

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

Form 10-Q

(Mark One)

- (X) **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 31, 2000**
- OR**
- () **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to**

Commission File Number: 0-19807

SYNOPSIS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

*(State or other jurisdiction of
incorporation or organization)*

56-1546236

*(I.R.S. Employer
Identification Number)*

**700 East Middlefield Road
Mountain View, CA 94043**

(Address of principal executive offices)

Telephone: (650) 962-5000

(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.

70,099,051 shares of Common Stock as of March 1, 2000

Synopsys, Inc.

Quarterly Report on Form 10-Q For the Three Months Ended January 31, 2000 and December 31, 1998 and One Month Ended October 31, 1999

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PART I

Item 1. Financial Statements

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

	<u>January 31,</u> <u>2000</u>	<u>October 31,</u> <u>1999</u>	<u>September 30,</u> <u>1999</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 222,242	\$ 309,394	\$ 285,314
Short-term investments	428,825	399,995	418,871
Cash and short-term investments	<u>651,067</u>	<u>709,389</u>	<u>704,185</u>
Accounts receivable, net of allowances of \$8,651, \$10,563 and \$10,523, respectively	156,899	130,253	155,885
Prepaid expenses, deferred taxes and other	<u>66,445</u>	<u>66,814</u>	<u>54,663</u>
Total current assets	<u>874,411</u>	<u>906,456</u>	<u>914,733</u>
Property and equipment, net	136,568	135,118	126,204
Long-term investments	80,920	57,651	53,277
Intangible assets, net	57,488	56,240	57,393
Other assets	<u>28,467</u>	<u>22,818</u>	<u>22,311</u>
Total assets	<u>\$ 1,177,854</u>	<u>\$ 1,178,283</u>	<u>\$ 1,173,918</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	\$ 80,870	\$ 98,976	\$ 118,595
Current portion of long-term debt	9,639	8,658	8,610
Accrued income taxes	52,964	50,146	50,036
Deferred revenue	<u>136,833</u>	<u>126,758</u>	<u>110,285</u>
Total current liabilities	<u>280,306</u>	<u>284,538</u>	<u>287,526</u>
Long-term debt	4,123	11,304	11,642
Deferred compensation	16,421	9,844	9,154
Stockholders' equity:			
Preferred stock, \$.01 par value; 2,000,000 shares authorized; no shares outstanding	--	--	--
Common stock, \$.01 par value; 200,000,000 shares authorized; 70,284,000, 70,750,000 and 70,260,000 shares outstanding, respectively	703	708	703
Additional paid-in capital	555,123	542,052	530,528
Retained earnings	377,932	349,192	371,395
Treasury stock, at cost	(75,248)	(28,589)	(43,657)
Accumulated other comprehensive income	<u>18,494</u>	<u>9,234</u>	<u>6,627</u>
Total stockholders' equity	<u>877,004</u>	<u>872,597</u>	<u>865,596</u>
Total liabilities and stockholders' equity	<u>\$ 1,177,854</u>	<u>\$ 1,178,283</u>	<u>\$ 1,173,918</u>

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

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

	<u>Three Months Ended</u>		<u>One Month Ended</u>
	<u>January 31,</u>	<u>December 31,</u>	<u>October 31,</u>
	<u>2000</u>	<u>1998</u>	<u>1999</u>
Revenue:			
Product	\$ 130,549	\$ 109,959	\$ 4,150
Service	86,319	70,267	19,032
Total revenue	<u>216,868</u>	<u>180,226</u>	<u>23,182</u>
Cost of revenue:			
Product	10,286	7,595	3,364
Service	18,599	14,111	4,016
Total cost of revenue	<u>28,885</u>	<u>21,706</u>	<u>7,380</u>
Gross margin	<u>187,983</u>	<u>158,520</u>	<u>15,802</u>
Operating expenses:			
Research and development	44,267	40,936	17,156
Sales and marketing	66,996	55,578	19,023
General and administrative	12,249	11,092	5,690
Amortization of intangible assets	3,521	--	1,153
In-process research and development	1,750	--	--
Total operating expenses	<u>128,783</u>	<u>107,606</u>	<u>43,022</u>
Operating income (loss)	59,200	50,914	(27,220)
Other income, net	<u>8,940</u>	<u>8,484</u>	<u>1,740</u>
Income (loss) before provision (benefit)			
for income taxes	68,140	59,398	(25,480)
Provision (benefit) for income taxes	<u>23,037</u>	<u>19,007</u>	<u>(9,937)</u>
Net income (loss)	<u>\$ 45,103</u>	<u>\$ 40,391</u>	<u>\$ (15,543)</u>
Basic earnings (loss) per share:			
Net income (loss)	<u>\$ 0.64</u>	<u>\$ 0.58</u>	<u>\$ (0.22)</u>
Weighted average common shares	<u>70,785</u>	<u>69,166</u>	<u>70,400</u>
Diluted earnings (loss) per share:			
Net income (loss)	<u>\$ 0.61</u>	<u>\$ 0.56</u>	<u>\$ (0.22)</u>
Weighted average common shares and equivalents	<u>74,281</u>	<u>72,384</u>	<u>70,400</u>

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

SYNOPSYS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	<u>Three Months Ended</u>		<u>One Month Ended</u>
	<u>January 31,</u>	<u>December 31,</u>	<u>October 31,</u>
	<u>2000</u>	<u>1998</u>	<u>1999</u>
Cash flows from operating activities:			
Net income (loss)	\$ 45,103	\$ 40,391	\$ (15,543)
Adjustments to reconcile net income (loss) to cash flows provided by operating activities:			
Depreciation and amortization	14,302	11,489	4,907
Tax benefit associated with stock options	8,800	13,519	2,618
Provision for doubtful accounts and sales returns	(1,912)	(464)	40
Interest accretion on notes payable	198	252	66
Deferred taxes	(4,359)	978	(11,087)
Gain on sale of long-term investments	(1,969)	(3,965)	--
In-process research and development	1,750	--	--
Net changes in operating assets and liabilities:			
Accounts receivable	(23,869)	(3,415)	25,592
Prepaid expenses and other current assets	(1,700)	452	(2,728)
Intangible assets, net	(212)	100	--
Other assets	(5,861)	(3,191)	(668)
Accounts payable and accrued expenses	(18,842)	(24,551)	(19,619)
Accrued income taxes	2,640	(13,406)	110
Deferred revenue	9,369	2,567	16,473
Deferred compensation	<u>6,577</u>	<u>3,298</u>	<u>690</u>
Net cash provided by operating activities	<u>30,015</u>	<u>24,054</u>	<u>851</u>
Cash flows from investing activities:			
Expenditures for property and equipment	(11,715)	(17,791)	(12,507)
Purchases of short-term investments	(597,140)	(1,309,855)	(119,549)
Maturities of short-term investments	568,372	1,181,600	138,212
Proceeds from sale of long-term investments	2,868	5,545	--
Purchases of long-term investments	(7,998)	(1,850)	--
Acquisitions, net of cash acquired	(5,646)	--	--
Capitalization of software development costs	<u>(250)</u>	<u>(250)</u>	<u>--</u>
Net cash (used in) provided by investing activities	<u>(51,509)</u>	<u>(142,601)</u>	<u>6,156</u>
Cash flows from financing activities:			
Payments of debt obligations	(7,125)	(7,978)	(356)
Purchase of treasury stock	(82,975)	--	--
Issuances of long-term debt	727	--	--
Issuances of common stock	<u>24,219</u>	<u>47,823</u>	<u>17,319</u>
Net cash (used in) provided by financing activities	<u>(65,154)</u>	<u>39,845</u>	<u>16,963</u>
Effect of exchange rate changes on cash	<u>(504)</u>	<u>369</u>	<u>110</u>
Net (decrease) increase in cash and cash equivalents	(87,152)	(78,333)	24,080
Cash and cash equivalents, beginning of period	<u>309,394</u>	<u>164,548</u>	<u>285,314</u>
Cash and cash equivalents, end of period	<u>\$ 222,242</u>	<u>\$ 86,215</u>	<u>\$ 309,394</u>

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

SYNOPSYS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

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

On July 15, 1999, the Board of Directors determined that Synopsys' fiscal year 2000 and subsequent fiscal years shall end on the Saturday nearest to October 31. As a result, fiscal 2000 commenced on October 31, 1999 and will end on October 28, 2000. The period from October 3, 1999 through October 30, 1999 represents a transition period. For presentation purposes, the unaudited condensed consolidated financial statements refer to the calendar month end. The condensed consolidated financial statements include the Condensed Consolidated Balance Sheet as of October 31, 1999 and Statement of Operations and Cash Flows for the one month period ended October 31, 1999. Total revenue and gross margin for the one month ended October 31, 1998 were \$28.2 million and \$19.5 million, respectively. In addition, benefit for income taxes and net loss for the one month ended October 31, 1998 were \$5.8 million and \$10.3 million, respectively. For the one month ended October 31, 1998, basic and diluted loss was \$0.15 per share computed using net loss of \$10.3 million and shares of 68.4 million.

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

2. Business Combinations

Acquisitions

During the first quarter of fiscal 2000, the Company acquired Leda, S.A. (Leda), a privately held provider of RTL coding- style checkers, for a purchase price of \$7.7 million, including cash payments of \$7.5 million. The purchase price of the transaction was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the acquisition. Amounts allocated to developed technology, workforce and goodwill are being amortized on a straight-line basis over a five-year period. Approximately \$1.8 million was allocated to in-process research and development and charged to operations because the acquired technology had not reached technological feasibility and had no alternative uses.

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

3. Stock Repurchase Program

In June 1999, the Board of Directors authorized a stock repurchase program under which Synopsys' common stock with a market value of up to \$200.0 million may be acquired in the open market over a seven month period. Repurchased shares are to be used for issuance under Synopsys' stock option and employee stock

plans and for other corporate purposes. During the first quarter of fiscal 2000, the Company purchased 1,330,000 shares for an aggregate amount of \$83.0 million.

4. Comprehensive Income

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

<i>(in thousands)</i>	Three Months Ended	
	<u>January 31,</u> <u>2000</u>	<u>December 31,</u> <u>1998</u>
	<i>(unaudited)</i>	
Net income	\$ 45,103	\$ 40,391
Foreign currency translation adjustment	(504)	369
Unrealized gain on investments	10,946	4,608
Reclassification adjustment on unrealized loss on investments	<u>(1,182)</u>	<u>(2,227)</u>
Total comprehensive income	<u>\$ 54,363</u>	<u>\$ 43,141</u>

Total comprehensive loss, for the one month transition period ended October 31, 1999 was \$12.9 million, consisting of a net loss of \$15.5 million, cumulative translation adjustment of \$0.1 million and unrealized gain on investments of \$2.5 million.

5. Earnings Per Share

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

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

<i>(in thousands, except per share amounts)</i>	Three Months Ended	
	<u>January 31,</u> <u>2000</u>	<u>December 31,</u> <u>1998</u>
	<i>(unaudited)</i>	
Numerator:		
Numerator for basic and diluted earnings per share -		
Net income	<u>\$ 45,103</u>	<u>\$ 40,391</u>
Denominator:		
Denominator for basic earnings per share -		
weighted-average shares	70,785	69,166
Effect of dilutive securities:		
Employee stock options	<u>3,496</u>	<u>3,218</u>
Dilutive potential common shares	<u>74,281</u>	<u>72,384</u>
Basic earnings per share:		
Net income	<u>\$ 0.64</u>	<u>\$ 0.58</u>
Diluted earnings per share:		
Net income	<u>\$ 0.61</u>	<u>\$ 0.56</u>

Basic and diluted loss for the one month transition period ended October 31, 1999 was \$0.22 per share, computed using net loss of \$15.5 million and shares of 70.4 million. For the one month ended October 31, 1998, basic and diluted loss was \$0.15 per share computed using net loss of \$10.3 million and shares of 68.4 million.

6. Effect of New Accounting Standards

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

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

7. Segment Disclosure

In 1999, Synopsys adopted SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 131 requires disclosures of certain information regarding operating segments, products and services, geographic areas of operation and major customers. The method for determining what information to report under SFAS No. 131 is based upon the “management approach,” or the way that management organizes the operating segments within a company, for which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources and in assessing performance. Synopsys’ CODM is the Chief Executive Officer and Chief Operating Officer.

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

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

<i>(in thousands)</i>	<u>Three Months Ended</u>	
	<u>January 31,</u> <u>2000</u>	<u>December 31,</u> <u>1998</u>
	<i>(unaudited)</i>	
Revenue:		
Product	\$ 130,549	\$ 109,959
Service	<u>86,319</u>	<u>70,267</u>
Total revenue	<u>\$ 216,868</u>	<u>\$ 180,226</u>
Gross margin	\$ 187,983	\$ 158,520
Operating income before amortization of intangible assets and in-process research and development	\$ 64,471	\$ 50,914

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

<i>(in thousands)</i>	<u>Three Months Ended</u>	
	<u>January 31,</u> <u>2000</u>	<u>December 31,</u> <u>1998</u>
	<i>(unaudited)</i>	
Operating income before amortization of intangible assets and in-process research and development	\$ 64,471	\$ 50,914
Amortization of intangible assets	(3,521)	--
In-process research and development	<u>(1,750)</u>	<u>--</u>
Operating income	<u>\$ 59,200</u>	<u>\$ 50,914</u>

Total revenue for the one month transition period ended October 31, 1999 was \$23.2 million with product and service revenue of \$4.2 million and \$19.0 million, respectively. Gross margin for the one month transition period ended October 31, 1999 was \$15.8 million. Operating loss and operating loss before amortization of intangible assets for the one month transition period ended October 31, 1999 were \$27.2 million and \$26.1 million, respectively.

8. Subsequent Event

In February 2000, the Board of Directors authorized a stock repurchase program under which Synopsys' common stock with a market value of up to \$200.0 million may be acquired in the open market over a ten month period. Repurchased shares are to be used for issuance under Synopsys' stock option and employee stock plans and for other corporate purposes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Results of Operations

Business Combinations. During the first quarter of fiscal 2000, the Company acquired Leda, for a purchase price of \$7.7 million, including cash payments of \$7.5 million. The purchase price of the transaction was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the acquisition. Amounts allocated to developed technology, workforce and goodwill are being amortized on a straight-line basis over a five-year period. Approximately \$1.8 million was allocated to in-process research and development and charged to operations because the acquired technology had not reached technological feasibility and had no alternative uses.

Revenue. Revenue for the first quarter of fiscal 2000 increased 20% to \$216.9 million from \$180.2 million in the first quarter of fiscal 1999. The increase in product revenue was primarily attributable to increased sales in our core synthesis business, FPGA business and system level design products as well as from new product rollouts. The percentage of the Company's total revenue attributable to products decreased slightly to 60% in the first quarter of fiscal 2000, compared to 61% in the first quarter of fiscal 1999. This slight decrease was due in part to relatively faster growth in our service revenue that was primarily attributable to consulting revenue from our Professional Services Group as well as increases in site service revenue and customer training during the first quarter of fiscal 2000. Total revenue for the one month transition period ended October 31, 1999 was \$23.2 million with product and service revenue of \$4.2 million and \$19.0 million, respectively. This is compared to the one month ended October 31, 1998 with total revenue of \$28.2 million with product and service revenue of \$9.9 million and \$18.3 million, respectively. The decrease in product revenue was primarily attributable to a lower volume of October shipments year over year. Shipments are processed according to customer requested dates.

Revenue from our international operations increased 25% to \$80.7 million for the first quarter of fiscal 2000, compared to \$64.4 million for the first quarter of fiscal 1999. International revenue represented approximately 37% and 36% of total revenue for the first quarter of fiscal 2000 and fiscal 1999, respectively. This increase as a percentage of total revenue primarily occurred in Europe and Asia Pacific. Revenue from our international operations decreased 31% to \$8.7 million for the one month transition period ended October 31, 1999, compared to \$12.5 million for the one month ended October 31, 1998. International revenue represented approximately 37% and 44% of total revenue for the one month ended October 31, 1999 and 1998, respectively. The decrease in product revenue was primarily attributable to a lower volume of October shipments year over year.

Cost of Revenue. Cost of revenue as a percentage of total revenue was 13% in the first quarter of fiscal 2000 compared to 12% in the first quarter of fiscal 1999. The increase in cost of revenue resulted primarily from increased royalties and personnel costs relating to maintenance and support. For the one month transition period ended October 31, 1999, cost of revenue as a percentage of total revenue was 32% compared to 31% for the one month ended October 31, 1998. The increase in cost of revenue resulted primarily from increased royalties and personnel costs relating to maintenance and support.

Research and Development. Research and development expenses as a percentage of total revenue decreased to 20% the first quarter of fiscal 2000 as compared to 23% in the first quarter of fiscal 1999, and increased in absolute dollars to \$44.3 million from \$40.9 million. The increase in absolute dollars was primarily attributable to increases in personnel and personnel-related costs associated with the Company's ongoing research and development efforts in a wide variety of areas such as tools for the design of systems-on-a-chip and physical design tools. Research and development expenses for the one month transition period ended October 31, 1999 were \$17.2 million as compared to \$14.9 million for the one month ended October 31, 1998. This increase can be attributed to increases in personnel and personnel related costs.

Sales and Marketing. Sales and marketing expenses as a percentage of total revenue remained flat at 31% in the first quarter of fiscal 2000 when compared to the first quarter of fiscal 1999, and increased in absolute dollars to \$67.0 million from \$55.6 million. The increase in sales and marketing spending was primarily due to personnel and personnel related costs. These increases were partially offset by the shift from consultants and contractors to full time employees and reduced spending in advertising. Sales and marketing expenses for the one month transition period ended October 31, 1999 were \$19.0 million as compared to \$16.9 million for the one month ended October 31, 1998. This increase primarily related to the higher costs associated with the 1999 annual business planning events.

General and Administrative. General and administrative expenses as a percentage of total revenue remained relatively constant at 6% in the first quarter of fiscal 2000 when compared to the first quarter of fiscal 1999, and increased in absolute dollars to \$12.2 million from \$11.1 million. The increases in expenses were primarily due to personnel and personnel related costs along with increased equipment maintenance expense associated with the increased capital purchases of computer equipment. These costs were partially offset by decreases in consulting and recruiting expenses. General and administrative expenses for the one month transition period ended October 31, 1999 were \$5.7 million as compared to \$4.9 million for the one month ended October 31, 1998. This increase was primarily a result of higher professional service fees.

Amortization of Intangible Assets. Goodwill represents the excess of the aggregate purchase price over the fair value of the tangible and identifiable intangible assets acquired by the Company. Under the Company's accounting policies, intangible assets as of January 31, 2000, including goodwill are being amortized over the estimated useful life of four to five-year periods. The Company assesses the recoverability of goodwill by determining whether the amortized asset over its useful life may be recovered through estimated future undiscounted cash flows. Amortization of intangible assets charged to operations for the first quarter of fiscal 2000 was \$3.5 million. Amortization of intangible assets was not material for the first quarter of fiscal 1999. Amortization of intangible assets charged to operations for the one month ended October 31, 1999 was \$1.2 million. There was no amortization of intangible assets for the one month ended October 31, 1998.

In-process Research and Development. The Company incurred in-process research and development charges of \$1.8 million in the first three months of fiscal 2000 related to the acquisition of Leda. The purchase price totaled \$7.7 million, including cash payments of \$7.5 million. The purchase price of the transaction was allocated to the acquired assets and liabilities based on their estimated fair values as of the date of the acquisition. Amounts allocated to developed technology, workforce and goodwill are being amortized on a straight-line basis over a five year period. Approximately \$1.8 million was allocated to in-process research and development and charged to operations because the acquired technology had not reached technological feasibility and had no alternative uses. The in-process research and development projects were estimated to be approximately 71% complete in the aggregate, and the expected aggregate cost to complete the projects was estimated at \$0.6 million. During the valuation process, core developed technology was identified in addition to the in-process research and development projects. The core developed technology was valued separately using a discount rate of 20% and is being amortized over its estimated useful life. The fair value of the in-process technology was based on a discounted cash flow model, similar to the traditional "Income Approach", which discounts expected future cash flows to present value, net of tax. In discounting the estimated cash flows, a discount rate of 30% was used based on the risks associated with achieving such projected cash flows upon successful completion of the acquired projects, expected incremental revenues and expenses associated with the projects utilizing the acquired technology, and risks and uncertainties in incorporating the acquired technology into the Company's development projects. In developing cash flow projections, revenues were forecasted based on relevant factors, including aggregate revenue growth rates for the business as a whole, characteristics of the potential market for the technology and the anticipated life of the technology. Projected annual revenues for the in-process research and development projects were assumed to ramp up initially and decline significantly at the end of the in-process technology's economic life. Operating expenses and resulting profit margins were forecasted based on the characteristics and cash flow generating potential of the acquired in-process technology. Gross profit percentage and tax rate were assumed to approximate the Company's corporate gross profit percentage average and its effective tax rate. Associated risks include the inherent difficulties and uncertainties in completing each project and thereby achieving technological feasibility, and risks related to the impact of potential changes in market conditions and technology.

As of January 31, 2000, the Company's research and development expenditures since the acquisition of Leda in fiscal 2000 have not differed materially from expectations. The projections the Company used in

performing its valuations with respect to each acquisition are still valid, in all material respects, however, there can be no assurance that the projected results will be achieved. With respect to the Company's acquisitions completed in fiscal 1999, management believes that the projections the Company used in performing its valuations with respect to each acquisition are still valid, in all material respects, however, there can be no assurance that the projected results will be achieved. Management expects to continue the development of each project and believes that there is a reasonable chance of successfully completing such development efforts. However, there is risk associated with the completion of the in-process projects and there can be no assurance that any project will meet with either technological or commercial success. Failure to successfully develop and commercialize these in-process projects would result in the loss of the expected economic return inherent in the fair value allocation. Additionally, the value of other intangible assets acquired may become impaired. The risks associated with the research and development are still considered high and no assurance can be made that upcoming products will meet market expectations.

Other Income, net. Other income, net increased 5% to \$8.9 million for the first quarter of fiscal 2000 compared to \$8.5 million for the first quarter of fiscal 1999 and decreased as a percentage of total revenue to 4% from 5%. The increase in absolute dollars was primarily due to higher average invested cash and short-term investments in taxable instruments, which yielded higher interest income in the first quarter of fiscal 2000, compared to the first quarter of fiscal 1999. Other income, net for the one month transition period ended October 31, 1999 was \$1.7 million as compared to \$1.1 million for the one month ended October 31, 1998.

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

The following table presents the carrying value and related weighted-average interest rates for the Company's investment portfolio. The carrying value approximates fair value at January 31, 2000. In accordance with the Company's investment policy, all investments mature in fifteen months or less.

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

<i>(in thousands, except interest rates)</i>	<u>Carrying Amount</u>	<u>Average Interest Rate</u>
Cash equivalents— fixed rate	\$ 110,149	3.50%
Short-term investments – fixed rate	<u>428,825</u>	4.10%
Total investment securities	\$ 538,974	4.08%
Money market funds – variable rate	<u>36,442</u>	3.96%
Total interest bearing instruments	<u>\$ 575,416</u>	4.04%

Foreign Currency Risk. At the present time, the Company hedges only those currency exposures associated with certain assets and liabilities denominated in nonfunctional currencies and does not generally hedge anticipated foreign currency cash flows. Hedging activities are undertaken by the Company and are intended to offset the impact of currency fluctuations on these balances. The success of this activity depends upon estimations of intercompany balances denominated in various currencies, primarily the Japanese yen, British pound sterling, German mark, French franc and Italian lira. The Company had contracts for the sale and purchase of foreign currencies with a notional value expressed in U.S. dollars of \$41.4 million. These contracts were denominated in currencies which approximated the fair value of such contracts and their underlying transactions as of January 31, 2000. There can be no assurance in the future that these hedging transactions will be effective.

The following table provides information about the Company's foreign exchange forward contracts at January 31, 2000. Due to the short-term nature of these contracts, the contract rate approximates the weighted-average contractual foreign currency exchange rate and the amount in U.S. dollars approximates the fair value of the contract at January 31, 2000. These forward contracts mature in approximately thirty days.

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

<i>(in thousands, except for average contract rates)</i>	<u>Amount</u>	<u>Contract Rate</u>
Forward Contract (Notional Value)		
Japanese yen	\$23,037	105.31
British pound sterling	2,921	0.61
German mark	5,125	1.95
French franc	10,291	6.54

The unrealized gains/losses on the outstanding forward contracts at January 31, 2000 were immaterial to the Company's consolidated financial statements. The realized gains/losses on these contracts as they matured were not material to the Company's consolidated financial position, results of operations, or cash flows for the periods presented.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments were \$651.1 million, a decrease of \$58.3 million from October 31, 1999. The decrease is primarily a result of cash outflows for investing and financing activities, mainly repurchase of treasury stock of \$83.0 million, capital expenditures of \$11.7 million, purchases of long-term investments of \$8.0 million and cash paid on debt obligations of \$7.1 million. These cash outflows were partially offset by cash generated by operations of \$30.0 million and through investing and financing activities, mainly the exercise of stock options and purchases of stock through the employee stock purchase plan of \$24.2 million and the proceeds on sale of long-term investments of \$2.9 million.

Accounts receivable increased 20% from \$130.3 million at October 31, 1999 to \$156.9 million at January 31, 2000. Days sales outstanding in receivables increased to 65 days as of January 31, 2000 from 56 days at October 31, 1999.

At January 31, 2000, the Company had two foreign exchange lines of credit available totaling \$120.0 million which expire in July 2000 and October 2000.

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

Year 2000 Readiness

The failure of a computer program to accurately recognize and process date information beginning on January 1, 2000 is referred to as a "Year 2000 problem." The Company completed its project to address potential Year 2000 problems as scheduled. As a result, the possibility of significant interruptions of normal operations has been reduced. As of January 31, 2000, to the Company's knowledge, the Company's products and computing and communications infrastructure systems have not experienced significant Year 2000 problems. The Company is not aware that any of its major vendors or service providers have experienced significant Year 2000 problems. Accordingly, the Company believes its critical internal systems will not be subject to Year 2000 problems. However, there is no guarantee that the Company has discovered all possible failure points. Specific factors contributing to this uncertainty include failure to identify all systems that might be affected by Year 2000 problems and lack of certainty as to the Year 2000 compliance status of third parties whose systems or operations could affect the Company. Year 2000 contingency plans are complete.

European Monetary Unit

Synopsis sales to European customers are primarily U.S. dollar based. However, we recognize the potential importance of the newly introduced European Monetary Unit (EMU) to our customers residing in the European union and has selected the Euro as the functional currency for its European treasury center. Our information systems are capable of functioning in multiple currencies. We have started to make the system changes to make all infrastructures capable of operations in the EMU. We do not expect to incur significant expenses for these system changes. We do not expect to have any disruptions in operations due to the EMU implementation.

Factors That May Affect Future Results

Our 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 revenues and earnings in a particular quarter or over several quarterly or annual periods:

- Our orders have been seasonal. Historically, our first fiscal quarter has been our weakest, with a book-to-bill ratio less than 1. The recent change in our fiscal year (see note 1 in accompanying notes to consolidated financial statements) may affect the seasonal pattern of our revenues.
- Our products are complex, and before buying them customers spend a great deal of time reviewing and testing them. Our customers' evaluation and purchase cycles do not necessarily match our quarterly periods, and if by the end of any quarter we have not sold enough new licenses, our orders and revenues could be below our plan. Like many companies in the software industry, in the past we have received a disproportionate volume of orders in the last week of a quarter, and recognized a disproportionate amount of revenue in the last week of a quarter. In addition, a large proportion of our business is attributable to our largest customers. As a result, if any order, and especially a large order, is delayed beyond the end of a fiscal period, our orders and revenue for that period could be below our plan.
- We have recently introduced a new product that is intended to address the design challenges of the most advanced ICs. This product is currently in limited release and is being evaluated by many customers. The introduction of a new product may have a negative effect on demand for existing products, as customers evaluating, or anticipating evaluating, the new product may defer or reduce their purchase of existing products.
- The accounting rules we are required to follow permit us to recognize revenue only when certain criteria are met. Orders for certain of our products and services yield revenue over multiple quarters (often extending beyond the current fiscal year) or upon completion of performance rather than at the time of sale. In addition, the specific terms agreed to with a customer may have the effect of requiring deferral of revenue in whole or in part or, alternatively, of permitting us to accelerate the recognition of revenue for products to be used over multiple years. A number of our recent transactions have involved multi-year licenses with respect to which a significant portion of the revenue was recognized in the initial quarter (consistent with relevant accounting rules). Therefore, for a given quarter it is possible for us to fall short in our revenue and/or earnings plan even while orders and backlog remain on plan or, conversely, to meet our revenue and/or earnings plan by drawing on backlog and deferred revenue while orders are under plan.
- We recently introduced a new license and pricing structure for our software products. Although we believe that these changes have benefits for both Synopsys and our customers, customer reaction to the new structure and effects of the transition to the new structure over time cannot be predicted.

Our Industry is Highly Competitive. The EDA industry is highly competitive. Synopsys' competitors continue to offer aggressive discounts on their products, in particular on synthesis and simulation products, and price competition appears to be increasing. As a result, in some cases the sales cycle has lengthened, as customers evaluate the lower priced products. If this behavior continues, average prices for our products may fall.

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

In order to compete successfully, we must continue to enhance our products and bring to market new products that address the needs of our customers. We also will have to expand our consulting services business. The failure to enhance existing products, develop and/or acquire new products or expand our ability to offer

consulting services could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

Our Business Depends on the Semiconductor and Electronics Businesses. Our business has benefited from the rapid worldwide growth of the semiconductor industry. Purchases of our products are largely dependent upon the commencement of new design projects by semiconductor manufacturers and their customers and the increasing complexity of designs. Although the semiconductor industry is currently strong, thus far, there has not been a strong effect on overall EDA market growth. In addition, demand for EDA products may be affected by mergers in the semiconductor and systems industries, which may reduce the aggregate level of purchases of our products and services by the combined companies. Faltering growth in the semiconductor and systems industries, a reduced number of design starts, tightening of customers’ operating budgets or continued consolidation among our customers may have a material adverse effect on our business, financial condition and results of operations.

Continued Stagnation of International Economies Will Adversely Affect Our Performance. International revenue is vulnerable to changes in foreign currency exchange rates and in regional or worldwide economic or political conditions. Since the beginning of the Asian economic crisis, international revenue has declined significantly as a percentage of overall revenue, as Asian customers have deferred their investments in semiconductor facilities and technology. It will be difficult to sustain our overall growth rate if revenue from Asia remains stagnant or grows slowly. In particular:

- If the Japanese economy remains weak, revenue from Japan and the rest of Asia could be adversely affected. In addition, the yen-dollar exchange rate remains subject to unpredictable fluctuations. Weakness of the yen could adversely affect revenue from Japan during future quarters.
- Korea's ongoing economic weakness has had, and may continue to have a significant adverse effect on our orders and revenue from Korea. In addition, two of our four largest Korean customers have merged, which may result in a lower level of orders from the combined company than we might have received if the two companies remained separate.
- Asian countries other than Japan and Korea also have experienced economic and currency problems. If such conditions persist, orders and revenues from the Asia Pacific region could be adversely affected.

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

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

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

Anti-Takeover Provisions. We have adopted a number of provisions that could have anti-takeover effects. The Board of Directors has adopted a Preferred Shares Rights Plan, commonly referred to as a "poison pill." In addition, the Board of Directors has the authority, without further action by its stockholders, to issue additional shares of Common Stock and to fix the rights and preferences of, and to issue authorized but undesignated shares of Preferred Stock. These and other provisions of Synopsys' Restated Certificate of Incorporation and Bylaws and the Delaware General Corporation Law may have the effect of deterring hostile takeovers or delaying or preventing changes in control or management of Synopsys, including transactions in which the shareholders of the Company might otherwise receive a premium for their shares over then current market prices.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a.) Exhibits
 - 27 Financial Data Schedule
- (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.

SYNOPSYS, INC.

By: /s/ Steven K. Shevick
Steven K. Shevick
Vice President, Investor Relations and
Legal, Chief Financial Officer and
Corporate Secretary

Date: March 14, 2000