acquisition are included in other income, net on the unaudited condensed consolidated statement of income. Synopsys subsequently executed a revised termination agreement with Mentor and IKOS in order to add Mentor as a party thereto.

ACQUISITION OF AVANT! CORPORATION. On June 6, 2002 (the "closing date"), we completed the merger with Avant! Corporation (Avant!), a company which develops, markets, licenses and supports electronic design automation software products that assist design engineers in the physical layout, design, verification, simulation, timing and analysis of advanced integrated circuits. Under the terms of the merger agreement with Avant!, Avant! merged with and into a wholly owned subsidiary of Synopsys. The merger will be accounted for under the purchase method of accounting. The results of operations of Avant! are not included in the accompanying condensed consolidated financial statements since the merger occurred subsequent to the date of our balance sheet.

REASONS FOR THE ACQUISITION. The Synopsys Board of Directors unanimously approved the merger agreement at its December 1, 2001 meeting. In approving the merger agreement and making these determinations and recommendations, the Board of Directors consulted with legal and financial advisors as well as with management and considered a number of factors. These factors include the fact that the merger would enable Synopsys and Avant! to offer their semiconductor customers a complete end-to-end solution for system-on-chip design that includes Synopsys' logic synthesis and design verification tools with Avant!'s advanced place and route, physical verification and design integrity products, thus increasing customers' design efficiencies. By increasing customer design efficiencies, Synopsys expects to be able to better compete for customers designing the next generation of semiconductors. Further, by gaining access to Avant!'s physical design and verification products, as well as its broad customer base and relationships, Synopsys will gain new opportunities to market its existing products. The foregoing discussion of the information and factors considered by the Synopsys Board of Directors is not intended to be exhaustive but includes the material factors considered by the Synopsys Board of Directors.

PURCHASE PRICE. Holders of Avant! common stock received 0.371 of a share of Synopsys common stock (including the associated preferred stock rights) in exchange for each share of Avant! common stock (the exchange ratio) owned as of the closing date, aggregating approximately 14.5 million shares of Synopsys common stock. The fair value of the Synopsys shares issued was based on a per share value of \$54.74, which is equal to Synopsys' average last sale price per share as reported on the Nasdaq National Market for the trading-day period two days before and after December 3, 2001, the date of the merger agreement.

The purchase consideration will include (a) the fair value of Synopsys common stock issued of approximately \$795.4 million, (b) the estimated fair value of options to purchase Synopsys common stock to be issued, less the portion of the intrinsic value of Avant!'s unvested options applicable to the remaining vesting period, the determination of which amount is not complete as of the date of this filing, (c) estimated merger related costs of approximately \$25 million, (d) employee severance costs, and (e) restructuring charges related to exiting certain of Avant!'s activities, including certain facilities, and workforce reductions, in accordance with Emerging Issues Task Force (EITF) Issue No. 95-3.

The estimated merger-related costs consist primarily of banking, legal and accounting fees, printing costs, and other directly related charges.

Employee severance costs consist of a cash severance payment due upon the closing of the merger of \$41.8 million to Avant!'s Chairman of the Board and cash severance payments to other employees of Avant!, the determination of which amount is not complete as of the date of this filing.

As of the date of filing this Form 10-Q, the valuation of Avant!'s assets and liabilities, including identifiable intangible assets, as of the closing date has not been completed. Furthermore, completion of integration planning will result in additional accruals for severance costs and/or facilities closures. Such accruals will increase the purchase consideration and the allocation of the purchase consideration to goodwill. Due to acceleration provisions related to certain of Avant!'s stock options and the completion of the integration planning, including workforce reductions, the estimated fair value of options to purchase Synopsys common stock to be issued in the merger has not been determined as of the date of this filing.

CADENCE LITIGATION. In connection with the merger, Synopsys has entered into a policy with American International Group, Inc., a AAA rated insurance company, whereby insurance has been obtained for certain compensatory, exemplary and punitive damages, penalties and fines and attorneys' fees arising out of the pending litigation between Avant! and Cadence Design Corporation, Inc. (the "Avant!/Cadence litigation" or the "covered loss"). The Avant!/Cadence litigation is described in the section entitled "Factors that may affect Future Results". The policy does not provide coverage for litigation other than the Avant!/Cadence litigation.

In return for a premium of \$335 million, the insurer will be obligated to pay covered loss up to a limit of liability equaling (a) \$500 million plus (b) interest accruing at the fixed rate of 2%, compounded semi-annually, on \$250 million (the "interest component"), as reduced by previous covered losses. The policy will expire following a final judgment or settlement of the Avant!/Cadence litigation or any earlier date upon Synopsys' election. Upon such expiration, Synopsys will be entitled to a payment equal to \$240 million plus the interest component less any covered loss paid under the policy (which, for this purpose, shall include legal fees only to the extent that the aggregate amount of such fees exceeds \$10 million).

The contingently refundable portion of the insurance premium (\$240 million) will be included in the post-merger balance sheet as a long-term restricted asset. Interest earned on that amount will be included in other income, net in the post-merger statement of operations. The balance of the premium paid to the insurer (\$95 million) will be recognized as expense in the third quarter of fiscal 2002.

At the closing date, the Cadence/Avant! litigation has been accounted for as a pre-merger contingency because a litigation judgment or settlement amount, if any, is not probable or estimable. If a litigation loss becomes probable and estimable after the date of the merger, such loss will be included in net income.

GOODWILL AND INTANGIBLE ASSETS. Goodwill, representing the excess of the purchase price over the fair value of tangible and identifiable intangible assets, acquired in the merger will not be amortized, consistent with the guidance with SFAS 142. Upon completion of the valuation of Avant!'s assets and liabilities, including identifiable intangible assets, any resulting allocation to acquired in-process technology will be reflected in the post-merger statement of income. In addition, a portion of the purchase price will be allocated to identifiable intangible assets, including the following:

Intangible Asset	Estimated Useful Life
Core/developed technology	3 years
Contract right intangible	3 years
Customer installed base/relationship	6 years
Trademarks and tradenames	3 years
Covenants not to compete	The life of the related agreement (2 to 4 years)

EFFECT OF NEW ACCOUNTING STANDARDS. In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, BUSINESS COMBINATIONS, (SFAS 141) and No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS (SFAS 142). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS 142.

We adopted the provisions of SFAS 141 on July 1, 2001. Under SFAS 141, goodwill and intangible assets with indefinite useful lives acquired in a purchase business combination completed after June 30, 2001, but before SFAS 142 is adopted, will not be amortized but will continue to be evaluated for impairment in accordance with SFAS 121. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized and tested for impairment in accordance with current accounting guidance until the date of adoption of SFAS 142.

Upon adoption of SFAS 142, we must evaluate its existing intangible assets and goodwill acquired in purchase business combinations prior to July 1, 2001, and make any necessary reclassifications in order to conform with the new criteria in SFAS 141 for recognition apart from goodwill. Upon adoption of SFAS 142, we will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments. We will also be required to test goodwill for impairment in accordance with the provisions of SFAS 142 within the six-month period following adoption. Any impairment loss will be measured as of the date of adoption and recognized immediately as the cumulative effect of a change in accounting principle. Any subsequent impairment losses will be included in operating activities.

We expect to adopt SFAS 142 on November 1, 2002. As of April 30, 2002, unamortized goodwill is \$27.0 million, which, in accordance with the Statements, will continue to be amortized until the date of adoption of SFAS 142. Amortization of goodwill for the three- and six-month periods ended April 30, 2002 was \$3.9 million and \$7.9 million, respectively. The Company does not have any intangible assets with an indefinite useful life. Because of the extensive effort needed to comply with adopting SFAS 142, it is not practicable to reasonably estimate the impact of adopting this Statement on our financial statements at the date of this report, including whether we will be required to recognize any transitional impairment losses.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS (SFAS 143). SFAS 143 requires that asset retirement obligations that are identifiable upon acquisition, construction or development and during the operating life of a long-lived asset be recorded as a liability using the present value of the estimated cash flows. A corresponding amount would be capitalized as part of the asset's carrying amount and amortized to expense over the asset's useful life. The Company is required to adopt the provisions of SFAS 143 effective November 1, 2002. The Company is currently evaluating the impact of adoption of this Statement on its financial position and results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of APB Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS FOR A DISPOSAL OF A SEGMENT OF A BUSINESS. The Company is required to adopt the provisions of SFAS 144 no later than November 1, 2002. The Company does not expect that the adoption of SFAS 144 will have a significant impact on its financial position and results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and short-term investments were \$531.7 million at April 30, 2002, an increase of \$55.3 million, or 12%, from October 31, 2001. Cash used in operating activities was \$11.1 million for the six months ended April 30, 2002 compared to \$96.9 million provided by operating activities for the same period in the prior year. The decrease in cash flows from operating activities is due primarily to payments for income taxes and other liabilities made during the first quarter as well as a decrease in the deferred revenue liability.

Cash provided by investing activities was \$144.6 million in the first six months of 2002 compared to \$44.5 million provided by investing activities during same period in 2001. The increase in cash provided by investing activities of \$100.1 million is primarily due to net proceeds from the sale of short- and long-term investments totaling \$172.0 million for the six months ended April 30, 2002 as compared to net proceeds of investments totaling \$74.7 million for the same period during 2001. Capital expenditures totaled \$26.5 million in the first six months of fiscal 2002 as we continue to invest in fixed assets, primarily related to construction of our Oregon facilities and computing equipment to upgrade our infrastructure systems. In addition, cash proceeds from the sale of our silicon libraries business were \$4.1 million in the first quarter of fiscal 2001.

Cash provided by financing activities was \$77.8 million for the six months ended April 30, 2002 compared to \$146.1 million used in financing activities during the same period during fiscal 2001. Financing proceeds from the exercise of stock options during the six months ended April 30, 2002 and 2001 were \$65.3 million.

The primary financing uses of cash during the six months ended April 30, 2001 were for the purchase of treasury stock, net of reissuances and payment of obligations totaling \$206.3 million and \$5.1 million, respectively. During the six months ended April 30, 2002, we issued \$11.1 million in shares of treasury stock under our Employee Stock Purchase Program. We did not purchase any treasury stock during the first two quarters of fiscal 2002. However, we may resume the program in the third quarter of fiscal 2002.

Accounts receivable increased to \$152.0 million at April 30, 2002 compared to \$146.3 million at October 31, 2001. Days sales outstanding, which is calculated based on revenues for the most recent quarter and accounts receivable as of the balance sheet date, increased to 74 days as of April 30, 2002 from 73 days at October 31, 2001 as a result of a decrease in revenues in the quarter ended April 30, 2002 compared to the quarter ended October 31, 2001.

Our principle sources of cash are collections of accounts receivable and the issuance of common stock. We believe that our current cash, cash equivalents, short-term investments, lines of credit, and cash generated from operations will satisfy our business requirements for at least the next twelve months.

As described above under "Acquisition of Avant! Corporation", in connection with the Company's merger with Avant!, the Company has purchased an insurance policy to protect it against losses resulting from the Avant!/Cadence litigation. On June 7, 2002, the Company paid the premium for such policy, which resulted in the transfer of \$325 million to the insurance Company. As a result, the Company's balance of cash and short-term investments at the end of the third quarter of fiscal 2002 is expected to be substantially below the balance as of the end of the second quarter. As described above, under certain circumstances, at the end of the Avant!/Cadence litigation, the Company may be entitled to receive back a portion of the amount paid to the insurer.

FACTORS THAT MAY AFFECT FUTURE RESULTS

WEAKNESS IN THE SEMICONDUCTOR AND ELECTRONICS BUSINESSES MAY NEGATIVELY IMPACT SYNOPSYS' BUSINESS. Synopsys' business depends on the semiconductor and electronics businesses. In 2001, these businesses experienced their sharpest decline in orders and revenue in over 20 years and this weakness has continued in 2002.

Purchases of our products are largely dependent upon the commencement of new design projects by semiconductor manufacturers and their customers, the number of design engineers and the increasing complexity of designs. During 2001 many semi-conductor and electronic companies cancelled or deferred design projects and reduced their design engineering staffs, which negatively impacted our orders and revenues, particularly orders and revenues from our professional services business. Demand for our products and services may also be affected by partnerships and/or mergers in the semiconductor and systems industries, which may reduce the aggregate level of purchases of our products and services by the companies involved. Continuation or worsening of the current conditions in the semiconductor industry, and continued consolidation among our customers, all could have a material adverse effect on our business, financial condition and results of operations.

SYNOPSYS' REVENUE AND EARNINGS MAY FLUCTUATE. Many factors affect our revenue and earnings, which makes it difficult to achieve predictable revenue and earnings growth. 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 revenue and earnings in a particular quarter or over several quarterly or annual periods:

- o 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. In the past, we have received a disproportionate volume of orders 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 for that period could be below our plan and our revenue for that period or future periods could be below any targets we may have published.

- o Accounting rules determine when revenue is recognized on our orders, and therefore impact how much revenue we will report in any given fiscal period. The authoritative literature under which Synopsys recognizes revenue has been, and is expected to continue to be, the subject of much interpretative guidance. In general, after the adoption of TSLs in the fourth quarter of fiscal 2000, most orders for our products and services yield revenue over multiple quarters or years or upon completion of performance rather than at the time the product is shipped. For any given order, however, the specific terms agreed to with a customer may have the effect of requiring deferral or acceleration of revenue in whole or in part. Therefore, for any given fiscal period 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 or exceed our revenue and/or earnings plan because of backlog and deferred revenue, while aggregate orders are under plan.

o Our revenue and earnings targets are based, in part, upon an assumption that we will achieve a license mix of perpetual licenses (on which revenue is generally recognized in the quarter shipped) and TSLs (on which revenue is recognized over the term of license) within a specified range, which is adjusted from time to time. If we are unable to achieve a mix in this range our ability to achieve short-term or long-term revenue and/or earnings targets may be impaired.

SYNOPSYS MAY NOT BE ABLE TO SUCCESSFULLY COMPETE IN THE EDA INDUSTRY, WHICH WOULD HAVE A MATERIAL ADVERSE EFFECT ON SYNOPSYS' RESULTS OF OPERATIONS. The EDA industry is highly competitive. 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 Design Systems, Inc. and Mentor Graphics Corporation, as well as companies, including numerous recently public and start-up companies, that offer products focused on a discrete phase of the integrated circuit design process. In certain situations, Synopsys' competitors have been offering aggressive discounts on certain of their products, in particular simulation and synthesis products. As a result, average prices for these products may fall.

TECHNOLOGY ADVANCES AND CUSTOMER REQUIREMENTS CONTINUE TO FUEL A CHANGE IN THE NATURE OF COMPETITION AMONG EDA VENDORS, WHICH COULD HURT SYNOPSYS' ABILITY TO COMPETE. Increasingly, EDA companies compete on the basis of design flows involving integrated logic and physical design products (referred to as physical synthesis products) rather than on the basis of individual point tools performing a discrete phase of the design process. The need to offer physical synthesis products will become increasingly important as ICs grow more complex. Our physical synthesis products compete principally with products from Cadence and Magma Design Automation, both of which include more complete physical design capabilities. We are working on completing our design flow. In June 2001, we announced two physical design products, and in June 2002 we completed the Avant! acquisition. However, there can be no guarantee that we will be able to offer a competitive complete design flow to customers as a result of these efforts or the Avant! acquisition. If we are unsuccessful in developing a complete design flow on a timely basis or if we are unsuccessful in developing or convincing customers to adopt our integrated design flow, our competitive position could be significantly weakened.

SYNOPSYS' REVENUE GROWTH DEPENDS ON NEW AND NON-SYNTHESIS PRODUCTS, WHICH MAY NOT BE ACCEPTED IN THE MARKETPLACE. Historically, much of our growth has been attributable to the strength of our logic synthesis products. Our DC Family of products accounted for 31% of revenue in the second quarter of fiscal 2002. Over the long term, we expect the contribution from the DC Family to decline as our customers transition from DC Family products to Physical Synthesis products. In order to meet our revenue plan, aggregate revenues products other than the DC family and from professional services must grow faster than our overall revenue growth target. If such revenue growth fails to meet our goals, it will be difficult for us to meet our overall revenue or earnings targets.

In order to sustain revenue growth over the long term, we will have to enhance our existing products, introduce new products that are accepted by a broad range of customers and to continue the growth in 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 introduced new products that have failed to meet our revenue expectations. Expanding revenue from consulting services may be difficult in the current economic environment. It will require us to continue to develop effective management controls on bidding and executing on consulting engagements. Increasing consulting orders and revenue while maintaining 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 THAT SYNOPSYS HAS ACQUIRED OR THAT SYNOPSYS MAY ACQUIRE IN THE FUTURE MAY NOT PERFORM AS PROJECTED. We have acquired or merged with a number of companies in recent years, and as part of our efforts to increase revenue and expand our product and services offerings we may acquire additional companies. For example, in June 2002, Synopsys completed the Avant! merger. In addition to direct costs, acquisitions pose a number of risks, including potential dilution of earnings per share, problems in 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, adverse effects on customer buying patterns and assumption of unknown liabilities. While we attempt to review proposed acquisitions carefully and negotiate terms that are favorable to us, there is no assurance that any acquisition will have a positive effect on our performance.

STAGNATION OF INTERNATIONAL ECONOMIES WOULD ADVERSELY AFFECT OUR PERFORMANCE. During the three months ended April 30, 2002, 31% of our revenue was derived from outside North America, as compared to 38% during the same period in fiscal 2001. International sales are vulnerable to regional or worldwide economic or political conditions and to changes in foreign currency exchange rates.

Economic conditions in Europe, Japan and the rest of Asia have deteriorated in recent quarters, and the longer this weakness persists the more likely it is to have a negative impact on our business. In particular, a number of our largest European customers are in the telecommunications equipment business, which has weakened considerably. The Japanese economy has been stagnant for several years, and may now be entering a recession. If the Japanese economy remains weak, revenue and orders from Japan, and perhaps the rest of Asia, could be adversely affected. In addition, the yen-dollar and Euro-dollar exchange rates remain subject to unpredictable fluctuations. Weakness of the yen could adversely affect revenue and orders from Japan during future quarters. Asian countries other than Japan also have experienced economic and currency problems in recent years, and in most cases they have not fully recovered. If such conditions persist or worsen, orders and revenues from the Asia Pacific region would be adversely affected.

A FAILURE TO RECRUIT AND RETAIN KEY EMPLOYEES WOULD HAVE A MATERIAL ADVERSE EFFECT ON OUR ABILITY TO COMPETE. Our success is dependent on technical and other contributions of key employees. We participate in a dynamic industry, and our headquarters is in Silicon Valley, where, despite recent economic conditions, skilled technical, sales and management employees are in high demand. There are a limited number of qualified EDA and IC design engineers, and the competition for such individuals is intense. Despite economic conditions, start-up activity in EDA remains significant, and a number of EDA companies have gone public in the past year. Experience at Synopsys is highly valued in the EDA industry and the general electronics industry, and our employees are recruited aggressively by our competitors and by start-up companies in many industries. In the past, we have experienced, and may continue to experience, significant employee turnover. There can be no assurance that we can continue to recruit and retain the technical and managerial personnel we need to run our business. Failure to do so could have a material adverse effect on our business, financial condition and results of operations.

A FAILURE TO PROTECT OUR PROPRIETARY TECHNOLOGY WOULD HAVE A MATERIAL ADVERSE EFFECT ON SYNOPSIS' FINANCIAL CONDITION AND RESULTS OF OPERATIONS. Our success is dependent, in part, upon our proprietary technology and other intellectual property rights. We rely on agreements with customers, employees and others, and intellectual property laws, 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. Moreover, effective intellectual property protection may be unavailable or limited in certain foreign countries. Failure to obtain or maintain appropriate patent, copyright or trade secret protection, for any reason, could have a material adverse effect on our business, financial condition and results of operations. In addition, there can be no assurance that infringement claims will not be asserted against us and any such claims could require us to enter into royalty arrangements or result in costly and time-consuming litigation or could subject us to damages or injunctions restricting our sale of products or could require us to redesign products.

OUR OPERATING EXPENSES DO NOT FLUCTUATE PROPORTIONATELY WITH FLUCTUATIONS IN REVENUES, WHICH COULD MATERIALLY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS IN THE EVENT OF A SHORTFALL IN REVENUE. Our operating expenses are based in part on our expectations of future revenue, and expense levels are generally committed in advance of revenue. Since only a small portion of our expenses varies with revenue, a shortfall in revenue translates directly into a reduction in net income. If we are unsuccessful in generating anticipated revenue or maintaining expenses within this range, however, our business, financial condition and results of operations could be materially adversely affected.

SYNOPSIS HAS ADOPTED ANTI-TAKEOVER PROVISIONS, WHICH MAY HAVE THE EFFECT OF DELAYING OR PREVENTING CHANGES OF CONTROL OR MANAGEMENT. We have adopted a number of provisions that could have anti-takeover effects. Our Board of Directors has adopted a Preferred Shares Rights Plan, commonly referred to as a poison pill. In addition, our 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 Synopsys might otherwise receive a premium for their shares over then current market prices.

SYNOPSIS IS SUBJECT TO CHANGES IN FINANCIAL ACCOUNTING STANDARDS, WHICH MAY AFFECT OUR REPORTED REVENUE, OR THE WAY WE CONDUCT BUSINESS. We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). GAAP are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants (AICPA), the SEC and various bodies appointed by these organizations to interpret existing rules and create new accounting policies. In particular, a task force of the Accounting Standards Executive Committee, a subgroup of the AICPA, meets on a quarterly basis to review various issues arising under the existing software revenue recognition rules, and interpretations of these rules. Additional interpretations issued by the task force may have an adverse effect on how we report revenue or on the way we conduct our business in the future.

In addition, as a result of completing its merger with Avant!, Synopsys is subject to additional risks and uncertainties, including the following:

o **SYNOPSYS MAY FAIL TO INTEGRATE SUCCESSFULLY SYNOPSYS' AND AVANT!'S OPERATIONS. AS A RESULT, SYNOPSYS MAY NOT ACHIEVE THE ANTICIPATED BENEFITS OF THE ACQUISITION AND THE PRICE OF SYNOPSYS COMMON SHARES MIGHT BE ADVERSELY AFFECTED.** Synopsys acquired Avant! with the expectation that the acquisition would result in benefits to Synopsys, including the offering of a complete and, over time, integrated set of software products for the design and verification of complex integrated circuits to its customers. However, the expected benefits may not be fully realized. Achieving the benefits of the acquisition will depend on many factors, including the successful and timely integration of the products, technology and sales operations of the two companies. These integration efforts may be difficult and time consuming, especially considering the highly technical and complex nature of each company's products. Failure to achieve a successful and timely integration of their respective products and sales operations could result in the loss of existing or potential customers of Synopsys and Avant! and could have a material adverse effect on the business, financial condition and results of operations of Synopsys and its subsidiaries, including Avant!, and on the price of Synopsys common shares. Integration efforts will also divert significant management attention and resources. This diversion of attention and resources could have an adverse effect on Synopsys during such transition period.

o **SYNOPSYS CURRENTLY EXPECTS TO CHANGE THE MIX OF LICENSE TYPES UNDER WHICH AVANT! PRODUCTS ARE SOLD WHICH WILL LOWER REVENUE ATTRIBUTABLE TO AVANT! PRODUCTS IN THE SHORT TERM.** Synopsys expects to change the mix of license types under which Avant! products are sold to include a greater proportion of licenses under which revenue is recognized ratably over the license term rather than in the quarter of shipment. This change will result in a reduction in reported revenue in the near term attributable to licenses of Avant! products as compared to the revenue that would have been recognized had the license mix not been changed. Conversely, the change in license mix will result in an increase in backlog to be recognized as revenue in subsequent periods attributable to licenses of Avant! products. Synopsys expects that the change will reduce reported revenue by approximately \$50 million for the remainder of fiscal 2002 and by approximately \$60 million in fiscal 2003.

o **AVANT! HAS BEEN REQUIRED TO PAY SUBSTANTIAL AMOUNTS IN THE RECENT RESOLUTION OF CRIMINAL LITIGATION, AND MIGHT BE REQUIRED TO PAY SUBSTANTIAL ADDITIONAL AMOUNTS UNDER PENDING LAWSUITS. AVANT! AND ITS SUBSIDIARIES ARE ENGAGED IN A NUMBER OF MATERIAL CIVIL LITIGATION MATTERS, INCLUDING A CIVIL LITIGATION MATTER BROUGHT BY CADENCE, WHICH IN THIS DOCUMENT WE REFER TO AS THE AVANT!/CADENCE LITIGATION.** The Avant!/Cadence litigation generally arises out of the same set of facts that were the subject of a criminal action brought against Avant! and several individuals by the District Attorney of Santa Clara County, California, which action we refer to as the Santa Clara criminal action. Avant!, Gerald C. Hsu, Chairman of Avant! and five former Avant! employees pled no contest to certain of the charges in the Santa Clara criminal action. As part of that plea, Avant! paid approximately \$35.3 million in fines and a hearing was held on the amount of restitution owed to Cadence. During the hearing, Cadence claimed losses of \$683.3 million. Ultimately, the court in the Santa Clara criminal action required Avant! to pay Cadence restitution in the amount of \$195.4 million. That amount has been fully paid.

Cadence seeks compensatory damages and treble or other exemplary damages from Avant! in the Avant!/Cadence litigation under theories of copyright infringement, misappropriation of trade secrets, inducing breach of contract and false advertising. Synopsys believes Avant! has defenses to all of Cadence's claims in the Avant!/Cadence litigation. Cadence has not fully quantified the amount of damages it seeks in the Avant!/Cadence litigation. Should Cadence ultimately succeed in the prosecution of its claims, however, Avant! could be required to pay substantial monetary damages to Cadence. Some or all of these damages may be offset by the \$195.4 million restitution paid to Cadence in the Santa Clara criminal action. Approximately \$500 million in additional damages would be covered by the insurance policy Synopsys has obtained with respect to the Avant!/Cadence litigation, which is described below.

Injunctions entered in 1997 and 1998 enjoined Avant! from marketing its early place and route products, ArcCell and Aquarius, based on a judicial determination that they incorporated portions of Cadence's Design Framework II source code, which in this document we refer to as DFII. The injunctions also prohibit Avant! from possessing, using, selling or licensing any product or work copied or derived from DFII and directly or indirectly marketing, selling, leasing, licensing, copying or transferring any of the ArcCell or Aquarius products. Avant! ceased marketing, selling, leasing, licensing or supporting all of the ArcCell or Aquarius products in 1996 and 1999, respectively. The DFII code is not incorporated in any current Avant! product. Although Cadence has not made a claim in the Avant!/Cadence litigation against any current Avant! product, including its Apollo and Astro place and route products, and has not introduced any evidence that any such product infringes Cadence's intellectual property rights, Cadence has publicly implied that it intends to assert such claims. Synopsys believes Avant! would have defenses to any such claims.

Nonetheless, should Cadence be successful at proving that any past or then-current Avant! product incorporated intellectual property misappropriated from Cadence, Avant! could be permanently enjoined from further use of such intellectual property, which might require modification to existing products and/or suspension of the sale of such products until such Cadence intellectual property was removed.

Avant! is also engaged in other litigation matters. Avant! may have obligations to indemnify some or all of the defendants in three shareholder derivative complaints, purportedly brought on behalf of and for the benefit of Avant!, against the Avant! former Board of Directors seeking unspecified damages related to compensation, the Avant!/Cadence litigation and the Santa Clara criminal action. Sequence Design, Inc. filed an action against Avant! alleging that Star-RC and Star-RCXT, Avant!'s key parasitic extraction products, infringe a patent owned by Sequence and seeking unspecified damages. Silicon Valley Research, Inc. filed an action against Avant! alleging that Avant!'s use of Cadence trade secrets damaged it by allowing Avant! to develop and market products more quickly and cheaply and that were more attractive to customers. Renco Investment Company filed an action against Avant! seeking over \$43 million in rental payments and related damages associated with Avant!'s lease of a property that it assigned to Comdisco, Inc., which subsequently filed Chapter 11 bankruptcy and rejected the lease. The Avant!/Cadence litigation, other existing litigation and other potential litigation, regardless of the outcome, may continue to result in substantial costs and expenses and significant diversion of effort by management, and may negatively impact relationships with customers. An adverse result in any of these pending litigation matters could seriously harm Avant!'s and Synopsys' business, financial condition and results of operations.

Avant! has recently made significant payments to settle outstanding litigation. In April 2001, Avant! paid \$47.5 million to settle two class actions that alleged securities law violations related to the Avant!/Cadence litigation. On the closing date, Avant! paid the final installment of a \$5.4 million payment to settle claims between it and Dynasty Capital Services LLC and Randolph L. Tom. In June 2002, Avant! paid \$20.5 million to Silvaco to settle claims for defamation and intentional interference with economic advantage.

o THE INSURER UNDER THE LITIGATION PROTECTION INSURANCE RELATING TO THE AVANT!/CADENCE LITIGATION MAY BE PREVENTED FROM PAYING FOR CERTAIN LOSSES ON THE GROUNDS THAT SUCH PAYMENT VIOLATES PUBLIC POLICY. Synopsys has entered into a policy with a subsidiary of American International Group, Inc., an insurance company rated AAA by Standard & Poors. Under the policy, insurance will be provided to pay Synopsys an amount equaling amounts paid in a settlement or final adjudication of the Avant!/Cadence litigation, including compensatory, exemplary and punitive damages, penalties, fines, attorneys' fees and certain indemnification costs arising out of the Avant!/Cadence litigation. The policy does not provide coverage for litigation other than the Avant!/Cadence litigation. In exchange for a binding fee of \$10 million paid by Synopsys, the insurer has provided the coverage, which became effective following the closing of the Avant! acquisition. The fee was paid by Synopsys to the insurer on or about the time of the closing of the Avant! acquisition and was credited against the premium to make the insurance effective. In return for a premium of \$335 million, including the \$10 million binding fee, the insurer is obligated to pay covered loss up to a limit of liability equaling (a) \$500 million plus (b) interest accruing at the fixed rate of 2%, compounded semi-annually, on \$250 million, less previous losses. The policy will expire upon a final judgment or settlement of the Avant!/Cadence litigation or any earlier date upon Synopsys' election. Upon such expiration, Synopsys will be entitled to a payment equal to \$240 million plus interest calculated as set forth above less any loss paid under the policy, other than the first \$10 million of litigation expenses.

In some jurisdictions, it is against public policy to provide insurance for willful acts, punitive damages or similar claims. This could potentially affect the validity and enforceability of certain elements of the litigation protection policy. The legal agreement governing the litigation protection insurance expressly provides that the agreement will be governed by the laws of the State of Delaware and that any disputes arising out of or relating to the agreement will be resolved in the courts of the State of Delaware. Synopsys believes, based upon advice it has received from Delaware counsel, that a Delaware court would enforce both of these provisions, and moreover would enforce the arrangement under Delaware law, including to the extent it provides for insurance for Avant!'s willful acts and punitive damages. Nonetheless, there can be no assurance in this regard. In other cases, courts, including courts in California, have applied local law to insurance contracts irrespective of the parties' choice of law. Thus a court in a state other than Delaware could assert jurisdiction over the enforceability of this agreement and rule pursuant to the law of a state other than Delaware that the litigation protection insurance is not enforceable in whole or in part on grounds of public policy. For example, if there were to be litigation before a California court regarding the enforceability of the insurance policy, despite the parties' agreement that all disputes arising out of or relating to the agreement be resolved in the courts of the State of Delaware, it is possible that a California court might rule that, based upon the relationship of Synopsys, Avant!, Cadence and/or the Avant!/Cadence litigation to California, the enforceability of the litigation protection insurance should be governed by California law and that Section 533 of the California Insurance Code or another aspect of California law prevents the insurer from paying certain losses in whole or in part.

A Delaware court might abide by such a ruling of a California court. To the extent the insurer is prevented from paying certain losses on grounds of public policy that would otherwise be covered by the insurance, Avant! will be required to pay that portion of the losses and the insurer may be obligated to refund a portion of the premium to Synopsys.

o SYNOPSIS DOES NOT HAVE CONTROL OVER THE AVANT!/CADENCE LITIGATION OR THE AUTHORITY TO SETTLE THE AVANT!/CADENCE LITIGATION EXCEPT IN LIMITED CIRCUMSTANCES. Under the terms of the litigation protection insurance obtained by Synopsys to protect itself with respect to the Avant!/Cadence litigation described above, which became effective following the acquisition, the insurer has the right to exercise full control over the defense of the Avant!/Cadence litigation, including both the strategy and tactics to be employed. Further, the insurer has the right to exclusively control the negotiation, discussion and terms of any proposed settlement, except that Synopsys retains the right to settle the Avant!/Cadence litigation, with the consent of the insurer, for up to \$250 million plus accrued interest less certain costs, and Synopsys and the defendants in the Avant!/Cadence litigation each retain the right to consent or reasonably withhold consent to any settlement terms proposed by the insurer which are non-monetary and can be satisfied only by future performance or non-performance by Synopsys or such defendants, as the case may be. Therefore, Synopsys has a severely limited ability to control any risks associated with, and the timing related to, any liabilities resulting from the Avant!/Cadence litigation.

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 6. EXHIBITS AND REPORTS ON FORM 8-K

(a.) Exhibits

10.1 Consulting Services Agreement between Synopsys, Inc. and A. Richard Newton dated November 1, 2001 (compensatory plan or agreement in which an executive officer or director participates)

(b.) Reports on Form 8-k

None.

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.

SYNOPSIS, INC.

By: /S/ ROBERT B. HENSKE

Robert B. Henske
Senior Vice President,
Finance and Operations, and
Chief Financial Officer
(Principal Financial Officer)

Date: June 14, 2002

**SYNOPSYS, INC.
CONSULTING SERVICES AGREEMENT**

This Amended and Restated Consulting Services Agreement (the "Agreement") is entered into and effective as of the 1st day of November, 2001 (the "Effective Date") by and between Synopsys, Inc., a Delaware corporation ("Synopsys"), and A. Richard Newton ("Consultant").

In consideration of the mutual promises hereinafter contained, the parties agree as follows:

1. STATEMENT OF WORK

1.1 Synopsys agrees to retain Consultant to perform the work as specified in Exhibit A, Statement of Work (the "Work"), for the period specified herein. Consultant shall submit to Synopsys, in written or other tangible form, any deliverables or results of Consultant's work under this Agreement (the "Results").

1.2 At least once a month, Consultant will report to Synopsys on the status of the work. On reasonable notice, Synopsys may inspect Consultant's work in progress and receive copies of it.

2. ACCEPTANCE OF DELIVERABLES

Synopsys will inform Consultant in writing within a reasonable period of time of receiving a deliverable whether it accepts or rejects that deliverable. Synopsys may reject any deliverable which does not comply with the Statement of Work and/or with Synopsys' standards. If Synopsys fails to notify Consultant within the specified time, Synopsys will be deemed to have accepted the deliverable. If Synopsys rejects it, Synopsys may either terminate the contract pursuant to Section 7.4, or it may allow Consultant an opportunity to revise the deliverable to render it acceptable to Synopsys.

3. COMPENSATION

3.1 Compensation for all Work specified herein shall be as specified in Exhibit B.

3.2 Synopsys agrees to compensate Consultant for all reasonable, non-local travel expenses, which may be incurred at the request and with the prior written approval of Synopsys. Lodging and subsistence expenses will be reimbursed at actual costs, which should reflect what the going rates are for the particular location being visited. Rental car expenses for a compact size car will be reimbursed at actual cost. Materials and the cost of subcontracts shall not be chargeable to this Agreement.

3.3 The Compensation specified in Exhibit B and the foregoing costs and expenses are Consultant's sole compensation for performing Work for Synopsys.

3.3 Consultant shall provide Synopsys with periodic invoices detailing compensation, fees, and expense reimbursements, which Consultant believes are due under this Agreement. Consultant shall itemize and provide receipts for all expenses invoiced to Synopsys.

4. CONFIDENTIAL INFORMATION

4.1 Definition Of Confidential Information. Both parties agree that information disclosed by one party to the other, including but not limited to information learned from the disclosing party's employees, agents or through inspection of the disclosing party's property, that relates to the disclosing party's products, designs, business plans, business opportunities, finances, research, development, know-how, personnel, or third-party confidential information disclosed to the receiving party from the disclosing party, and the terms and conditions of this Agreement, will be considered and referred to collectively in this Agreement as "Confidential Information." Confidential Information, however, does not include information that: 1) is now or subsequently becomes generally available to the public through no fault or breach on the part of receiving party; 2) the receiving party can demonstrate to have had rightfully in its possession prior to disclosure by the disclosing party; 3) is independently developed by the receiving party without the use of any Confidential Information; or 4) the receiving party rightfully obtains from a third party who has the right to transfer or disclose it.

4.2 Nondisclosure And Nonuse Of Confidential Information. The receiving party agrees that it will not disclose, publish, or disseminate Confidential Information to anyone other than those of its employees with a demonstrated need to know, and the receiving party agrees to take all reasonable precautions to prevent any unauthorized use, disclosure, publication, or dissemination of Confidential Information. Recipient agrees to use Confidential Information solely for the purposes contemplated by this Agreement and not otherwise for its own or any third party's benefit without the prior written approval of an authorized representative of the disclosing party in each instance. All Confidential Information remains the property of the disclosing party

4.3 Synopsys will not solicit or accept confidential information from Consultant that belongs to any current or former employers.

5. ASSIGNMENT OF RIGHTS AND INTEREST

5.1 Consultant will promptly disclose in writing to Synopsys all inventions, improvements, designs, formulas, works of authorship, trade secrets, technology, algorithms, computer programs, ideas, processes, techniques, know-how and data, whether or not patentable, that are made, conceived, or first reduced to practice by Consultant, either alone or jointly with others, in the course of performing the Work ("Inventions"). Consultant will not disclose Inventions to any party outside Synopsys absent Synopsys' prior written consent.

5.2 Consultant agrees that all Inventions (including those related to any Confidential Information) and all Intellectual Property Rights embodied therein, shall be the sole property of Synopsys. Consultant agrees to assign and hereby assigns to Synopsys all right, title and interest in and to Inventions and related Intellectual Property Rights in any such Inventions.

5.3 Consultant agrees to perform, during and after the term of this Agreement, all acts deemed necessary or desirable by Synopsys to permit and assist it in obtaining, maintaining, defending, and enforcing Intellectual Property Rights with respect to such Inventions in any and all countries. Such acts may include, but are not limited to, execution of documents and assistance or cooperation in legal proceedings.

5.4 Any assignment of copyright hereunder includes all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as or referred to as "moral rights" (collectively "Moral Rights"). To the extent such Moral Rights cannot be assigned under applicable law, Consultant hereby forever waives and agrees never to assert any and all Moral Rights it may have in the Results, even after termination of the Services. Consultant will confirm any such waivers from time to time as requested by Synopsys.

5.5 Consultant will complete Exhibit C, listing all intellectual property existing as of the Effective Date of this Agreement and to which Consultant claims ownership. If Exhibit C is not completed, Consultant is representing that there is no existing Consultant intellectual property as of the Effective Date of this Agreement.

5.6 Synopsys acknowledges that from time to time Consultant may have Intellectual Property Rights which Consultant wishes to incorporate into the Results or which may be necessary for the utilization by Synopsys of such Results ("Consultant's Related Rights"). Unless otherwise agreed in advance, Consultant hereby grants Synopsys, its subsidiaries and affiliates, a royalty-free, irrevocable, worldwide, nonexclusive, perpetual license to make, have made, sell, use, disclose, reproduce, modify, prepare Derivative Works from, distribute, perform and display Consultant's Related Rights, with full rights to authorize others to do the same. Consultant will indemnify, hold harmless and, at Synopsys' request, defend Synopsys, its subsidiaries and affiliates, from and against all claims, liabilities, damages, losses and expenses including, but not limited to reasonable attorneys' fees and costs of suit, arising out of or in connection with all claims that the use or disclosure of Consultant's Related Rights violates any third party's rights.

6. INDEPENDENT CONTRACTOR STATUS

The relationship of Synopsys and Consultant established by this Agreement is that of independent contractors, and nothing contained in this Agreement shall be construed to give Synopsys the power to direct or control the day-to-day activities of Consultant. Consultant has no authority to act on behalf of or to enter into any contract, incur any liability or make any representation on behalf of Synopsys. Consultant is solely responsible for all taxes, withholdings, and other similar statutory obligations arising out of the performance of services under this Agreement and Consultant agrees to defend, indemnify and hold Synopsys harmless from any and all claims made by any entity on account of an alleged failure by Consultant to satisfy any such tax or withholding obligations.

7. TERM AND TERMINATION

7.1 The initial term of this Agreement shall expire on October 31, 2002. Thereafter, this Agreement shall be automatically renewed for successive one-year terms unless this Agreement shall be earlier terminated pursuant to Sections 7.2, 7.3 or 7.4.

7.2 If any deliverable is rejected by Synopsys or is not delivered by its due date, then Synopsys may terminate this contract immediately by giving written notice to Consultant and will not owe any amount for deliverables which have not been accepted.

7.3 Synopsys may terminate this Agreement at any time, for any reason, with or without cause, by giving Consultant written notice of termination. Termination will be effective immediately upon receipt of notice. If Synopsys terminates for convenience, it will pay Consultant for all accepted milestones and a prorated amount for partially completed deliverables. Consultant will submit invoices to Synopsys for payment of all outstanding amounts and Synopsys will pay all undisputed amounts within thirty (30) days of receipt of the invoices.

7.4 Either party has the right to terminate this Agreement if the other party breaches or is in default of any obligation hereunder, which default is incapable of cure or which, being capable of cure, has not been cured with fifteen (15) business days after receipt of written notice from the nondefaulting party, or within such additional cure period as the nondefaulting party may authorize.

7.5 Consultant agrees that all obligations under Sections 3, 4, 5, 9, 10 and 13 shall survive termination of this Agreement.

8. INSURANCE REQUIREMENTS

8.1 Consultant shall comply with all federal, state, county and municipal laws, ordinances, and regulations, if any, applicable to the Work to be done hereunder. Consultant further certifies that all Work performed hereunder shall be in compliance with applicable health and safety requirements.

8.2 Consultant agrees to carry such adequate health, auto, workers compensation, and liability insurance as is required to protect against related liability which may arise in the performance of the services hereunder, if the same would be common practice in Consultant's trade or business.

9. INDEMNITY

9.1 Consultant agrees, at its own expense, to defend or, at its option, to settle, any claim or action brought against Synopsys for breach of any warranty in Section 10, and Consultant will indemnify and hold Synopsys harmless from and against any damages, costs and fees reasonably incurred (including reasonable attorneys' fees) that are attributable to such claim or action. Synopsys agrees to provide Consultant with: (i) prompt written notification of the claim or action; (ii) control and authority over the defense or settlement thereof except that Synopsys may participate at its own expense; and (iii) all reasonable available information and assistance, as well as the authority to settle and/or defend any such claim or action provided that Synopsys must approve any settlement in writing, which approval will not be unreasonably withheld.

9.2 If the Results become, or are likely to become, the subject of an infringement claim or action, Consultant will: (i) procure, at no cost to Synopsys, the right to continue using the Results; (ii) replace or modify the Results to render them non-infringing, provided there is no material loss of functionality; or (iii) if, in Consultant's reasonable opinion, neither (i) nor (ii) above are commercially feasible, refund the amounts Synopsys paid for the Work.

9.3 Consultant agrees to indemnify, hold harmless and, upon Synopsys' request, defend Synopsys and its directors, officers, employees and agents from and against all loss, liability, damages, claims and expenses, including reasonable attorneys' fees, arising out of claims or suits for damage or injury to persons or property in connection with, in whole or in part, (i) any negligent act, omission, or willful misconduct of Consultant in the performance of this Agreement and (ii) Consultant's failure to comply with federal, state or local law.

10. WARRANTY

10.1 Consultant shall perform the Work with due diligence and in full compliance with the terms and conditions of this Agreement and the highest professional standards of one skilled in Consultant's industry.

10.2 With respect to all subject matter, including ideas, inventions, creations, works, processes, designs and methods, that Consultant will disclose or use in its performance of the Work or the granting of any rights under this Agreement, Consultant warrants that it has the right to make such disclosure, use and grant without liability to others. Consultant further warrants that: (i) the Results are or will be original with Consultant; (ii) the Results do not and will not infringe any Intellectual Property Rights of others; (iii) Consultant has not previously granted and will not grant any rights in the Results to any third party that are inconsistent with the rights granted to Synopsys herein; (iv) each of Consultant's employees, consultants, contractors, partners or agents who has been or will be involved in the performance of the Work will have signed an agreement with Consultant conveying all proprietary rights in the Results to Consultant and agreeing to maintain in confidence all trade secrets embodied in the Results; and (v) Consultant has full power to enter into this Agreement, to carry out its obligations under this Agreement and to grant the rights granted to Synopsys.

10.3 Consultant shall comply with all applicable laws and Synopsys' safety rules in the course of performing the Work. If Consultant's work requires a license, Consultant has obtained that license and the license is in full force and effect.

11. ACCESS TO SYNOPSIS PROPERTY

Permission to enter Synopsys-controlled premises shall at all times be subject to Synopsys' discretion and control in accordance with its rules. Consultant will be subject to security controls prescribed by Synopsys.

12. KEY PERSONNEL

Synopsys has determined that the individuals whose names appear below are necessary for the successful performance of the Work. Consultant agrees to assign such individuals to perform the Work and shall not reassign or remove any of them without the prior written consent of Synopsys. Whenever said key personnel are unavailable to perform the Work, Consultant shall, with the approval of Synopsys, replace such key personnel with individuals of substantially equal abilities and qualifications. If comparable talent is unavailable, Synopsys may terminate this Agreement as provided for in

Section 7, Termination. During the term of this Agreement and for one (1) year thereafter, Consultant will not encourage or solicit any employee or consultant of Synopsys to leave Synopsys for any reason.

Key Personnel:

A. Richard Newton

13. GENERAL PROVISIONS

13.1 CHOICE OF LAW. This Agreement will be governed by and construed in accordance with the laws of the United States and the State of California as applied to agreements entered into and to be performed entirely within California between California residents.

13.2 ASSIGNMENT. This Agreement may not be assigned by Consultant without the prior written consent of Synopsys.

13.3 NOTICES. Any notices required or permitted to be given pursuant to this Agreement shall be in writing, sent via certified mail, return receipt requested, express overnight courier, or by facsimile to the address of Synopsys or Consultant as set forth below, or to such other address as may be specified from time to time in writing. Such notice shall be deemed to have been received on the earlier of (i) the date when actually received, or (ii) if by facsimile, when the sending party shall have received a facsimile confirmation that the message has been received by the receiving party's facsimile machine.

IF TO SYNOPSIS:

Synopsis, Inc.
700 E. Middlefield Road
Mountain View, CA 94043-4033
Attn.: General Counsel
Telephone Number: (650) 584-4880
Facsimile Number: (650) 584-1184

IF TO CONSULTANT:

A. Richard Newton at such address as Consultant shall have
provided Synopsis in writing

13.4 NO WAIVER. Failure by either party to enforce any provision of this Agreement will not be deemed a waiver of future enforcement of that or any other provision.

13.5 SEVERABILITY. If for any reason a court of competent jurisdiction finds any provision of this Agreement, or portion thereof, to be unenforceable, that provision of the Agreement will be enforced to the maximum extent permissible so as to effect the intent of the parties, and the remainder of this Agreement will continue in full force and effect.

13.6 ATTORNEYS' FEES. The prevailing party in any action to enforce this Agreement shall be entitled to recover reasonable costs and expenses including, without limitation, reasonable attorneys' fees.

13.7 INJUNCTIVE RELIEF. The parties agree that a material breach of this Agreement adversely affecting Synopsis' Confidential Information would cause irreparable injury to Synopsis for which monetary damages would not be an adequate remedy and Synopsis shall be entitled to equitable relief in addition to any remedies it may have hereunder or at law.

13.8 FORCE MAJEURE. Nonperformance of either party shall be excused to the extent that performance is rendered impossible by strike, fire, flood, governmental action, failure of suppliers, earthquake, or any other reason where failure to perform is beyond the reasonable control of the non-performing party up to a maximum of ninety days.

13.9 ENTIRE AGREEMENT. This Agreement, including all Exhibits constitute the entire agreement between the parties with respect to the subject matter hereof, and supersede all prior agreements or representations, oral or written, regarding such subject matter. This Agreement may not be modified or amended except in a writing signed by a duly authorized representative of both parties.

13.10 COMMENCEMENT OF SERVICES. Services shall not commence until this agreement is incorporated into a Purchase Order that provides funding for the agreement and serves as the authorization to commence work.

CONSULTANT

SYNOPSISYS, INC.

By (Signature): /S/ A. RICHARD NEWTON

By (Signature): /S/ AART J. DE GEUS

Printed Name: A. RICHARD NEWTON

Printed Name: AART J. DE GEUS

Title: -----

Title: Chairman and Chief Executive
Officer

IF INTELLECTUAL PROPERTY IS NOT INVOLVED BOTH PARTIES WILL INITIAL IN THE SPACE PROVIDED BELOW AND SECTION 5, ASSIGNMENT OF RIGHTS AND INTEREST AND EXHIBIT C, LIST OF INVENTIONS WILL NOT APPLY.

CONSULTANT _____ SYNOPSISYS _____

EXHIBIT A

STATEMENT OF WORK

Consultant shall render such services as are necessary to complete in a professional manner the project described as follows (you may attach Consultant's proposal and incorporate it by reference, e.g. "see letter dated mo/day/yr from Consultant"):

Provide on-going consulting services to Synopsys for strategic planning and technology direction.

EXHIBIT B
COMPENSATION

During the term of this Agreement, Consultant shall be paid a fee of \$15,000 per month.

EXHIBIT C
LIST OF INVENTIONS

----- No inventions or improvements

----- See below

----- Additional sheets attached

Consultant Date

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End of Filing