DIGITAL POWER CORP
Form 8-K
April 11, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) April 5, 2002

DIGITAL POWER CORPORATION
(Exact name of registrant as specified in its charter)

California	1-12711	94-1721931
(State or other jurisdiction of incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

41920 Christy Street, Fremont, California 94538-3158
(Address of principal executive offices)

(510) 657-2635
(Registrant's telephone number, including area code)

ITEM 9. REGULATION FD DISCLOSURE

In connection with its filing with the Israeli Securities Authorities, Telkoor Telecom, Ltd. included Digital Power Corporation's financial statements for the years ended December 31, 2001, 2000 and 1999 which included additional information than those financial statements filed with the SEC and American Stock Exchange. Digital Power is providing the same financial statements for the years ended July 31, 2001, 2000 and 1999 filed with the Israeli Securities Authorities through this Form 8-K.

Exhibit No.	Exhibit Description
99.2	Digital Power Corporation and Subsidiaries. Financial statements for the years ended December 31, 2001, 2000, and 1999

SIGNATURE

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 hereunto duly authorized.

DIGITAL POWER CORPORATION,
a California Corporation

Dated: April 5, 2002

/s/ David Amitai

David Amitai
Chief Executive Officer

DIGITAL POWER CORPORATION
AND SUBSIDIARIES

Financial Statements
For the Years Ended
December 31, 2001, 2000 and 1999

INDEX TO FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors
Digital Power Corporation and Subsidiaries
Fremont, California

We have audited the accompanying consolidated balance sheets of Digital Power Corporation and subsidiaries as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Digital Power Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/S/ Hein + Associates LLP

HEIN + ASSOCIATES LLP
Certified Public Accountants

Orange, California
February 19, 2002

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DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		DECEMBER 31, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$	1,242,900
Accounts receivable - trade, net of allowance for doubtful accounts of $370,000 and $231,419 at December 31, 2001 and 2000, respectively		2,203,664
Income tax refund receivable		72,388
Other receivables		91,971
Inventories, net		1,999,168
Prepaid expenses and deposits		47,534
Deferred income taxes		-
Total current assets		5,657,625
PROPERTY AND EQUIPMENT, net		820,318
EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED, net of accumulated amortization of $1,452,189 and $433,926 at December 31, 2001 and 2000, respectively		-
OTHER ASSETS		35,116
TOTAL ASSETS	$	6,513,059
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$	652,261
Current portion of capital lease obligations		35,856
Accounts payable		1,590,830
Accrued liabilities		1,510,719
Total current liabilities		3,789,666
CAPITAL LEASE OBLIGATIONS, less current portion		24,376
OTHER LONG TERM LIABILITIES		13,607
Total liabilities		3,827,649
COMMITMENTS AND CONTINGENCIES (Notes 8 and 14)		-
STOCKHOLDERS' EQUITY:		
Preferred stock issuable in series, no par value, 2,000,000 shares authorized, no shares issued or outstanding at December 31, 2001 or 2000		-
Common stock, no par value, 10,000,000 shares authorized, 4,510,680 and 3,260,680 shares issued and outstanding at December 31, 2001 and 2000, respectively		11,036,251
Additional paid in capital		733,256
Accumulated deficit		(8,771,654)
Accumulated other comprehensive loss		(312,443)
Total stockholders' equity		2,685,410
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	6,513,059

/s/ David Amitai 3/30/02

DAVID AMITAI, PRESIDENT AND CEO DATE

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DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEARS ENDE DECEMBER 31, 2001	2000
REVENUES	$ 10,329,857	$ 17,882,730
COST OF GOODS SOLD	11,939,985	13,223,441
Gross margin (loss)	(1,610,128)	4,659,289
OPERATING EXPENSES:		
Research and development	1,065,872	1,166,015
Marketing and selling	863,898	1,348,545
General and administrative	2,177,611	1,895,280
Impairment of goodwill	946,263	-
Total operating expenses	5,053,644	4,409,840
INCOME (LOSS) FROM OPERATIONS	(6,663,772)	249,449
OTHER INCOME (EXPENSE):		
Interest income	12,829	29,920
Interest expense	(63,461)	(90,992)
Other (expense)	(4,364)	-
Gain (loss) on disposal of assets	(23,069)	10,790
Other (expense)	(78,065)	(50,282)
INCOME (LOSS) BEFORE INCOME TAXES	(6,741,837)	199,167
INCOME TAX PROVISION	298,883	104,000
NET INCOME (LOSS)	$ (7,040,720)	$ 95,167
Basic net income (loss) per share	$ (2.07)	$ 0.03
Diluted net income (loss) per share	$ (2.07)	$ 0.03

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DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 and 1999

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ESOP SHARES	NOTE RECEIVABLE STOCKHOLDER	ACCUMULATED DEFICIT	OTH COMPRE (LO
BALANCES, January 1, 1999	2,771,435	$ 9,012,679	$ 514,304	$(184,919)	$	$ (1,859,528)	$
Contribution to ESOP	-	-	-	184,919	-	-	
Note receivable for common stock	-	-	52,200	-	(52,200)	-	
Comprehensive loss:	-						
Net income	-	-	-	-	-	33,427	
Foreign currency translation adjustment	-	-	-	-	-	-	(
Total comprehensive loss	-	-	-	-	-	-	
BALANCES, December31,1999	2,771,435	9,012,679	566,504	-	(52,200)	(1,826,101)	(
Exercise of stock options	484,245	754,197	(52,200)	-	52,200	-	
Income tax benefit related to exercise of stock options	-	-	101,397	-	-	-	
Stock granted for services	5,000	19,375	-	-	-	-	
Compensation cost recognized upon issuance of warrants for services	-	-	117,555	-	-	-	
Comprehensive loss: Net income	-	-	-	-	-	95,167	
Foreign currency translation adjustment	-	-	-	-	-	-	(19

Total comprehensive loss	-	-	-	-	-	-	
BALANCES, December31,2000	3,260,680	9,786,251	733,256	-	-	(1,730,934)	(24
Issuance of common stock to Telkoor Telecom, Ltd pursuant to investment agreement	1,250,000	1,250,000	-	-	-	-	
Comprehensive loss:							
Net loss	-	-	-	-	-	(7,040,720)	
Foreign currency translation adjustment	-	-	-	-	-	-	(6
Total comprehensive loss	-	-	-	-	-	-	
BALANCES, December31,2001	4,510,680	$11,036,251	$ 733,256	$ -	$ -	$(8,771,654)	$ (31

DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEAR DECEMBER	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (7,040,720)	$
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	450,752	4
(Gain) loss on disposal of assets	23,069	(
Deferred income taxes	334,037	
Warranty expense	(64,806)	
Increase in provision for inventory obsolescence	2,714,941	
Contribution to ESOP	-	
Bad debt expense	158,130	
Compensation cost recognized upon issuance of warrants	-	1
Income tax benefit related to exercise of stock options	-	1
Stock issued for services	-	
Impairment of goodwill	946,263	
Severance accrual	658,000	
Changes in operating assets and liabilities:		
Accounts receivable	894,288	(4

Income tax refund receivable	106,812	(1
Other receivables	(1,517)	
Inventories	429,515	(6
Prepaid expenses	166,164	(1
Other assets	(6,565)	(
Accounts payable	(358,353)	7
Accrued liabilities	(252,177)	(
Other long-term liabilities	13,607	(
Net cash provided by (used in) operating activities	(828,560)	1
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(133,281)	(1
Proceeds from sale of assets	5,876	
Net cash (used in) investing activities	(127,405)	(1

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DIGITAL POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

	FOR THE YEAR DECEMBER	
	2001	200
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options and warrants	$ -	$ 7
Proceeds received (payments made) on notes payable	252,261	(5
Principal payments on capital lease obligations	(44,659)	(
Principal payments on notes payable	-	
Investment from Telkoor Telecom, Ltd.	1,250,000	
Net cash provided (used in) by financing activities	1,457,602	1
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(65,144)	(1
NET CHANGE IN CASH AND CASH EQUIVALENTS	436,493	(
CASH AND CASH EQUIVALENTS, beginning of period	806,407	8
CASH AND CASH EQUIVALENTS, end of period	$ 1,242,900	$ 8
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash payments for:		
Interest	$ 67,009	$ 1

Income taxes	$ 97,918	$ 1
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of equipment through capital leases	$ -	$

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DIGITAL POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS:

Digital Power Corporation ("DPC"), a California corporation, and its wholly owned subsidiaries, Poder Digital, S.A. de C.V. ("PD"), located in Guadalajara, Mexico, and Digital Power Limited ("DPL"), located in the United Kingdom, are engaged in the design, manufacture and sale of switching power supplies. DPC, PD, and DPL are collectively referred to as the "Company".

2. SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation - The consolidated financial statements include the accounts of DPC and its wholly owned subsidiaries, PD and DPL. All significant intercompany accounts and transactions have been eliminated in consolidation.

Statements of Cash Flows - For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Inventories - Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment - Property and equipment are stated at cost. Depreciation of equipment and furniture is calculated using the straight-line method over the estimated useful lives (ranging from 5 to 10 years) of the respective assets. Leasehold improvements are amortized over the shorter of their estimated useful life or the term of the lease. The cost of normal maintenance and repairs is charged to operations as incurred. Material expenditures that increase the life of an asset are capitalized and depreciated over the estimated remaining useful life of the asset. The cost of fixed assets sold, or otherwise disposed of, and the related accumulated depreciation or amortization are removed from the accounts, and any resulting gains or losses are reflected in current operations.

Excess of Purchase Price Over Net Assets Acquired - Excess of purchase price over net assets acquired ("Goodwill") represents the purchase price in excess of the fair value of the net assets of the acquired business and was being amortized using the straight-line method over its estimated useful life of ten years.

As a result of DPL's sustained losses during the year ended December 31, 2001, management has determined the value of the unamortized goodwill related to the 1998 acquisition of DPL as impaired resulting in a charge of $946,263.

Income Taxes - The Company accounts for income taxes under the liability method which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Revenue Recognition - Sales revenue is recognized when the products are shipped to customers, including distributors. Customers receive a one or two-year product warranty and certain sales to distributors are subject to a limited right of return. At the same time sales revenue is recognized, the Company provides a reserve for estimated warranty costs and a reserve for estimated product returns.

Research and Development Costs - Research and development costs are charged to operations in the period incurred.

Foreign Currency Translation - Gains and losses from the effects of exchange rate fluctuations on transactions denominated in foreign currencies are included in the results of operations. Assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the year. The resulting translation adjustment is recorded as a component of accumulated other comprehensive income (loss), a component of stockholders' equity.

Earnings Per Share - Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Use of Estimates - The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The Company's consolidated financial statements are based upon a number of significant estimates, including the allowance for doubtful accounts, technological obsolescence of inventories, the estimated useful lives selected for property and equipment and goodwill, realizability of deferred tax assets, allowance for sales returns, and warranty reserve. Due to the uncertainties inherent in the estimation process, it is at least reasonably possible that these estimates will be further revised in the near term and such revisions could be material.

Impairment of Long-Lived Assets - In the event that facts and circumstances indicate that the cost of long lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is required.

Stock Based Compensation - The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB25) and related interpretations in accounting for its employee stock options. In accordance with FASB Statement No. 123 "Accounting for Stock-Based Compensation" (FASB123), the Company will disclose the impact of adopting the fair value accounting of employee stock options. Transactions in equity instruments with non-

employees for goods or services have been accounted for using the fair value method as prescribed by FASB123.

Concentrations of Credit Risk - Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions described below.

The Company operates in one segment, manufacture and sale of power supplies. Financial instruments that subject the Company to credit risk consist of cash balances maintained in excess of federal depository insurance limits and accounts receivable, which have no collateral or security. See Note 14 for major customers.

Fair Value of Financial Instruments - The estimated fair values for financial instruments under FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The estimated fair value of cash, cash equivalents, accounts receivable and accounts payable approximates their carry value due to their short-term nature. The estimated fair value of long-term debt approximates its carrying value because it carries interest rates which approximates market rates.

Comprehensive Income - The Company has adopted the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (FASB130). FASB130 defines comprehensive income as all changes in stockholders' equity exclusive of transactions with owners, such as capital investments. Comprehensive income includes net income or loss and changes in certain assets and liabilities that are reported directly in equity, such as, translation adjustments on investments in foreign subsidiaries.

Impact of Recently Issued Standards - In June 2001, the Financial Accounting Standards Board ("FASB") 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 all business combinations initiated after June 30, 2001 to be accounted for under the purchase method. For all business combinations for which the date of acquisition is after June 30, 2001, SFAS 141 also establishes specific criteria for the recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain, rather than deferred and amortized. SFAS 142 changes the accounting for goodwill and other intangible assets after an acquisition. The most significant changes made by SFAS 142 are: 1) goodwill and intangible assets with indefinite lives will no longer be amortized; 2) goodwill and intangible assets with indefinite lives must be tested for impairment at least annually; and 3) the amortization period for intangible assets with finite lives will no longer be limited to forty years. The Company does not believe that the adoption of these statements will have a material effect on its financial position, results of operations, or cash flows.

In June 2001, the FASB also approved for issuance SFAS 143 "Asset Retirement Obligations." SFAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including (1) the timing of the liability recognition, (2) initial measurement of the liability, (3) allocation of asset retirement cost to expense, (4) subsequent measurement of the liability and (5) financial statement disclosures. SFAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The Company will adopt the statement effective no later than January 1, 2003, as required. The transition adjustment resulting from the adoption of SFAS 143 will be reported as a cumulative effect of a change in accounting principle. At this time, the Company cannot reasonably estimate the effect of the adoption of this statement on its financial position, results of operations, or cash flows

In October 2001, the FASB also approved SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 replaces SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The new accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business," for the disposal of segments of a business. Statement 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. Statement 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of Statement 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. At this time, the Company cannot estimate the effect of this statement on its financial position, results of operations, or cash flows.

3. BASIS OF PRESENTATION:

The Company incurred a net loss of $7,040,720 and used cash in operations of $828,560 during the year ended December 31, 2001. The Company had net income of $95,167 and cash provided by operations of $178,499 during the year ended December 31, 2000. The Company had working capital of $1,867,959 and $6,461,665 at December 31, 2001 and 2000, respectively. The increase in the net loss and substantial decrease of working capital is due in part to certain non-cash expenses, including an increase in the inventory allowance for obsolescence of $2,715,000, an impairment of goodwill by $946,000, a severance accrual of $658,000 for employees in Poder, increase in the allowance for bad debt of $158,000 and the valuation taken against the deferred tax asset of $350,000.

The Company's management has addressed the decrease in cash and working capital through the execution of the Securities Purchase Agreement in which the Company received $1,250,000 in cash and developed a strategic alliance with Telkoor Telecom, Ltd (Telkoor). The Company's management team is currently comprised of officers' of Telkoor and if needed, Telkoor has committed to lend the Company and/or make further investments in the Company to sustain it operations. See note 11 for additional terms of the Telkoor investment.

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DIGITAL POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In management's opinion, these proceeds combined with revenue from sales and Telkoor's continued commitment to protect its investment will provide sufficient cash flow to pay the Company's obligations as they come due for at least the next year.

4. INVENTORIES:

	DECEMBER 31,	
	2001	2000
Raw materials	$ 3,831,093	$ 4,329,160
Work-in-process	985,924	1,011,966
Finished goods	146,861	459,030
	4,963,878	5,800,156
Allowance for obsolescence	(2,964,710)	(656,532)
	$ 1,999,168	$ 5,143,624

During the year ended December 31, 2001, the Company increased the allowance for obsolescence and excess inventories by approximately $2,715,000 which was a result of the cancellation of purchase orders by customers, excess inventory levels, lack of sales orders and delays in delivery of products by two customers. The additional provision for obsolete and excess inventory is included in the cost of sales.

5. PROPERTY AND EQUIPMENT:

DECEMBER 31,

	2001	2000
Machinery and equipment	$ 1,503,030	$ 1,441,203
Office equipment and furniture	875,726	873,429
Leasehold improvements	525,846	539,777
Transportation equipment	81,089	103,839
	2,985,691	2,958,248
Accumulated depreciation and amortization	(2,165,373)	(1,863,515)
	$ 820,318	$ 1,094,733

Depreciation expense related to property and equipment for the year ended December 31, 2001, 2000, and 1999 was $378,571, $331,987, and $343,882, respectively.

6. ACCRUED LIABILITIES:

	DECEMBER 31, 2001	DECEMBER 31, 2000
Accrued payroll and benefits	$ 167,129	$ 147,115
Accrued commissions and royalties	120,567	126,786
Accrued warranty and product return expense	201,094	324,602
Income taxes payable	190,175	308,627
Severance accrual for PD employees	508,000	-
Other	323,754	262,572
	$ 1,510,719	$ 1,169,702

During the year ended December 31, 2001, the Company recorded an estimated severance liability related to its Mexican subsidiary of $658,000. There was no accrual recorded as of December 31, 2000. The severance accrual is a result of depressed sales of the Company's products in the United States, which has resulted in excess capacity of the workforce at its Guadalajara, Mexico facility. In addition, the Company is considering moving a portion of its manufacturing to China which would increase the excess capacity at PD. The liability was reduced in September 2001 by $150,000 for the payment of severance as a result of a reduction of PD employees.

7. NOTES PAYABLE:

At December 31, 2001 and 2000, DPC has a line of credit of $750,000 and $3,000,000, respectively, pursuant to a promissory note agreement. As of December 31, 2000, the line of credit provided borrowings up to 80% of eligible accounts receivable, plus 20% of inventory or $500,000, whichever was less, not to exceed a total of $3,000,000. During the year ended

December 31, 2001, the line of credit was adjusted to only provide borrowings up to 80% of eligible accounts receivable. Borrowing under this line of credit bears interest based upon an index equal to the lender's prime rate (totaling 6.75% and 9.50% at December 31, 2001 and 2000, respectively), interest only, payable monthly with outstanding principal due on demand. If no demand is made, the outstanding principal and unpaid accrued interest is due April 15, 2002. At December 31, 2001 and 2000, the outstanding principal balance was $652,261 and $400,000, respectively. Under the terms of the agreement, the Company is required to maintain certain ratios and be in compliance with other covenants. At December 31, 2001 and 2000, the Company was in compliance with all covenants.

At December 31, 2001 and 2000, DPL has a (pound)500,000 bank overdraft facility pursuant to a loan agreement. Borrowing under this line of credit bears interest at 2% per annum over the Bank's Base rate (totaling 6.5% and 8.5% at December 31, 2001 and 2000, respectively), interest only, payable monthly with outstanding principal due on demand. If no demand is made, the outstanding principal and accrued interest is due March 31, 2002. In the event of the loan being used, the loan would be collateralized by substantially all of the DPL's assets. At December 31, 2001 and 2000, no principal or accrued interest was outstanding.

8. CAPITAL LEASE OBLIGATIONS:

The Company leases certain equipment and vehicles under agreements classified as capital leases. The net book value of assets under capital leases as of December 31, 2001 and 2000 was $59,229 and $106,329, respectively. Depreciation expense of $39,545, $52,147, and $48,702 was recognized for the years ended December 31, 2001, 2000, and 1999, respectively.

The future minimum lease payments as of December 31, 2001, are as follows:

YEARS ENDING DECEMBER 31,	AMOUNT
2002	$ 45,736
2003	31,183
Total future minimum lease payments	76,919
Less amount representing interest	(16,687)
Present value of net minimum lease payments	60,232
Less current portion	(35,856)
	$ 24,376

9. PREFERRED STOCK:

As of December 31, 2001 and 2000, the preferred stock has one series authorized, 500,000 shares of Series A cumulative redeemable convertible preferred stock ("Series A"), and an additional 1,500,000 shares of preferred stock has been authorized, but the rights, preferences, privileges and restrictions on these shares has not been determined. DPC's

Board of Directors is authorized to create new series of preferred stock and fix the number of shares as well as the rights, preferences, privileges and restrictions granted to or imposed upon any series of preferred stock. As of December 31, 2001 and 2000, there were no shares issued or outstanding.

10. NOTE RECEIVABLE - STOCKHOLDER:

At December 31, 1999, the Company had a note receivable in the amount of $52,000 due from a former employee received in consideration for the exercise of stock options. The note had an interest rate of 5% and was paid in full in February 2000.

11. COMMON STOCK:

In September 2001, the Company executed a securities purchase agreement with Telkoor Telecom, Ltd. (Telkoor) for cash proceeds of $1,250,000 in exchange for the purchase of 1,250,000 shares of common stock and the issuance of 900,000 warrants to purchase common stock at an exercise price of $1.25 per share and an additional 1,000,000 warrants to purchase common stock at an exercise price of $1.50 per share. The warrants vest immediately and expire during the year ended December 31, 2003. In addition, the Company's Board of Directors will appoint a number of individuals recommended by Telkoor necessary to constitute a majority of the Board and the then current president and CEO, Robert Smith, resigned as president with an individual selected by Telkoor appointed to the position of president and CEO.

12. STOCK OPTIONS AND WARRANTS:

Stock Options - In May 1996, the Company adopted the 1996 Stock Option Plan covering 513,000 shares. Under the plan, the Company can issue either incentive or non-statutory stock options. The price of the options granted pursuant to the plan will not be less than 100% of the fair market value of the shares on the date of grant. The compensation committee of the Board of Directors will decide the vesting period of the options, if any, and no option will be exercisable after ten years from the date granted.

In February 1998, the Company adopted the 1998 Stock Option Plan covering 240,000 shares of common stock. Under the plan, the Company can issue either incentive or non-qualified stock options. The exercise price of the options granted pursuant to the plan will not be less than 100% of the quoted market value of the shares on the grant date. The compensation committee of the Board of Directors will determine the vesting period of the options, if any, and no options will be exercisable after ten years from the date of grant.

During the year ended December 31, 1999, the Company granted options for the purchase of 11,900 shares of the Company's common stock under the 1998 Stock Option Plan to certain employees. The exercise prices of the options range from $1.5625 to $1.8750 per share, which was equal to the quoted market value on the date of grant. The options vest over 5 years at 25% per year starting in the second year.

In April 2000, the Company adopted the 2000 Stock Option Plan covering 500,000 shares of common stock. Under the plan, the Company can issue either incentive or non-qualified stock options. The exercise price of the options granted pursuant to the plan will not be less than 100% of the quoted market value of the shares on the grant date. The compensation committee of the Board of Directors will determine the vesting period of the options, if any, and no options will be exercisable after ten years from the date of grant.

During the years ended December 31, 2001, 2000, and 1999, the Company issued in each year non-qualified options for the purchase of 100,000 shares of the Company's common stock to Mr. Robert Smith who was the president of the Company until his resignation on November 13, 2001, in accordance with his employment agreement. The exercise prices of $1.63, $1.56, and $1.88 per share were equal to the quoted market value on the date of grant for the year ended 2001, 2000, and 1999, respectively. Such options vested immediately and expire beginning in 2009.

During the year ended December 31, 2001, the Company granted options for the purchase of 200,000 shares of the Company's common stock to David Amitai, CEO and President, and 200,000 shares of the Company's common stock to Ben Zion Diamant, Chairman of the Board. The exercise price of $0.70 per share was equal to the quoted market value on the date of grant. Such options vest over 2 years at 50% per year starting in the second year.

During each of the years ended December 31, 2001, 2000, and 1999, the Company granted non-qualified options under the 1998 plan & 2000 plan for the purchase of 30,000 shares of the Company's common stock to outside directors. The exercise prices range from $0.70 to $2.38 per share were equal to the quoted value on the date of grant. The options vest after one year and begin expiring in 2009.

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DIGITAL POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year ended December 31, 2001, the Company granted options for the purchase of 136,000 shares of the Company's common stock under the 2000 Stock Option Plan to certain employees. The exercise prices range from $0.70 to $1.18 per share were equal to the quoted market value on the date of grant. The options vest over 4 or 5 years at 25% per year starting in the second year.

During the year ended December 31, 2000, the Company granted options for the purchase of 117,500 shares of the Company's common stock under the 1996 Stock Option Plan to certain employees. The exercise price of $2.38 per share was equal to the quoted market value on the date of grant. The options vest over 5 years at 25% per year starting in the second year.

During the year ended December 31, 2000, the Company granted options for the purchase of 57,500 shares of the Company's common stock under the 1998 Stock Option Plan to certain employees. The exercise price of $2.38 per share was equal to the quoted market value on the date of grant. The options vest over 5 years at 25% per year starting in the second year.

During the year ended December 31, 2000, the Company granted options for the purchase of 53,000 shares of the Company's common stock under the 2000 Stock Option Plan to certain employees. The exercise price of the options ranges from $2.38 to $3.88 per share were equal to the quoted market value on the date of grant. The options vest over 5 years at 25% per year starting in the second year.

During the year ended December 31, 1999, the Company granted options for the purchase of 70,000 shares of the Company's common stock under the 1996 Stock Options Plan to certain employees. The exercise prices range from $1.69 to $2.00 per share, which was equal to the fair market value on the date of grant. The options vest over 5 years at 25% per year starting in the second year.

The following table sets forth activity for all options:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
OUTSTANDING, January 1, 1999	1,065,930	$ 2.19
Granted	211,900	1.90
Forfeited	(194,200)	2.42
OUTSTANDING, December 31, 1999	1,083,630	2.09
Granted	366,000	2.16
Forfeited	(26,665)	3.31
Exercised	(484,245)	1.56
OUTSTANDING, December 31, 2000	938,720	2.39
Granted	691,000	0.90
Forfeited	(86,625)	2.10
OUTSTANDING, December 31, 2001	1,543,095	1.74

At December 31, 2001, options to purchase 40,000 shares, with a weighted average exercise price of $6.06, were exercisable at prices ranging from $6.00 to $6.25 per share. These options have a weighted average contractual life of 6.25 years.

At December 31, 2001, options to purchase 729,296 shares, respectively, were exercisable with exercise prices ranging from $1.56 to $3.88 per share, a weighted average exercise price of $2.05, and a weighted average remaining contractual life of 7.45 years. The remaining unvested options of 773,799 have exercise prices ranging from $.70 to $1.18, a weighted average contractual life of 9.76 years, and are exercisable as follows:

YEAR ENDING DECEMBER 31,	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE

2002	122,337	$ 1.77
2003	330,962	1.17
2004	279,000	1.02
2005	31,500	0.81
2006	10,000	0.70
	773,799	$ 1.19

If not previously exercised the outstanding options will expire as follows:

YEAR ENDING DECEMBER 31,	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
2003	30,500	$ 1.80
2006	78,250	1.80
2007	105,500	2.31
2008	317,845	2.78
2009	100,000	1.95
2010	245,000	2.39
2011	666,000	0.87
	1,543,095	$ 1.74

Warrants -In December 1996, in connection with the initial public offering, the Company granted warrants for the purchase of 150,000 shares of the Company's common stock. The exercise prices of the warrants range from $4.80 to $5.00 per share. The warrants vested immediately and expired in 2001.

During March 1997, the Company granted warrants for the purchase of 15,000 shares of the Company's common stock in connection with investor related services provided to the Company. The warrants have an exercise price of $6.75 per share, vested immediately and expire in 2002.

In January 1998, the Company issued warrants to purchase 30,000 shares of the Company's common stock in connection with investor related services provided to the Company. The warrants have an exercise price of $7.00 per share, vested immediately and expired in 2001.

In October 2000, the Company issued warrants to purchase 60,000 shares of common stock at $3.88 per share to an investor relations firm for services provided. Compensation expense of $117,555 was recognized upon issuance of the warrants. The warrants are immediately exercisable and expired in October 2001.

See footnote 11 for additional warrants issued during the year ended December 31, 2001.

The following sets forth the activity for all warrants:

	NUMBER OF SHARES	AVERAGE EXERCISE PRICE PER SHARE
OUTSTANDING, January 1, 1999	838,090	$ 5.09
Expired	(643,090)	5.00
OUTSTANDING, December 31, 1999	195,000	5.38
Granted	60,000	3.88
OUTSTANDING, December 31, 2000	255,000	5.03
Granted	1,900,000	1.43
Expired	(240,000)	4.92
OUTSTANDING, December 31, 2001	1,915,000	$ 1.42

As stated in Note 2, the Company has not adopted the fair value accounting prescribed by FASB123 for employees. Had compensation cost for stock options or warrants issued to employees been determined based on the fair value at grant date for awards in 2001, 2000, and 1999, consistent with the provisions of FASB123, the Company's net income (loss) and net income (loss) per share would have been reduced to the proforma amounts indicated below:

	2001	2000	1999
Net loss	$ (7,413,887)	$ (158,079)	$ (320
Net loss per common share:			
Basic and diluted	$ (2.18)	$ (0.05)	$ (

The fair value of each option or warrant was estimated on the date of grant using the Black-Scholes option pricing model using the following assumptions for grants in 2001, 2000, and 1999: average risk-free interest rates ranging from 4.23% to 5.6%, expected life of five years for 2001 and 2000 and an expected life of two years for 1999, dividend yield of 0%; and expected volatility ranging from 55.0% to 125.9%. The weighted-average fair value of the options on the grant date for the years ended December 31, 2001, 2000, and 1999 was $0.70, $0.94, and $2.09 per share, respectively.

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DIGITAL POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. NET INCOME (LOSS) PER COMMON SHARE:

The following represents the calculation of net income (loss) per common share:

	2001	2000

BASIC		
Net income (loss) applicable to common shareholders	$ (7,040,720)	$ 9
Weighted average number of common shares	3,407,930	2,93
Basic earnings (loss) per share	$ (2.07)	$
DILUTED		
Net income (loss) applicable to common shareholders	$ (7,040,720)	$ 9
Weighted average number of common shares	3,407,930	2,93
Common stock equivalent shares representing shares issuable upon exercise of stock options	Anti-dilutive	33
Weighted average number of shares used in calculation of diluted earnings per share	3,407,930	3,27
Diluted earnings (loss) per share	$ (2.07)	$

14. COMMITMENTS:

LEASES - The Company leases its office space in California, a manufacturing facility in Guadalajara, Mexico, and the facility and certain equipment in the UK under operating leases. The total future minimum lease payments, as of December 31, 2001, are as follows:

YEARS ENDING DECEMBER 31,	
2002	$ 327,440
2003	287,760
2004	304,312
2006	310,012
2006	132,362
	$ 1,361,886

Lease payments on the manufacturing facility in Mexico are to be made in Mexican Pesos. Lease payments on the facility and equipment in the UK are to be made in GB pound-sterling. The above schedule was prepared using the conversion rates in effect at December 31, 2001. Changes in the conversion rate will have an impact on the Company's required minimum payments and its operating results.

Rent expense was $350,152, $172,560, and $253,530 for the years ended

December 31, 2001, 2000, and 1999, respectively.

Termination Of Employment Agreement/Entering Consulting Agreement - The Company entered into a Termination of Employment Agreement/Entering Consulting Agreement on November 13, 2001 with Robert O. Smith. This Consulting Agreement will continue in effect for a period of three (3) years unless terminated or extended upon mutual agreement. Under the terms of the agreement, Mr. Smith agrees to assist the Company in managing its power supply business and related projects. The agreement requires payment of $100,000 per annum, at the end of each calendar year or pro rated by month. At December 31, 2001, the Company has $15,000 accrued under this agreement. Mr. Smith is entitled to receive options to acquire 100,000 shares of Digital Power's common stock on an annual basis beginning on January 1, 2002 pursuant to Digital Power's stock option plan at an exercise price of $3.00 per share. Mr. Smith has the opportunity to sell to Telkoor Telecom, Ltd up to 50% of the common stock held by him, but under no circumstances more than 5% of the issued and outstanding common stock of the Company on a fully diluted basis as of the date of the sale.

15. MAJOR CUSTOMERS:

The Company frequently sells large quantities of inventory to its customers. For the year ended December 31, 2001, two customers accounted for 36% of the Company's net sales. For the year ended December 31, 2000 and 1999, three customers accounted for 29% of the Company's net sales and two customers accounted for 11% of the Company's net sales, respectively. Of the Company's consolidated revenues for the year ended December 31, 2001, 63% of revenues were earned from customers in the United States, 30% from customers in the United Kingdom, and 7% for the rest of the world. Consolidated revenues for the year ended December 31, 2000 were earned 70% from customers in the United States, 21% from customers in the United Kingdom, and 9% for the rest of the world. Consolidated revenues for the year ended December 31, 1999 were earned 59% from customers in the United States, 29% from customers in the United Kingdom, and 12% for the rest of the world

For the year ended December 31, 2001, 2000, and 1999, DPL contributed 37%, 29%, and 42%, respectively, of the Company's revenues. No one customer of DPL contributed greater than 10% of the Company's consolidated revenues for the years ended December 31, 2001, 2000, and 1999.

16. EMPLOYEE BENEFIT PLANS:

401(K) PROFIT SHARING PLAN - The Company has a 401(k) profit sharing plan (the "Plan") covering substantially all employees of DPC. Eligible employees may make voluntary contributions to the Plan, which are matched by the Company at a rate of $.25 for each $1.00 contributed, up to a maximum of six percent of eligible compensation. The Company can also make discretionary contributions. The Company made matching contributions to the Plan of $12,238, $12,665, and $11,400 for years ended December 31, 2001, 2000, and 1999, respectively.

The Company's subsidiary DPL, has a group personal pension plan covering substantially all of its employees. Eligible employees may make voluntary contributions to the plan. The Company will contribute 7% of the employees' basic annual salary to the plan. Contributions are charged to operations as incurred. The Company made contributions totaling $55,334, $66,908, and $71,400 to the plan for the years ended December 31, 2001, 2000, and 1999, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN - The Company also has an employee stock ownership plan (the "ESOP") covering substantially all employees of DPC. The Company can make discretionary contributions of cash or company stock (as defined in the ESOP plan document) up to deductible limits prescribed by the Internal Revenue Code.

Effective June 13, 1996, the ESOP obtained a $500,000, loan guaranteed by the Company for the purpose of acquiring common stock of the Company from existing stockholders. The loan bore interest at 8.5% per annum and required monthly payments of principal and interest of $8,852 through June 2000. Immediately upon funding of the loan, the ESOP purchased approximately 167,504 shares of the Company's common stock from existing stockholders. The Company was required to contribute amounts to the plan to sufficiently cover the debt payments. Contributions to the plan in 1999 were $184,919.

17. INCOME TAXES:

Income tax expense (benefit)is comprised of the following:

	FOR THE YEARS ENDED DECEMBER 31, 2001	2000	1999
Current			
Federal	$ -	$ 60,000	$ (28,000)
State	800	21,000	1,000
Foreign	(36,506)	23,000	143,000
	(35,706)	104,000	116,000
Deferred			
Federal	299,995	-	2,000
State	50,528	-	5,000
Foreign	(15,934)	-	-
	334,589	-	7,000
	$ 298,883	$ 104,000	$ 123,000

The components of the net deferred tax asset and liability recognized are as follows:

	DECEMBER 31,	
	2001	
Current deferred tax assets (liabilities):		
Accounts receivable, principally due to allowance for doubtful accounts	$ 148,518	$
Compensated absences, principally due to accrual for financial reporting purposes	21,422	
Accrued commissions	28,326	
Accrued payroll	10,035	
Accrued severance	203,911	
Inventory reserve	1,190,035	
Warranty reserve	64,764	
Stock rotation liability	20,070	
UNICAP	28,546	
Accrued liabilities	66,065	
Other	(272)	
	1,781,420	
Valuation allowance	(1,781,420)	
Net current deferred tax asset	$ -	$
Long-term deferred tax assets (liabilities):		
Net operating loss carryforwards	$ 1,935,548	$
UNICAP credit carryforward	74,167	
Goodwill	505,188	
Depreciation	56,618	
	2,571,521	
Valuation allowance	(2,571,521)	
Net long-term deferred tax liability	$ -	$

Total income tax expense differed from the amounts computed by applying the U.S. federal statutory tax rates to pre-tax income as follows:

	For the Yea DECEMBER	
	2001	2000
Total expense computed by applying the U.S. statutory rate	(34.0%)	34.0%
Permanent differences	(0.1)	5.1
State income taxes	0.2	10.9
Tax effect resulting from foreign activities	8.0	(101.0)
Change in valuation allowance	(5.3)	105.2
Change in beginning deferred asset	35.6	0.0
Other	0.0	0.3
	4.4%	54.5%

DIGITAL POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company will continue to assess the realizability of the deferred tax assets in future periods. The valuation allowance increased by $4,049,459 during the year ended December 31, 2001. During March 2001, the Company fully valued the deferred tax asset recorded at December 31, 2000 of $350,523 due to the uncertainty of the Company's ability to recognize the benefit of the deferred tax asset in the future. The valuation allowance increased by $212,559 during the year ended December 31, 2000.

At December 31, 2001, the Company has net operating loss carryforwards for Federal tax purposes of approximately $3,599,674 which begin to expire in the year 2020. The Company has California net operating loss carryforwards as of December 31, 2001 of $1,854,876 which expire through 2011. As a result of certain non-qualified stock options, which have been exercised, the tax benefit from the utilization of the net operating loss carryforward will be charged to additional-paid in capital when, and if, the losses are utilized. The net operating loss may be subject to Internal Revenue Code Section 382 limitations.

No provision has been made for U.S. Federal and state income taxes or foreign taxes that may result from future remittance of the undistributed earnings of foreign subsidiaries because it is expected that such earnings will be reinvested overseas indefinitely. Determination of the amount of any unrecognized deferred income tax liability on these unremitted earnings is not practicable.

DIGITAL POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. SEGMENT REPORTING:

The Company has identified its segments based upon its geographic operations. These segments are represented by each of the Company's individual legal entities: DPC, PD and DPL. Segment operations are measured consistent with accounting policies used in these consolidated financial statements. Segment information is as follows:

			December 31, 2001	
	DPC	PD	DPL	Elimina
Revenues	$ 6,475,533	$ -	$ 3,854,324	$
Intersegment Revenues	$ -	$ 778,450	$ 599,848	$ (1,
Interest Income	$ 24,350	$ 310	$ 12,519	$

Interest Expense	$ 56,874	$ -	$ 30,937	$
Depreciation and Amortization	$ 196,555	$ 139,526	$ 114,671	$
Income Tax	$ 350,523	$ 11,356	$ (62,996)	$
Net Income(loss)	$ (5,360,730)	$ (1,596,321)	$ (207,140)	$
Expenditures for Segment Assets	$ 104,257	$ 5,424	$ 23,600	$
Segment Assets	$ 6,833,699	$ 409,601	$ 2,562,562	$ (3,

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DIGITAL POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

			December 31, 2000	
	DPC	PD	DPL	Elimina
Revenues	$ 12,721,567	$ 15,302	$ 5,145,861	$
Intersegment Revenues	$ -	$ 3,026,933	$ 483,394	$ (3,
Interest Income	$ 63,010	$ 1,742	$ 5,711	$
Interest Expense	$ 79,997	$ 2,021	$ 49,517	$
Depreciation and Amortization	$ 303,890	$ 54,346	$ 117,751	$
Income Tax Expense	$ 80,000	$ -	$ 24,000	$
Net Income	$ (525,919)	$ 179,333	$ 441,753	$
Expenditures for Segment Assets	$ 133,972	$ 19,517	$ 65,425	$
Segment Assets	$ 10,674,886	$ 180,624	$ 2,631,015	$ (1,

December 31, 1999

	DPC	PD	DPL	Elimina
Revenues	$ 9,085,554	$ 19,989	$ 6,428,475	$
Intersegment Revenues	$ -	$ 2,150,000	$ 221,138	$ (2,
Interest Income	$ 128,106	$ 3,806	$ 12,936	$ (
Interest Expense	$ 130,173	$ 7,098	$ 154,985	$ (
Depreciation and Amortization	$ 161,490	$ 49,357	$ 289,844	$
Income Tax Expense	$ (20,000)	$ -	$ 143,000	$
Net Income	$ (67,081)	$ (70,437)	$ 170,945	$
Expenditures for Segment Assets	$ 42,282	$ 51,686	$ 93,794	$
Segment Assets	$ 9,251,925	$ 829,095	$ 4,924,991	$ (3,

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SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTAL INFORMATION

To the Stockholders and Board of Directors
Digital Power Corporation and Subsidiaries
Fremont, California

Our report on our audits of the basic financial statements of Digital Power Corporation and subsidiaries for the years ended December 31, 2001 and 2000 appears on page F-2. The audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information contained in Schedules 1 through 7 is presented for the purposes of additional analysis for the Company's majority shareholder, Telkoor Telecom Ltd, for their filing under the Israeli Securities Regulations (preparation of Annual Financial Statements), of 1933 and are not a required part of the basic financial statements. Such information has been subjected to the auditing standards generally accepted in the United States of America and International Auditing Standards as applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/S/ Hein + Associates LLP

HEIN + ASSOCIATES LLP
Certified Public Accountants

Orange, California
February 19, 2002

DIGITAL POWER CORPORATION
(PARENT COMPANY ONLY - EQUITY BASIS)
SCHEDULE 1
BALANCE SHEETS

	DECEMBER 31, 2001
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 1,059,790
Accounts receivable - trade, net of allowance for doubtful accounts of $370,000 and $231,000 at December 31, 2001 and 2000, respectively	998,746
Income tax refund receivable	-
Inventories, net	1,204,634
Prepaid expenses and deposits	43,591
Deferred income taxes	-
Total current assets	3,306,761
PROPERTY AND EQUIPMENT, net	216,225
INVESTMENT IN AND ADVANCES TO PODER DIGITAL (1)	65,249
INVESTMENT IN AND ADVANCES TO DIGITAL POWER LIMITED (2)	1,347,121
OTHER ASSETS	17,910
	$ 4,953,266
TOTAL ASSETS	
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Notes payable	652,261
Accounts payable	1,112,217
Accrued liabilities	503,378
Total liabilities	2,267,856
STOCKHOLDERS' EQUITY:	
Preferred stock issuable in series, no par value, 2,000,000 shares authorized, no shares issued or outstanding at December 31, 2001 or 2000	-
Common stock, no par value, 10,000,000 shares authorized, 4,510,680 and 3,260,680 shares issued and outstanding for December 31, 2001 and 2000, respectively	11,036,251
Additional paid in capital	733,256
Accumulated deficit	(8,771,654)
Accumulated other comprehensive loss	(312,443)
Total stockholders' equity	2,685,410
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,953,266

(1) Investment in Poder Digital includes capital stock and additional paid in capital of $1,016
In addition, the investment includes incompany advances (liabilities) of $1,289,642 and ($70
of ($2,240,568) and ($109,718) and other comprehensive loss related to the translation adjus
December 31, 2001 and 2000, respectively.

(2) Investment in Digital Power Limited includes capital stock and additional paid in capital of

and 2000. In addition, the investment includes incompany accounts receivable of $309,822 and bearing note receivable of $1,160,647 and $2,251,589, retained earnings (deficit) of ($929,9 comprehensive loss related to the translation adjustments of ($312,443) and ($233,337) at De respectively.

/s/ David Amitai	3/30/02
DAVID AMITAI, PRESIDENT AND CEO	DATE

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DIGITAL POWER CORPORATION
(PARENT COMPANY ONLY - EQUITY BASIS)
SCHEDULE 2
STATEMENTS OF OPERATION

	FOR THE YEARS DECEMBER 3	
	2001	2000
REVENUES	$ 6,475,533	$ 12,721,
COST OF GOODS SOLD	7,155,132	10,043,
Gross margin (loss)	(679,599)	2,677,
OPERATING EXPENSES:		
Research and development	825,787	928,
Marketing and selling	407,445	638,
General and administrative	1,364,380	1,105,
Total operating expenses	2,597,612	2,672,
INCOME (LOSS) FROM OPERATIONS	(3,277,211)	4,
OTHER INCOME (EXPENSE):		
Interest income	24,350	63,
Interest expense	(56,874)	(79,
Gain (loss) on disposal of assets	(24,208)	
Other (expense)	(56,732)	(16,
INCOME (LOSS) BEFORE INTEREST IN SUBSIDARIES AND INCOME TAXES	(3,333,943)	(11,
INCOME TAX PROVISION (BENEFIT)	350,523	80,
INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF SUBSIDARIES	(3,684,466)	(91,
EQUITY IN EARNINGS OF PODER DIGITAL	(2,130,850)	179,

EQUITY IN EARNINGS OF DIGITAL POWER LIMITED	(1,225,404)	7,
NET INCOME (LOSS)	$ (7,040,720)	$ 95,

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DIGITAL POWER CORPORATION
(PARENT COMPANY ONLY - EQUITY BASIS)
SCHEDULE 3
STATEMENTS OF CASH FLOWS

	FOR THE YEAR DECEMBER	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (7,040,720)	$ 95
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Equity in earnings of Poder Digital S.A de C.V	2,130,850	(179
Equity in earnings of Digital Power Limited	1,225,404	(7
Depreciation and amortization	124,555	159
(Gain) loss on disposal of assets	24,208	
Deferred income taxes	350,523	
Warranty expense	(88,655)	55
Increase in provision for inventory obsolescence and excess	2,454,710	
Contribution to ESOP	-	
Bad debt expense	139,000	21
Compensation cost recognized upon issuance of warrants	-	117
Income tax benefit related to exercise of stock options	-	101
Stock issued for services		19
Changes in operating assets and liabilities:		
Accounts receivable	705,376	(485
Income tax refund receivable	179,200	(108
Inventories	237,361	(949
Prepaid expenses	164,683	(151
Net change in subsidiaries receivable (payable)	(1,026,157)	314
Other assets	-	(8
Accounts payable	(350,703)	721
Accrued liabilities	(51,362)	55
Other long-term liabilities	-	(25
Net cash provided by (used in) operating activities	(821,727)	(254
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(104,257)	(133
Net cash (used in) investing activities	(104,257)	(133

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DIGITAL POWER CORPORATION
(PARENT COMPANY ONLY - EQUITY BASIS)
SCHEDULE 3
STATEMENT OF CASH FLOWS
(Continued)

	FOR THE YEARS DECEMBER	
	2001	2000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options and warrants	-	754
Proceeds received (payments made) on notes payable	252,261	(540
Principal payments on capital lease obligations	-	
Principal payments on notes payable	-	
Investment from Telkoor Telecom, Ltd.	1,250,000	
Net cash provided by financing activities	1,502,261	214
NET CHANGE IN CASH AND CASH EQUIVALENTS	576,277	(174
CASH AND CASH EQUIVALENTS, beginning of period	483,513	658
CASH AND CASH EQUIVALENTS, end of period	$ 1,059,790	$ 483
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash payments for:		
Interest	$ 56,874	$ 81
Income taxes	$ -	$ 180

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DIGITAL POWER CORPORATION
SUPPLEMENTAL SCHEDULES OF CONSOLIDATED COMPANY EXPENSES

SCHEDULE 4 - COST OF GOODS SOLD:

	FOR THE YEAR ENDED DECEMBER 31,		
	DPC	DPL	PD

Materials consumed	$ 5,593,586	$ 3,241,585	$ -
Labor	1,397,591	508,023	2,966,709
Contracted labor	64	54,705	-
Depreciation	37,365	-	49,708
Other manufacturing costs	464,737	-	944
Changes in finished goods and work-in-process	(338,211)	(652,523)	-
	$ 7,155,132	$ 3,151,790	$ 3,017,361

	FOR THE YEAR ENDED DECEMBER 31,		
	DPC	DPL	PD
Materials consumed	$ 5,651,520	$ 3,796,660	$ -
Labor	3,669,294	637,879	2,554,990
Contracted labor	20,718	91,592	-
Depreciation	47,967	-	58,613
Other manufacturing costs	368,271	(916,138)	248,748
Changes in finished goods and work-in-process	286,076	217,578	-
	$ 10,043,846	$ 3,827,571	$ 2,862,351

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DIGITAL POWER CORPORATION
SUPPLEMENTAL SCHEDULES OF CONSOLIDATED COMPANY EXPENSES

	FOR THE YEAR ENDED DECEMBER 31,		
	DPC	DPL	PD
Materials consumed	$ 4,221,683	$ 4,067,212	$ -
Labor	2,746,727	639,557	1,919,654
Contracted labor	4,618	133,765	-
Depreciation	48,447	-	39,283
Other manufacturing costs	169,458	(759,845)	278,193
Changes in finished goods and work-in-process	122,771	16,789	-
	$ 7,313,704	$ 4,097,478	$ 2,237,134

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DIGITAL POWER CORPORATION
SUPPLEMENTAL SCHEDULES OF CONSOLIDATED COMPANY EXPENSES

SCHEDULE 5 - MARKETING & SELLING EXPENSES:

	FOR THE YEAR ENDED DECE		
	DPC	DPL	PD
Labor	$ 123,405	$ 202,857	$ -
Commissions	166,292	67,770	-
Advertising	7,175	82,279	-
Depreciation	16,192	30,001	-
Other costs	94,381	73,546	-
	$ 407,445	$ 456,453	$ -

	FOR THE YEAR ENDED DECE		
	DPC	DPL	PD
Labor	$ 128,417	$ 281,477	$ -
Commissions	343,444	52,856	-
Advertising	13,704	115,435	-
Depreciation	20,786	25,000	-
Other costs	132,222	235,204	-
	$ 638,573	$ 709,972	$ -

	FOR THE YEAR ENDED DECE		
	DPC	DPL	PD
Labor	$ 94,263	$ 361,209	$ -
Commissions	189,645	68,600	-

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The fact that Synopsys and Purchaser s obligations under the Offer were not subject to any financing condition.

The availability of statutory appraisal rights under Delaware law in the second-step merger for stockholders who do not tender in the Offer and who believe that exercising such rights would yield them a greater per share amount than the Offer Price, while simultaneously avoiding delays in the transaction so that other Numerical stockholders will be able to receive the Offer Price for their Shares as Synopsys will remain obligated to consummate the Merger.

The discussions held by Numerical and CSFB, on its behalf, with other companies regarding potential business combination transactions with Numerical, which led the Board to receive from Synopsys what it believed to be a proposal that would yield the maximum benefits to the Numerical stockholders.

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The absence of market risk associated with a cash transaction as opposed to a stock transaction.

The likelihood of successful employee retention and smooth transition process based on a transaction with Synopsys as opposed to alternative potential transactions, which would collectively make a transaction more likely to be consummated.

The regulatory risk with respect to review of the Offer pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the *HSR Act*), as balanced by the fact that the terms of the Merger Agreement require Synopsys to use its commercially reasonable best efforts to take, or cause to be taken, all actions, consistent with the terms of the Merger Agreement, to cause the expiration or termination of the applicable waiting periods under the HSR Act.

Risks and contingencies related to the announcement and pendency of the Offer and the Merger, including the likely impact of the Offer and the Merger on Numerical s employees, customers and partners and the expected effect of the Offer and the Merger on Numerical s existing relationships with third parties.

The possibility that the Offer and the Merger will not be consummated and the potential negative effect of public announcement of the Offer and the Merger in that event upon Numerical s sales, operating results and stock price and Numerical s ability to retain key management and personnel.

Numerical s stockholders would not benefit from any future increase in Numerical s value.

The interests that certain of Numerical s directors and executive officers may have with respect to the Offer and the Merger in addition to their interests as stockholders of Numerical as generally described in Item 3 above.

The increased competition that Numerical faces for its products and services, including competition from both software and hardware vendors who offer integrated and alternative solutions to the problems that Numerical s products address.

The fact that certain officers and directors and other stockholders were required to sign the Stockholder Tender Agreement, obligating them to tender their Shares in the Offer, which represented approximately 20% of the minimum number of Shares required to be tendered as a condition to closing the Offer.

The fact that the Offer and Merger will constitute a taxable transaction.

Based on all of the foregoing factors, the Board determined that the Merger Agreement was advisable and fair to the Numerical stockholders; determined that the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, taken together, were at a price and on terms that were in the best interests of the stockholders; and approved the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger.

Accordingly, the Board unanimously recommends that the stockholders of Numerical accept the Offer and tender their Shares pursuant to the Offer and approve the Merger Agreement.

Intent to Tender

To the knowledge of Numerical, after making reasonable inquiry, each of Numerical s executive officers and directors who are parties to the Stockholder Tender Agreement currently intend to tender pursuant to the Offer all Shares owned by them.

To Numerical s knowledge after reasonable inquiry, except as set forth below, any of Numerical s executive officers and directors who are not party to the Stockholder Tender Agreement and any affiliates currently intend to tender all Shares (other than Shares held directly or indirectly by affiliates who are other public companies, as to which Numerical has no knowledge, and other than Shares underlying unexercised stock options) owned by them pursuant to the Offer. The foregoing does not include any Shares over which, or with respect to which, any such executive officer, director, affiliate or subsidiary acts in a fiduciary or representative capacity or is subject to the instructions of a third party with respect to such tender.

ITEM 5. ***Person/Assets, Retained, Employed, Compensated or Used*.**

The Board retained CSFB to act as its financial advisor in connection with the Merger. CSFB was selected by the Board based on its qualifications, expertise and reputation. CSFB is an internationally recognized investment banking and advisory firm. CSFB, as part of its investment banking business, is continuously engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. In the past, CSFB and its affiliates have provided certain investment banking and financial services unrelated to the proposed Offer and Merger to Synopsys and Numerical for which CSFB has received compensation, and CSFB and its affiliates may in the future provide certain investment banking and financial services to Synopsys and its affiliates, for which CSFB would expect to receive compensation. In the ordinary course of its business, CSFB and its affiliates may actively trade the debt and equity securities of Numerical and Synopsys for their own accounts and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Pursuant to an engagement letter effective as of November 29, 2002 (the *Engagement Agreement*) Numerical engaged CSFB to provide financial advisory services to Numerical s Board in connection with the Offer and the Merger, including, among other things, rendering its opinion attached as *Annex B*. Pursuant to the terms of the Engagement Agreement, the Company is obligated to pay CSFB a customary fee in connection therewith, a significant portion of which is contingent upon the Offer. CSFB will also receive a fee for rendering its opinion. In addition, the Company has also agreed to reimburse CSFB for its out-of-pocket expenses, including attorney s fees, incurred in connection with its engagement and to indemnify CSFB and certain related persons against certain liabilities and expenses arising out of or in conjunction with rendering its services under its engagement, including liabilities arising under the federal securities laws.

Except as set forth above, neither Numerical nor any person acting on its behalf has employed, retained or compensated, or currently intends to employ, retain or compensate, any person to make solicitations or recommendations to Numerical s stockholders on its behalf with respect to the Offer or the Merger.

ITEM 6. ***Interest in Securities of the Subject Company.***

Except as set forth in Item 3 above and as set forth in the chart below, no transactions in Shares during the past 60 days have been effected by Numerical or, to the best of Numerical s knowledge, by any executive officer, director, affiliate or subsidiary of Numerical.

Name	Transaction Date	Number of Shares	Per Share Sale Price	Where and How Transaction Effected
Fabio Angelillis	11/26/02	504	$4.35	Open market sale
Yagyensh C. Pati	12/02/02	22,000	$5.0074	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	12/06/02	2,500	$3.75	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	12/10/02	2,500	$3.50	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	12/11/02	2,500	$3.5077	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	12/12/02	2,300	$3.5002	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	12/16/02	5,000	$3.0537	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	12/17/02	45,000	$3.7264	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	12/18/02	17,000	$3.3113	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	12/19/02	15,000	$3.2215	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	12/20/02	16,700	$3.258	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	12/23/02	24,500	$3.3184	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	12/30/02	7,300	$3.528	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	01/09/03	6,000	$3.4581	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	01/10/03	22,000	$3.6335	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	01/13/03	80,000	$6.8951	Open market sale pursuant to Rule 10b5-1 plan
Yagyensh C. Pati	01/14/03	39,700	$6.874	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/02/02	18,000	$5.0074	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/06/02	2,500	$3.75	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/10/02	2,500	$3.50	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/11/02	2,500	$3.5077	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/12/02	2,300	$3.5002	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/16/02	5,000	$3.0537	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/17/02	40,000	$3.7264	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/18/02	13,000	$3.3113	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/19/02	10,000	$3.2215	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/20/02	13,000	$3.258	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/23/02	23,200	$3.3184	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	12/30/02	5,000	$3.528	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	01/09/03	4,000	$3.4581	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	01/10/03	18,000	$3.6335	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	01/13/03	70,000	$6.8951	Open market sale pursuant to Rule 10b5-1 plan
Yao-Ting Wang	01/14/03	35,000	$6.874	Open market sale pursuant to Rule 10b5-1 plan

ITEM 7. ***Purposes of the Transaction and Plans or Proposal.***

Except as described or referred to in this Statement, no negotiation is being undertaken or engaged in by Numerical in response to the Offer that relates to or would result in (1) a tender offer or other acquisition of the Shares by Numerical, any of its subsidiaries or any other person, (2) an extraordinary transaction, such as a merger, reorganization, or liquidation involving Numerical or any of its subsidiaries, (3) a purchase, sale or transfer of a material amount of assets by Numerical or any of its subsidiaries or (4) any material change in the present dividend rate or policy or indebtedness or capitalization of Numerical.

Except as described or referred to in this Statement, there are no transactions, resolutions of the Board, agreements in principle, or signed contracts entered into in response to the Offer that would relate to one or more of the matters referred to in the preceding paragraph.

ITEM 8. ***Additional Information.***

Delaware General Corporation Law

Business Combination Transactions

As a Delaware corporation, the Company is subject to Section 203 (*Section 203*) of the Delaware General Corporation Law (the *DGCL*). In general, Section 203 would prevent an interested stockholder (generally defined as a person beneficially owning 15% or more of a corporation s voting stock) from engaging in a business combination (as defined in Section 203) with a Delaware corporation for three years following the date such person becomes an interested stockholder unless: (1) before such person became an interested stockholder, the board of directors of the corporation approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination, (2) on consummation of the transaction which resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding, for purposes of determining the number of outstanding shares, stock held by directors who are also officers and by employee stock plans that do not allow plan participants to determine confidentially whether to tender shares), or (3) following the transaction in which such person became an interested stockholder, the business combination is (x) approved by the board of directors of the corporation and (y) authorized at a meeting of stockholders by the affirmative vote of the holders of a least $66\,^{2}/3\%$ of the outstanding voting stock of the corporation not owned by the interested stockholder. In accordance with the provisions of Section 203, the Board has irrevocably taken all steps necessary to approve Synopsys and Purchaser becoming interested stockholders within the meaning of Section 203 and causing Section 203 to be inapplicable to Synopsys and Purchaser has approved the Merger Agreement and the Stockholder Tender Agreement and the acquisition of Shares pursuant to the Offer and Stockholder Tender Agreement, as described in Item 4 above.

Short Form Merger

Under the DGCL, if Purchaser acquires, pursuant to the Offer or otherwise, at least 90% of the outstanding Shares, Purchaser will be able to effect the Merger after consummation of the Offer without the approval of the Company s stockholders. However, if Purchaser does not acquire at least 90% of the Shares pursuant to the Offer or otherwise and a vote of the Company s stockholders is required under the DGCL, a significantly longer period of time will be required to effect the Merger. Assuming that Purchaser acquires at least 90% of the outstanding Shares, Purchaser will be able to approve the Merger without the vote of any other stockholder. In addition, if a stockholder vote is required, the Merger Agreement requires Purchaser and Synopsys to vote all Shares held by them in favor of the Merger.

Appraisal Rights

Holders of Shares do not have appraisal rights as a result of the Offer. However, they can exercise such rights in connection with the Merger, if Purchaser proceeds with the Merger. Those rights, including the procedures stockholders must follow in order effectively to demand and perfect such rights, are summarized in the section entitled Certain Legal Matters Appraisal Rights in the Offer to Purchase that is enclosed with this document. Failure to follow the steps required by the Delaware statute governing appraisal rights may result in the loss of such rights.

The foregoing summary of the rights of dissenting stockholders in the Merger does not purport to be a complete statement of the procedures to be followed by stockholders desiring to exercise their appraisal rights under the DGCL. The preservation and exercise of appraisal rights require strict adherence to the applicable provisions of the DGCL which will be set forth in their entirety in the proxy statement or the information statement for the Merger, unless the Merger is effected as a short-form merger in which case it will be set forth in the notice of merger.

Other State Takeover Laws

In addition to Section 203 of the DGCL, a number of other states have adopted takeover laws and regulations which purport, to varying degrees, to be applicable to attempts to acquire securities of corporations which are incorporated in such states or which have substantial assets, stockholders, principal executive officers or principal places of businesses in such states. Synopsys has stated, in the section entitled Certain Legal Matters State Takeover Laws in the Offer to Purchase, that Purchaser has not attempted to comply with state takeover statutes in connection with the Offer. The Board has adopted a resolution exempting, to the fullest extent permitted by applicable law, the Merger Agreement, the Stockholder Tender Agreement and the transactions contemplated thereby from any state takeover statutes other than Delaware takeover statutes that purport to apply to the Merger Agreement, the Stockholder Tender Agreement and the transactions contemplated thereby. In the event that it is asserted that one or more state takeover statutes apply to the Offer, and it is not determined by an appropriate court that such statute or statutes do not apply or are invalid as applied to the Offer, as applicable, Purchaser may be required to file certain documents with, or receive approvals from, the relevant state authorities, and, according to the Offer to Purchase, Purchaser might be unable to accept for payment or purchase Shares tendered pursuant to the Offer or be delayed in continuing or consummating the Offer. In such case, according to the Offer to Purchase, Purchaser may not be obligated to accept for purchase, or pay for, any Shares tendered in the Offer.

U.S. Anti-Trust Waiting Period

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (*HSR Act*), and the rules that have been promulgated thereunder by the Federal Trade Commission (*FTC*), certain transactions may not be consummated unless certain information has been furnished to the Antitrust Division of the United States Department of Justice (the *Antitrust Division*) and the FTC and certain waiting period requirements have been satisfied. The purchase of Shares pursuant to the Offer and the consummation of the Merger is subject to such requirements.

Pursuant to the HSR Act, Synopsys and Numerical have each filed Notification and Report Forms with respect to the Offer and Merger. The waiting period applicable to the purchase of Shares pursuant to the Offer is scheduled to expire during the pendency of the Offer unless Synopsys receives a request for additional information or documentary material prior thereto.

At any time before or after Purchaser s acquisition of the Shares, the Antitrust Division or FTC could take such action under the antitrust laws as either deems necessary or desirable in the public interest, including seeking to enjoin Purchaser s acquisition of the Shares pursuant to the Offer, the Merger or otherwise, or seeking the divestiture of the Shares acquired by Purchaser, or the divestiture of substantial assets of Synopsys or its subsidiaries. There can be no assurance that a challenge to the Offer or the Merger or other acquisition of the Shares by Purchaser on antitrust grounds will not be made or, if such a challenge is made, of the result.

Foreign Anti-Trust Filings

Synopsys and Numerical each conduct operations in a number of foreign countries, and filings may have to be made with other foreign governments under their pre-merger notification statutes. The Company and Synopsys intend to make a joint filing in Germany. The filing requirements of various other nations are being analyzed by the parties and, where necessary, the parties intend to make such filings. If any such filings are determined to be required, the parties do not expect them to materially affect the timing of the consummation of the Offer or the Merger.

Litigation

On January 14, 2003, an action entitled Huff v. Numerical Technologies, Inc. (Case No. CV814010) was filed in the Superior Court of the State of California for the County of Santa Clara, in which the plaintiff named as defendants the Company and certain current and former directors of the Company. The complaint purports to assert claims on behalf of all public shareholders of the Company. The complaint alleges that Numerical and the members of the Board have, among other things, breached their fiduciary duties to shareholders of the Company.

The complaint seeks class certification and other equitable relief, including the enjoining of the Offer and the Merger, as well as costs and expenses in connection with the action. The Company believes that the allegations are without merit and intends to vigorously contest this action. There can be no assurance that the Company and the named current and former directors and officers of the Company will be successful.

Section 14(f) Information; Purchaser s Designation of Persons to be Elected to the Board of Directors

The Information Statement attached as *Annex A* to this Schedule 14D-9 is being furnished in connection with the possible designation by Purchaser, pursuant to the terms of the Merger Agreement, of certain persons to be elected to the Board of Directors other than at a meeting of the Numerical s stockholders.

Other Information

Additional copies of this Statement, the Offer to Purchase, the Letter of Transmittal or other materials related to the Offer may be obtained from D. F. King & Co., Inc., the Information Agent for the Offer, at the address and phone number set forth on the back cover of the Offer to Purchase.

Forward Looking Statements

Certain statements contained in this Statement, including the exhibits hereto, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including projections of earnings; revenues, or other financial items; any statements of plans or strategies and objectives of management for future operations; any statements concerning proposed new products, services, or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. More information about potential factors that could affect Numerical s business and financial results is included in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Factors Which May Affect Our Future Results in Numerical s Quarterly Report on Form 10-Q filed with the SEC on November 12, 2002.

The information contained in all of the Exhibits referred to in Item 9 below is incorporated herein by reference.

ITEM 9. ***Materials to be Filed as Exhibits***

The following exhibits are filed herewith:

Exhibit Number	Description
(a)(1)	Offer to Purchase, dated January 23, 2003 (incorporated by reference to Exhibit (a)(1)(A) to Schedule TO filed by Neon Acquisition Corporation and Synopsys, Inc. with respect to the Offer on January 23, 2003 (*Schedule TO*)).*
(a)(2)	Letter of Transmittal, dated January 23, 2003 (incorporated by reference to Exhibit (a)(1)(B) to Schedule TO).
(a)(3)	Information Statement pursuant to Section 14(f) of the Securities Exchange Act of 1934 and Rule 14f-1 thereunder (incorporated by reference and attached hereto as Annex A).*
(a)(4)	Letter to holders of Common Stock of Numerical Technologies, Inc., dated January 23, 2003.*
(a)(5)	Joint Press Release, dated January 13, 2003, regarding the proposed transaction between Synopsys, Inc. and Numerical Technologies, Inc. (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed by the Company on January 15, 2003).**
(e)(1)	Agreement and Plan of Merger among Synopsys, Inc., Neon Acquisition Corporation and Numerical Technologies, Inc. dated as of January 12, 2003 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the Company on January 15, 2003).
(e)(2)	Stockholder Tender Agreement, dated as of January 12, 2003, by and among Synopsys, Inc. and certain directors, executive officers and stockholders of Numerical Technologies, Inc. (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed by the Company on January 15, 2003).

Exhibit Number	Description
(e)(3)	Confidentiality Agreement, dated as of December 6, 2002, between Numerical and Synopsys, Inc. (incorporated by reference to Exhibit (d)(3) to Schedule TO).
(e)(4)	Stock Option Agreement between Numerical and Narendra K. Gupta dated October 16, 2002.
(e)(5)	Stock Option Agreement between Numerical and Narendra K. Gupta dated December 10, 2002.
(e)(6)	Stock Option Agreement between Numerical and Yagyensh C. (Buno) Pati dated July 17, 2002.
(e)(7)	Stock Option Agreement between Numerical and Yao-Ting Wang dated July 17, 2002.
(e)(8)	Stock Option Agreement between Numerical and Fabio Angelillis dated July 11, 2002.
(e)(9)	Stock Option Agreement between Numerical and Atul Sharan dated July 11, 2002.
(e)(10)	Stock Option Agreement between Numerical and Richard Mora dated July 11, 2002.
(e)(11)	Stock Option Agreement between Numerical and Thomas Kailath dated February 1, 2000.
(e)(12)	Early Exercise Stock Option Agreement between Numerical and Narendra K. Gupta dated February 1, 2000.
(e)(13)	Early Exercise Stock Option Agreement between Numerical and William Davidow dated February 1, 2000.
(e)(14)	Early Exercise Stock Option Agreement between Numerical and Abbas El Gamal dated February 1, 2000.
(e)(15)	Early Exercise Stock Option Agreement between Numerical and Harvey Jones dated February 1, 2000.
(e)(16)	Stock Option Agreement Early Exercise between Numerical and Y.C. (Buno) Pati dated February 10, 2000 (incorporated by reference to Registration Statement on Form S-1 (333-95675) as declared effective by the SEC on April 6, 2000).
(e)(17)	Stock Option Agreement Early Exercise between Numerical and Yao-Ting Wang dated February 10, 2000 (incorporated by reference to Registration Statement on Form S-1 (333-95675) as declared effective by the SEC on April 6, 2000).
(e)(18)	Stock Option Agreement Early Exercise between Numerical and Richard Mora dated May 26, 1999 (incorporated by reference to Registration Statement on Form S-1 (333-95675) as declared effective by the SEC on April 6, 2000).
(e)(19)	Stock Option Agreement Early Exercise between Numerical and Richard Mora dated December 27, 1999 (incorporated by reference to Registration Statement on Form S-1 (333-95675) as declared effective by the SEC on April 6, 2000).
(e)(20)	Stock Option Agreement Early Exercise between Numerical and Atul Sharan dated December 27, 1999 (incorporated by reference to Registration Statement on Form S-1 (333-95675) as declared effective by the SEC on April 6, 2000).
(e)(21)	Form of Indemnification Agreement between Numerical and each of its officers and directors (incorporated by reference to Exhibit 10.1 to the Form S-1 as declared effective by the SEC on April 6, 2000).
(e)(22)	Opinion of Credit Suisse First Boston, dated January 12, 2003 (incorporated by reference and attached hereto as Annex B).*
(g)	None.

* Included in materials mailed to Numerical stockholders with this Schedule 14D-9.

** Previously filed on Schedule 14D-9 as a preliminary communication.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

NUMERICAL TECHNOLOGIES, INC.

/s/ Narendra K. Gupta

Narendra K. Gupta
Interim President and
Chief Executive Officer

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Annex A

NUMERICAL TECHNOLOGIES, INC.
70 WEST PLUMERIA DRIVE
SAN JOSE, CALIFORNIA 95134-2134
Phone: (408) 919-1910
Fax: (408) 919-1920
Web: http://www.numeritech.com

INFORMATION STATEMENT PURSUANT TO SECTION 14(f) OF THE SECURITIES EXCHANGE ACT OF 1934 AND RULE 14f-1 THEREUNDER

This Information Statement is being mailed on or about January 23, 2003, as part of the Solicitation/Recommendation Statement on Schedule 14D-9 (*Schedule 14D-9*) to holders of shares of common stock, $0.0001 par value per share, of Numerical Technologies, Inc., a Delaware corporation (*Numerical* or the *Company*) (the *Shares*). Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in Schedule 14D-9, which (including the exhibits thereto) is incorporated by reference herein. This Information Statement is being provided in connection with the possible appointment of persons designated by Synopsys, Inc., a Delaware corporation (*Synopsys*), or Neon Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of Synopsys (*Purchaser*), to at least a majority of the seats on the Board of Directors of the Company (the *Board*). Such designation is to be made pursuant to Section 1.4 of the Agreement and Plan of Merger, dated as of January 12, 2003 (the *Merger Agreement*), among Synopsys, Purchaser and the Company, attached to the Schedule 14D-9 as Exhibit (e)(1) and incorporated herein by reference.

This Information Statement is required by Section 14(f) of the Securities Exchange Act of 1934, as amended (the *Exchange Act*), and Rule 14f-1 thereunder. YOU ARE URGED TO READ THIS INFORMATION STATEMENT CAREFULLY AND IN ITS ENTIRETY. YOU ARE NOT, HOWEVER, REQUIRED TO TAKE ANY ACTION.

Pursuant to the Merger Agreement, on January 23, 2003, Purchaser commenced a cash tender offer to acquire all of the issued and outstanding Shares on the terms and subject to the conditions set forth in the Offer to Purchase dated January 23, 2003 and in the related Letter of Transmittal (the *Offer*). The Offer is scheduled to expire at midnight, New York City time, on February 20, 2003, unless the Offer is extended. Following the successful completion of the Offer, upon satisfaction or waiver of the conditions set forth in Article VIII of the Merger Agreement, Purchaser will be merged with and into the Company (the *Merger*) and the Company shall become a wholly owned subsidiary of Synopsys.

The information contained in this Information Statement concerning Synopsys, Purchaser and the designees of Purchaser to the Board has been furnished to the Company by Synopsys, and the Company assumes no responsibility for the accuracy or completeness of such information.

GENERAL INFORMATION REGARDING THE COMPANY

General

Other than the Exchangeable Shares (as defined below) pursuant to the Special Voting Stock (as defined below), the Shares are the only securities outstanding having the right to vote for the election of the Company s directors at a stockholders meeting if one were to be held. Each Share entitles its record holder to one vote. As of the close of business on January 21, 2003, there were 33,712,870 Shares issued and outstanding. 273,303 exchangeable shares were issued by Cadabra Design Automation Inc., now known as Numerical Technologies Canada, Inc., (the *Exchangeable Shares*), an indirect, wholly owned subsidiary of the Company, in connection with the Company s acquisition of Cadabra Design Automation Inc. The Exchangeable Shares are exchangeable for Shares at any time, on a one-for-one basis, at the option of the holders thereof. Pursuant to the terms of the Merger Agreement and the Memorandum of Association of Cadabra Design Automation Inc., which governs the terms of the Exchangeable Shares, the Company will cause the Exchangeable Shares to be redeemed on or after the date on which Purchaser first accepts Shares for payment pursuant to the Offer, unless the Company elects to redeem the Exchangeable Shares earlier.

Also excluded from the issued and outstanding Numerical capital stock listed above is one share of *Special Voting Stock* created in connection with the Company s acquisition of Cadabra Design Automation Inc. The Special Voting Stock is a special series of the Company s preferred stock that consists of only one authorized share in which the holders of Exchangeable Shares are entitled to fractional interests equal to a fraction obtained by dividing (i) the number of Exchangeable Shares held by a given holder at any given time, by (ii) the total number of Exchangeable Shares outstanding at such time. The fractional interest of each holder of Exchangeable Shares entitles such holder to a number of votes at each Numerical stockholder meeting (or pursuant to a Numerical stockholder written consent) equal to the number of Exchangeable Shares held by such holder. The Special Voting Stock will be cancelled when no more Exchangeable Shares are outstanding.

The Company s Board

Upon consummation of the Offer pursuant to which the Purchaser purchases at least a majority of the outstanding Shares pursuant to the Offer, the Merger Agreement provides that Purchaser will be entitled to designate a number of directors to the Board sufficient to give Purchaser proportionate representation on the Board (*Purchaser s Proportionate Representation*). The Purchaser s Proportionate Representation will be equal to that number of directors that equals the product of the total number of directors on the Board multiplied by the percentage that the aggregate number of Shares purchased by Purchaser bears to the number of Shares issued and outstanding. Upon request by Purchaser, the Company will increase the size of the Board or use its best efforts to secure the resignations of the number of directors necessary to provide Purchaser with Purchaser s Proportionate Representation and will cause Purchaser s designees to be so elected. The Company will also use its best efforts to duplicate the Purchaser s Proportionate Representation on (1) each committee of the Board and (2) each board of directors and each committee thereof of each subsidiary of the Company. Following the election or appointment of Purchaser s designees as set forth above and prior to the Effective Time, and so long as there is at least one Continuing Director (as defined below), any amendment or termination of the Merger Agreement requiring action by the Board, any extension of time for the performance of any of the obligations or other acts of Synopsys or Purchaser under the Merger Agreement and any waiver of compliance with any of the agreements or conditions under the Merger Agreement for the benefit of the Company or any exercise of the Company s rights or remedies under the Merger Agreement will require the concurrence of a majority of the directors of the Company then in office who are directors of the Company on January 12, 2003, or their successors designated by the Continuing Directors then in office (the *Continuing Directors*).

Synopsys and Purchaser have advised the Company that Purchaser s designees to the Board (the *Synopsys Designees*) will include the persons listed in Schedule I attached hereto. Schedule I includes the name, age, address, principal occupation or employment and five-year employment history with respect to each such person. Synopsys and Purchaser have advised the Company that each of the persons listed in Schedule I has consented to serve as a director of the Company if appointed or elected. Synopsys and Purchaser have advised the Company that none of these persons currently is a director of, or holds any positions with, the Company. Synopsys and

Purchaser have advised the Company that, to their knowledge, none of the persons listed on Schedule I or any of their affiliates beneficially owns any equity securities or rights to acquire any such securities of the Company, nor has any such person been involved in any transaction with the Company or any of its directors, executive officers or affiliates that is required to be disclosed pursuant to the rules and regulations of the Securities and Exchange Commission (the *SEC*) other than with respect to transactions between Synopsys, Purchaser and the Company that have been described in Schedule TO or Schedule 14D-9.

Synopsys and Purchaser have advised the Company that, to the knowledge of Synopsys and Purchaser, none of the persons listed on Schedule I is an adverse party to the Company in any material legal proceedings or has a material interest that is adverse to the Company in any such proceedings. Synopsys and Purchaser have also advised the Company that, to the knowledge of Synopsys and Purchaser, none of the persons listed in Schedule I was, during the last five years, convicted in a criminal proceeding (excluding traffic violations and similar misdemeanors) or was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was, or is, subject to a judgment, decree or final order enjoining future violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of such laws or is involved in any other legal proceeding which is required to be disclosed under Item 401(f) of Regulation S-K promulgated by the SEC.

It is expected that the Synopsys Designees will assume office following the acceptance for purchase by Purchaser of the specified minimum number of Shares pursuant to the Offer. The directors of Purchaser immediately prior to the Effective Time shall be the directors of the surviving corporation at the Effective Time, each to hold office in accordance with the certificate of incorporation and by-laws of the surviving corporation until their successors are duly elected or appointed and qualified.

DIRECTORS AND EXECUTIVE OFFICERS OF NUMERICAL TECHNOLOGIES, INC.

General

Numerical currently has seven members on the Board with two vacancies. The Board is divided into three classes with each director serving a three-year term and one class being elected at each year s Annual Meeting of Stockholders. Directors Dr. Abbas El Gamal, Harvey Jones and Dr. Yao-Ting Wang are the Class I directors whose terms will expire at the 2004 Annual Meeting of Stockholders, director Dr. Thomas Kailath is the Class II director whose term expires at the 2005 Annual Meeting of Stockholders and directors Dr. William H. Davidow, Dr. Narendra K. Gupta and Dr. Yagyensh C. Pati are the Class III directors whose terms will expire at the 2003 Annual Meeting of Stockholders. All of the directors are incumbent directors. There are no family relationships among any of Numerical s directors or executive officers. Executive officers serve at the discretion of the Board.

The following table and notes set forth the names, ages, positions held with Numerical and certain other information of all Company directors and executive officers as of the date of this Information Statement:

Name	Age	Position
Narendra K. Gupta	54	Interim President, Interim Chief Executive Officer and Director
William H. Davidow (1) (2)	67	Director and Vice Chairman of the Board
Abbas El Gamal (2)	52	Director
Harvey Jones (1) (2)	50	Director
Thomas Kailath (1)	67	Director
Yagyensh C. (Buno) Pati	38	Director and Chairman of the Board
Yao-Ting Wang	39	Senior Vice President, Chief Technology Officer and Director
Fabio Angelillis	41	Senior Vice President, Engineering
Richard Mora	56	Chief Operating Officer and Chief Financial Officer
Atul Sharan	43	Senior Vice President, Marketing and Business Development

(1) Member of the Compensation Committee of the Board.
(2) Member of the Audit Committee of the Board.

Dr. Narendra K. Gupta has served as Numerical s interim President and Chief Executive Officer since December 2, 2002 and as a director of Numerical since April 1997. Dr. Gupta co-founded Integrated Systems Inc., a developer of embedded software, in 1980 and served as its Chairman from November 1992 until February 2000 when it was acquired by Wind River Systems, Inc. He was the President and Chief Executive Officer of Integrated Systems, Inc. from its inception until May 1994. Dr. Gupta received a Ph.D. in engineering from Stanford University and an M.S. in engineering from the California Institute of Technology. Dr. Gupta also received a B. Tech. Degree in mechanical engineering from the Indian Institute of Technology. Dr. Gupta was elected a Fellow of The Institute for Electrical and Electronics Engineers in 1991. Dr. Gupta is Vice Chairman of the Board at Wind River Systems, Inc.

Dr. William H. Davidow has served as a director of Numerical since June 1998, as Vice Chairman of the Board since August 2002 and was Chairman of the Board from January 2000 to August 2002. Dr. Davidow has served as a partner at Mohr, Davidow Ventures since May 1985 and has been a high-technology industry executive and a venture investor for over 20 years. From August 1973 to January 1985, Dr. Davidow was at Intel Corporation where he was Senior Vice President of marketing and sales, Vice President of the microcomputer division and Vice President of the microcomputer systems division. Dr. Davidow received a Ph.D. in electrical engineering from Stanford University, an M.S. in electrical engineering from the California Institute of Technology, an M.S. in electrical engineering from Dartmouth College and an AB in electrical engineering from Dartmouth College. Dr. Davidow is Chairman of the Board at Rambus Corporation.

Dr. Abbas El Gamal has served as a director of Numerical since April 1997. Dr. El Gamal has been on the faculty of the Electrical Engineering Department at Stanford University since September 1981. In December 1990, Dr. El Gamal co-founded Silicon Architects, which was acquired by Synopsys in 1995, and served as its Chief Technical Officer until May 1995. In July 1986, Dr. El Gamal co-founded Actel Corporation and served as its Chief Scientist until November 1990. From July 1984 to July 1986, Dr. El Gamal served as a director of LSI Logic s Research Lab, where he developed silicon compilation technology, DSP and image processing ASICs. Dr. El Gamal received a Ph.D. in electrical engineering from Stanford, an M.S. in statistics from Stanford University and a B.S. in electrical engineering from Cairo University, Egypt. Dr. El Gamal is a Fellow of The Institute of Electrical and Electronics Engineers.

Harvey Jones has served as a director of Numerical since June 1998. Mr. Jones is the Chairman of the Board of Tensilica, Inc., a privately held company he co-founded in 1997. Tensilica, Inc. designs and licenses application specific microprocessors for use in high volume embedded systems. From December 1987 through February 1998, Mr. Jones held various positions with Synopsys, Inc., a developer of electronic design automation software, where he served as President through December 1992, as Chief Executive Officer until January 1994 and as Executive Chairman of the Board until February 1998. Prior to joining Synopsys, Inc., Mr. Jones served as President and Chief Executive Officer of Daisy Systems Corporation, a computer-aided engineering company that he co-founded in 1981. Mr. Jones currently serves on the Board of Directors of NVIDIA Corporation, a 3-D graphics processor company. Mr. Jones holds a B.S. degree in mathematics and computer sciences from Georgetown University and an M.S. degree in management from MIT s Sloan School of Management.

Dr. Thomas Kailath is a co-founder of Numerical and has served as a director since October 1995 and was Numerical s Chairman of the Board from October 1995 to January 2000. Dr. Kailath has served as the Hitachi America Professor of Engineering, Emeritus, at Stanford University, where he has been since January 1963. From January 1981 to June 1987, Dr. Kailath was Associate Department Chairman of the Department of Electrical Engineering at Stanford University and served as Director of the Information Systems Laboratory from January 1971 to January 1981. In February 1980, Dr. Kailath co-founded Integrated Systems, Inc. and served as a director of Integrated Systems, Inc. until it was acquired by Wind River Systems, Inc. in February 2000. In June 1998, he co-founded Excess Bandwidth Corporation and was Chairman of its Board of Directors until it was acquired by Virata Corporation in August 2000. Dr. Kailath received S.M. and Sc.D. degrees in Electrical Engineering from the Massachusetts Institute of Technology and a B.E. in Telecommunications from the University of Poona, India. Dr. Kailath is a Fellow of the Institute of Electrical and Electronics Engineers and a member of the National Academy of Engineering and the American Academy of Arts and Sciences.

Dr. Yagyensh C. (Buno) Pati has served as Numerical s Chairman of the Board since August 2002, served as Numerical s President and Chief Executive Officer from the Company s inception until August 1, 2002, and has served as a director since he co-founded Numerical in October 1995. From October 1995 to December 1996, Dr. Pati served as an assistant professor of electrical engineering and computer science at Harvard University. From October 1992 to October 1995, Dr. Pati conducted research efforts in computational and system sciences applied to integrated circuit manufacturing at Stanford University. Dr. Pati received a B.S., an M.S. and a Ph.D., each in electrical engineering, from the University of Maryland at College Park.

Dr. Yao-Ting Wang has served as Numerical s Chief Technology Officer and as a director since he co-founded Numerical in October 1995. Dr. Wang s doctoral dissertation research was on automated design of phase shifting photomasks using fast algorithms and signal processing techniques. Dr. Wang received a B.S. degree in electrical engineering from National Taiwan University and a Ph.D. in electrical engineering from Stanford University.

Fabio Angelillis has served as Numerical s Senior Vice President of Engineering since November 2001. From September 2000 to November 2001, Mr. Angelillis was Executive Vice President of Engineering at KANA. From October 1990 to September 2000, Mr. Angelillis held various management positions, including Vice President of Research and Development and Operations at Cadence Design Systems, Inc., a provider of electronic design automation software, for their Custom IC product line. From January 1988 to October 1990, Mr. Angelillis served as Engineering Manager at Teradyne, Inc., a manufacturer of automatic test equipment and related software for the electronics and communications industries. Mr. Angelillis holds a B.S. degree in computer engineering from the University of Florida.

Richard Mora has served as Numerical s Chief Operating Officer and Chief Financial Officer since October 2001. Mr. Mora served as Numerical s Chief Financial Officer from October 2000 to October 2001. From May 1999 to October 2000, Mr. Mora served as Numerical s Chief Financial Officer and Vice President, Operations. From August 1994 to April 1999, Mr. Mora was Chief Financial Officer and Vice President of Finance at Mattson Technologies, Inc., a semiconductor equipment manufacturer. From June 1998 to May 1999, Mr. Mora was also Vice President and General Manager of the High Temp Products Division at Mattson. From September 1988 to August 1994, Mr. Mora served as Chief Financial Officer and Vice President of Finance at Actel Corporation, a semiconductor manufacturer. From June 1985 to August 1988, Mr. Mora was Chief Financial Officer and Vice President of Finance at HHB Systems. Mr. Mora received a B.S. in accounting from Santa Clara University and is a Certified Public Accountant.

Atul Sharan has served as Numerical s Senior Vice President of Worldwide Sales and Marketing since April 2002. From October 2000 to April 2002, Mr. Sharan served as Numerical s Senior Vice President of Marketing and Business Development. From October 1998 to October 2000, Mr. Sharan served as Numerical s Vice President, Marketing and Business Development. From April 1997 to October 1998, Mr. Sharan was director of strategic business development at Ambit Design Systems. From May 1991 to March 1997, Mr. Sharan held senior sales and marketing management positions at Compass Design Automation. From December 1984 to May 1991, Mr. Sharan worked in semiconductor manufacturing operations at VLSI Technology and Integrated Device Technology. Mr. Sharan received an M.B.A. from the University of California at Berkeley, an M.S. in engineering from the University of Houston, Texas and a B.Tech. degree in engineering from the Indian Institute of Technology in Kanpur, India.

Board Meetings and Committees

The Board held 12 meetings in 2002. Each director is expected to attend each meeting of the Board and those Committees on which he serves. Each incumbent director attended at least 75% of the Board and Committee meetings required to be attended by him during 2002, except for Dr. El Gamal, who attended 63% of the Board and Committee meetings required to be attended by him. Certain matters were approved by the Board or Committees of the Board by unanimous written consent. The Board currently has a standing Audit Committee, Compensation Committee and Stock Option Committee. The Audit Committee has a written charter that has been approved by the Board. Dr. Davidow replaced Dr. Gupta on the Audit Committee upon the appointment of Dr. Gupta as the interim President and Chief Executive Officer of the Company. The Board has no Nominating Committee or committee performing similar functions. Dr. Gupta is the sole member of the Stock Option Committee and such committee has the authority to grant stock options to non-officer employees. The Compensation Committee and Audit Committee are described as follows:

Name of Committee and Members	Functions of the Committees	Number of Meetings in Fiscal 2002
AUDIT William H. Davidow Abbas El Gamal Harvey Jones	monitors the Company s systems of internal controls; reviews corporate financial reporting and internal and external audits; nominates independent auditors; reviews the external auditors proposed audit scope, fee arrangements, approach and independence; provides the Board with the results of its examinations and recommendations; outlines to the Board the improvements made or to be made in internal accounting controls or suggested by the external auditors; and provides the Board with other information and materials necessary to make the Board aware of significant financial matters.	4
COMPENSATION William H. Davidow Harvey Jones Thomas Kailath	administers all matters concerning executive compensation and employment agreements; and administers the employee stock option and purchase plans.	2

Director Compensation

Numerical does not currently pay cash compensation to directors for serving in that capacity, nor does Numerical reimburse directors for expenses incurred in attending Board meetings. Currently, non-employee directors are eligible to participate in Numerical s 2000 Stock Plan that provides for the automatic grant of an option to purchase 30,000 Shares to each non-employee director who first becomes a director. Any such option will vest as to $^1/_4$th of the Shares on the first anniversary of the date of grant and as to $^1/_{16}$th of the Shares each quarter thereafter, provided that, in each case, the non-employee director shall continue to serve as a director on such dates.

Thereafter, each non-employee director shall automatically be granted an option to purchase 7,500 Shares on the date of each Annual Meeting of Stockholders, provided he is re-elected to the Board or otherwise remains on the Board on such date and provided that on such date he shall have served on the Board for at least the preceding six months. Any such option will vest in full on the fourth anniversary of the date of grant, provided that the non-employee director shall continue to serve as a director on such date. For so long as the Company s common stock is traded on the Nasdaq National Market, the exercise price per Share for such grants is required to be the closing price of the Company s common stock on the last trading day prior to the time of grant. Upon a change of control, all of the Shares subject to automatic option grants to directors under the Company s 2000 Stock Plan that have not vested as of the change of control shall vest in full. During the fiscal year ended December 31, 2001, Dr. Davidow, Dr. El Gamal, Dr. Gupta, Mr. Jones and Dr. Kailath each received an option grant of 7,500 shares at a per share exercise price of $24.10. During the fiscal year ended December 31, 2002, Dr. Davidow, Dr. El Gamal, Dr. Gupta, Mr. Jones, Dr. Kailath and Roger Sturgeon each received an option grant of 7,500 shares at a per share exercise price of $11.30.

SHARE OWNERSHIP BY PRINCIPAL STOCKHOLDERS AND MANAGEMENT

To the Company s knowledge, the following table sets forth certain information with respect to beneficial ownership of the Shares, as of January 21, 2003, for:

each person who the Company knows beneficially owns more than 5% of the Company s common stock;

each of the Company s directors;

each of the Company s named executive officers; and

all of the Company s current directors and executive officers as a group.

Unless otherwise indicated, the principal address of each of the stockholders below is c/o Numerical Technologies, Inc., 70 West Plumeria Drive, San Jose, California 95134-2134. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Except as indicated by footnote, and subject to applicable community property laws, each person identified in the table possesses sole voting and investment power with respect to all shares of common stock shown held by them. The number of shares of common stock outstanding used in calculating the percentage for each listed person includes shares of common stock underlying options or warrants held by such person that are exercisable within 60 calendar days of January 21, 2003, but excludes shares of common stock underlying options or warrants held by any other person. Percentage of beneficial ownership is based on 33,986,173 shares of common stock outstanding as of January 21, 2003, which such number includes the Exchangeable Shares.

	Shares Beneficially Owned	Percentage Beneficially Owned
5% Stockholders:		
State Street Research & Management Company (1)	2,444,300	7.2%
Roger Sturgeon (2)	1,920,602	5.7%
FMR Corp. (3)	1,723,200	5.1%
Directors and Executive Officers:		
Yagyensh C. (Buno) Pati (4)	2,165,500	6.3%
Yao-Ting Wang (5)	1,597,447	4.7%
Thomas Kailath (6)	903,334	2.7%
Narendra K. Gupta (7)	795,414	2.3%
Abbas El Gamal (8)	500,705	1.5%
Atul Sharan (9)	483,683	1.4%
Richard Mora (10)	369,375	1.1%
Lawrence C. Hollatz (11)	270,833	*
William H. Davidow (12)	173,210	*
Fabio Angelillis (13)	140,625	*
Harvey Jones (14)	60,873	*
All current directors and executive officers as a group (10 persons) (15)	7,190,166	20.6%

* Less than 1%.

(1) Principal address is One Financial Center, 30th Floor, Boston, MA 02111-2690. The number of shares held is set forth in a Schedule 13G filed by State Street Research & Management Company with the Securities and Exchange Commission on July 23, 2002.

(2) Includes 1,685,378 shares held by The Sturgeon Revocable Trust, UTA August 4, 1992, of which Mr. Sturgeon and his spouse serve as trustees. Also includes 161,566 shares held by Robel Partners, a family limited partnership, of which Mr. Sturgeon and his spouse serve as general partners, 16,629 shares held by Mr. Sturgeon as trustee of a grantor retained annuity trust, 16,629 shares held by Mr. Sturgeon s

spouse as trustee of a grantor retained annuity trust, and 40,400 shares held by the Sturgeon Family Charitable Remainder Trust, of which Mr. Sturgeon and his spouse serve as trustees.

(3) Principal address is 82 Devonshire Street, Boston, MA 02109. The number of shares held is set forth in a Schedule 13G filed by FMR Corp. with the Securities and Exchange Commission on September 10, 2002.

(4) Includes 12,801 shares held by the Pati Revocable Trust u/a/d 5/26/00, of which Dr. Pati and his spouse serve as trustees, 44,926 shares held by Dr. Pati s spouse as trustee of an annuity trust, 29,591 shares held by Dr. Pati as trustee of the Yonder 2 Annuity Trust f/b/o Relatives u/a/d 5/26/00, 12,682 shares held by Dr. Pati as trustee of the Yonder 3 Annuity Trust f/b/o Children u/a/d 5/26/00, and an option to purchase 137,500 shares exercisable within 60 calendar days of January 21, 2003.

(5) Includes 1,310,328 shares held by The Dragon Ball Living Trust U/A Dated 12/19/01, of which Dr. Wang and his spouse serve as trustees, 6,750 shares held by Dr. Wang s spouse and options to purchase 87,620 shares exercisable within 60 calendar days of January 21, 2003.

(6) Includes 540,000 shares held by Thomas and Sarah Kailath Revocable Living Trust Dated 02/15/89, 175,001 shares held by Thomas Kailath, Trustee of the Paul V. Kailath Irrevocable Trust UAD 10-1-89, 180,833 shares held by Thomas Kailath, Trustee of the Priya S. Kailath Irrevocable Trust UAD 10-1-89, and an option to purchase 2,344 shares exercisable within 60 calendar days of January 21, 2003.

(7) Includes 366,248 shares held by Naren and Vinita Gupta Living Trust dated 12/2/94, 416,666 shares held by Dr. Gupta as custodian for his minor children.

(8) Includes 225,000 shares held by El Gamal Family Partnership; Mr. El Gamal and his spouse are the general partners of El Gamal Family Partnership.

(9) Includes 12,096 shares held by Mr. Sharan and his spouse as trustees of a trust for the benefit of their son and options to purchase 275,000 shares exercisable within 60 calendar days of January 21, 2003.

(10) Includes options to purchase 187,500 shares exercisable within 60 calendar days of January 21, 2003.

(11) Represents an option to purchase 270,833 shares exercisable within 60 calendar days of January 21, 2003. Mr. Hollatz is the former President and Chief Executive Officer of the Company. His employment with the Company terminated on December 2, 2002.

(12) Principal address is 2775 Sand Hill Road, Suite 240, Menlo Park, CA 94025. Includes 15,710 shares held by The Chachagua Partnership for the benefit of Mr. Davidow s family, of which Mr. Davidow and his spouse, as co-trustees of the Davidow Family Trust dated July 6, 1991, serve as general partners.

(13) Represents an option to purchase 140,625 shares exercisable within 60 calendar days of January 21, 2003.

(14) The shares are held by The Jones Living Trust.

(15) Includes options to purchase 848,245 shares exercisable within 60 calendar days of January 21, 2003.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company s executive officers, directors and persons who own more than 10% of a registered class of the Company s equity securities to file certain reports regarding ownership of, and transactions in, the Company s securities with the SEC. Such officers, directors and 10% stockholders are also required by the SEC to furnish us with copies of all Section 16(a) forms that they file.

Based solely on the Company s review of such forms furnished to us and written representations from certain reporting persons, the Company believes that, except for the late filing of a Form 4 required to be filed by Dr. El Gamal for a single transaction in June 2002, all filing requirements applicable to the Company s executive officers, directors and more than 10% stockholders were complied with during fiscal year 2002.

CERTAIN TRANSACTIONS

Dr. Narendra K. Gupta

Dr. Gupta s option agreement with the Company dated as of October 16, 2002 regarding an option to purchase 200,000 Shares provides that upon a change of control of the Company, all of the Shares subject to such option held by Dr. Gupta that have not vested as of the change of control shall vest in full. As of January 21, 2003, 12,500 of the Shares subject to such option have vested.

Dr. Gupta s option agreement with the Company dated as of December 10, 2002 regarding an option to purchase 200,000 Shares provides that all of the Shares subject to such option will vest in full upon the earliest of:

December 10, 2003;

a change of control of the Company; or

the termination of Dr. Gupta s employment as Chief Executive Officer of the Company.

As of January 21, 2003, none of the Shares subject to such option have vested. For further information regarding automatic option grants to Dr. Gupta under the Company s 2000 Stock Plan in consideration for Dr. Gupta s service as a director of the Company see Director Compensation above.

Dr. Yagyensh C. (Buno) Pati

On February 1, 2000, Dr. Pati, the Chairman of the Board, exercised an option to purchase 600,000 Shares and entered into a restricted stock purchase agreement regarding the Shares. Pursuant to the restricted stock purchase agreement, Numerical has the right to repurchase any of the unvested Shares upon his involuntary termination of employment. As of January 21, 2003, 187,500 Shares remained unvested and subject to repurchase. All of Dr. Pati s unvested Shares will be released from the Company s repurchase option by February 1, 2004. Dr. Pati paid the $2.67 exercise price per Share for the Shares by delivery of a two year full-recourse promissory note bearing interest at 6.20% per annum, compounded annually. On February 10, 2002, the Company made a loan to Dr. Pati for the unpaid principal and interest outstanding under the note issued pursuant to the terms of the February 2000 option grant in the principal amount of $1,804,550.40, accruing interest at 6.20% per annum, compounded annually, to be due and payable on February 10, 2003, subject to and secured in part by a pledge of his Shares.

In addition, Dr. Pati s option agreements with the Company dated as of February 1, 2000, December 4, 2000 and July 17, 2002 regarding options to purchase 600,000, 125,000 and 300,000 Shares, respectively, provide that:

upon the six month anniversary of a change of control of the Company, 50% of the Shares subject to the options held by Dr. Pati that have not vested as of six months after the change of control shall vest in full and as of January 21, 2003, an aggregate of 475,001 shares have not vested; and

if Dr. Pati s employment is terminated as a result of an involuntary termination within 12 months of the change of control, all of the unvested Shares subject to options held by Dr. Pati will vest in full.

Dr. Yao-Ting Wang

On February 1, 2000, Dr. Wang, the Company s Chief Technology Officer and a director, exercised an option to purchase an aggregate of 499,999 Shares and entered into a restricted stock purchase agreement regarding the Shares. Pursuant to the restricted stock purchase agreement, the Company has the right to repurchase any of the unvested Shares upon his involuntary termination of employment. As of January 21, 2002, 156,250 of such Shares held by Dr. Wang remain unvested. All of Dr. Wang s Shares will be released from the Company s repurchase option by February 1, 2004. Dr. Wang paid the $2.67 exercise price per Share for the

Shares by delivery of a two-year full-recourse promissory note bearing interest at 6.20% per annum, compounded annually. On February 10, 2002, the Company made a loan to Dr. Pati for the unpaid principal and interest outstanding under the note issued pursuant to the terms of the February 2000 option grant in the principal amount of $1,503,790.50, accruing interest at 6.20% per annum, compounded annually, to be due and payable on February 10, 2003, subject to and secured in part by a pledge of his Shares.

In addition, Dr. Wang s option agreements with the Company dated as of February 1, 2000, December 4, 2000 and July 17, 2002 regarding options to purchase 499,999, 100,000 and 200,000 (of which Dr. Wang voluntarily forfeited 50,000 Shares to the Company) Shares, respectively, provide that:

upon the six month anniversary of a change of control of the Company, 50% of the shares subject to the options held by Dr. Wang that have not vested as of six months after the change of control shall vest in full and as of January 21, 2003, an aggregate of 318,871 shares have not vested; and

if Dr. Wang s employment is terminated as a result of involuntary termination within 12 months of the change of control, all of the unvested Shares subject to the options held by Dr. Wang will vest in full.

Richard Mora

On May 26 and December 27, 1999, Mr. Mora, the Company s Chief Operating Officer and Chief Financial Officer, exercised an option to purchase an aggregate of 412,500 Shares and entered into restricted stock purchase agreements regarding the Shares. Pursuant to the restricted stock purchase agreements, the Company has the right to repurchase any of the unvested Shares upon his involuntary termination of employment (including his cessation as Chief Financial Officer of the Company). As of January 21, 2003, 78,750 of such Shares held by Mr. Mora remain unvested. All unvested Shares will be released from the Company s repurchase option by December 27, 2003.

In addition, Mr. Mora s option agreements with the Company dated as of May 26, 1999, December 27, 1999, December 5, 2000, September 28, 2001 and July 11, 2002 regarding options to purchase 195,000, 217,500, 50,000, 100,000 and 150,000 Shares of Company common stock, respectively, provide that:

upon the six month anniversary of a change of control of the Company, 50% of the shares subject to the options held by Mr. Mora that have not vested as of six months after the change of control shall vest in full and as of January 21, 2003, an aggregate of 278,750 shares have not vested; and

if Mr. Mora s employment is terminated as a result of an involuntary termination within 12 months of the change of control (including his cessation as Chief Financial Officer of the Company), all of the unvested Shares subject to options held by Mr. Mora will vest in full.

Atul Sharan

On December 27 1999, Mr. Sharan, the Company s Vice President of Worldwide Sales and Marketing, exercised option grants to purchase 187,500 Shares and entered into restricted stock purchase agreements regarding the Shares. Pursuant to the restricted stock purchase agreements, the Company has the right to repurchase any of the unvested Shares upon his involuntary termination of employment. As of January 21, 2003, 46,875 of the Shares held by Mr. Sharan remain unvested. All unvested Shares will be released from the Company s repurchase option by October 21, 2003.

Mr. Sharan s option agreements with the Company dated as of December 27, 1999 (as amended), December 5, 2000, April 18, 2001 and July 11, 2002 regarding options to purchase 187,500, 50,000, 100,000 and 200,000 Shares, respectively, provide that:

upon the six month anniversary of a change of control of the Company, 50% of the Shares subject to the options held by Mr. Sharan that have not vested as of six months after the change of control shall vest in full and as of January 21, 2003, an aggregate of 209,376 Shares have not vested; and

if Mr. Sharan s employment is terminated as a result of an involuntary termination within 12 months of the change of control, all of the unvested Shares subject to options held by Mr. Sharan will vest in full.

Fabio Angelillis

Mr. Angelillis option agreements with the Company dated as of January 25, 2002 and July 11, 2002, each regarding options to purchase 250,000 Shares, provide that:

upon the six month anniversary of a change of control of the Company, 50% of the Shares subject to the option held by Mr. Angelillis that have not vested as of six months after the change of control shall vest in full and as of January 21, 2003, an aggregate of 375,000 Shares have not vested; and

if Mr. Angelillis employment is terminated as a result of an involuntary termination within 12 months of the change of control, all of the unvested Shares subject to the option held by Mr. Angelillis will vest in full.

Larry Hollatz

On December 2, 2002, Mr. Hollatz resigned as the President and Chief Executive Officer of the Company and as a director of the Company. In connection with the resignation of Mr. Hollatz, the Company and Mr. Hollatz entered into a Separation Agreement and Mutual Release (the *Release*). The Release provides that, in consideration of the release of all claims against the Company, the Company shall pay Mr. Hollatz a cash payment of $450,000, relocation expenses of approximately $58,782, reimbursement for primary residence lease payments up to $153,998, which includes payments up to $75,998 for the reimbursement of a tax liability incurred on such rental payments, and attorney s fees up to $1,500. In addition, the Release provides that the vesting of Mr. Hollatz s option dated as of July 23, 2002 shall be accelerated as to 270,833 Shares and shall be exercisable for 10 months from the date of the Release.

Roger Sturgeon

Mr. Sturgeon resigned as a director of the Company and entered into a consulting agreement with the Company on December 7, 2002. Mr. Sturgeon beneficially owns more than five percent of the Company s outstanding common stock. The consulting agreement terminates on January 6, 2004, unless extended by the parties. Mr. Sturgeon s options with the Company will continue to vest while Mr. Sturgeon is a consultant to the Company. In February 2000, Mr. Sturgeon exercised an option to purchase an aggregate of 225,000 Shares and entered into a restricted stock purchase agreement regarding the Shares. Pursuant to the restricted stock purchase agreement, the Company has the right to repurchase any of the unvested Shares upon his termination as a service provider to the Company. As of January 21, 2003, 56,250 Shares held by Mr. Sturgeon remain unvested. All of Mr. Sturgeon s Shares will be released from the Company s repurchase option by January 1, 2004. Mr. Sturgeon paid the $2.67 exercise price per Share for such Shares in cash. In addition, Mr. Sturgeon s restricted stock purchase agreement provides that upon the six month anniversary of a change of control of the Company, 50% of the Shares subject to options held by Mr. Sturgeon that have not vested as of six months after the change of control shall vest in full. In addition, Mr. Sturgeon, the Company and Transcription Enterprises Incorporated (*Transcription*), a wholly owned subsidiary of the Company, entered into a non-competition agreement dated as of January 1, 2000. Pursuant to the non-competition agreement, Mr. Sturgeon agreed not to compete against or solicit the employees of the Company or Transcription for, generally, a period of two years after his termination of employment with the Company.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning the compensation that the Company paid during the last three fiscal years to the Company s Chief Executive Officer (including two former Chief Executive Officers of the Company who served as the Company s Chief Executive Officer during fiscal year 2002) and the Company s four other most highly compensated executive officers who earned more than $100,000 during the fiscal year ended December 31, 2002. All option grants were made under the Company s 1997 Stock Plan, Company s 2000 Stock Plan, or the Company s 2001 Stock Plan.

		Annual Compensation			Long Term Compensation Awards	
Name and Principal Position	**Fiscal Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation ($)**	**Securities Underlying Options (#)**	**All Other Compensation ($) (1)**
Narendra K. Gupta	2002	(2)			407,500	
Interim President and	2001				7,500	
Chief Executive Officer	2000				7,500	
Lawrence C. Hollatz	2002	427,343	233,750	218,927(3)	1,000,000	150
Former President and	2001					
Chief Executive Officer	2000					
Yagyensh C. (Buno) Pati	2002	250,000	43,750		300,000	360
Former President and	2001	250,000	271,000			428
Chief Executive Officer	2000	217,000	87,500		725,000	300
Atul Sharan	2002	260,000	150,000		200,000	360
Senior Vice President, Marketing and	2001	260,000	264,700		100,000	428
Business Development	2000	195,000	183,000		50,000	234
Richard Mora	2002	260,000	150,000		150,000	360
Chief Operating Officer and	2001	260,000	264,700		100,000	428
Chief Financial Officer	2000	205,000	91,500		50,000	270
Fabio Angelillis	2002	240,000	125,000		500,000	346
Senior Vice President of	2001	36,364	70,833			58
Engineering	2000					
Yao-Ting Wang	2002	223,958	37,500		200,000	330
Senior Vice President,	2001	225,000	246,000			385
Chief Technology Officer	2000	192,275	75,200		600,199	315

(1) Represents the dollar value of term life insurance premiums paid by the Company on behalf of the named executive officer during the applicable fiscal year. There is no cash surrender value under the life insurance policy.
(2) Dr. Gupta received no salary for his services as Interim President and Chief Executive Officer in 2002.
(3) Includes $58,782 in relocation expenses, $78,000 in primary residence rental payments, $75,998 in reimbursement of tax liability incurred on rental payments and $6,147 in COBRA payments.

Option Grants in Last Fiscal Year

The following table sets forth information with respect to stock options granted to the Company s Chief Executive Officer (including two former Chief Executive Officers of the Company who served as the Company s Chief Executive Officer during fiscal year 2002) and the Company s four other most highly compensated executive officers during the fiscal year ended December 31, 2002. The Company has never granted any stock appreciation rights. All option grants were made under the Company s 2000 Stock Plan or the Company s 2001 Stock Plan.

	Individual Grants				Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation for Option Term ($)(3)	
Name	**Number of Securities Underlying Options Granted (#)**	**% of Total Options Granted to Employees in Fiscal Year (%)(1)**	**Exercise Price Per Share ($)(2)**	**Expiration Date**	**5%**	**10%**
Narendra K. Gupta	7,500	0.2	11.30	05/15/12	53,299	135,070
Narendra K. Gupta	200,000	4.5	3.52	10/16/12	442,742	1,121,995
Narendra K. Gupta	200,000	4.5	3.42	12/11/12	430,164	1,090,120
Lawrence C. Hollatz	1,000,000	22.4	2.89	07/24/12	1,817,505	4,605,916
Yagyensh C. (Buno) Pati	300,000	6.7	4.00	07/17/12	754,674	1,912,491
Atul Sharan	200,000	4.5	4.75	07/11/12	597,450	1,514,055
Richard Mora	150,000	3.4	4.75	07/11/12	448,087	1,135,542
Fabio Angelillis	250,000	5.6	16.59	01/25/12	2,608,340	6,610,047
Fabio Angelillis	250,000	5.6	4.75	07/11/12	746,812	1,892,569
Yao-Ting Wang	200,000	4.5	4.00	07/17/12	503,116	1,274,994

(1) Based on a total of 4,465,100 options granted to employees under the Company s 2000 Stock Plan or the Company s 2001 Stock Plan in 2002, which number does not include 207,500 options granted to Dr. Gupta in 2002 in connection with his service as a member of the Board.

(2) Represents the fair market value on the date of grant as determined pursuant to the closing price of the Company s common stock on the Nasdaq National Market on the trading day immediately preceding the date of grant.

(3) The potential realizable value is calculated based on the term of the ten-year option and assumed rates of stock appreciation of 5% and 10%, compounded annually. These assumed rates comply with the rules of the SEC and do not represent the Company s estimate of future stock price. Actual gains, if any, on stock option exercises will be dependent on the future performance of the Company s common stock.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth the Company s Chief Executive Officer (including two former Chief Executive Officers of the Company who served as the Company s Chief Executive Officer during fiscal year 2002) and the Company s four other most highly compensated executive officers information concerning exercisable and unexercisable options held as of December 31, 2002. All options were granted under the Company s 2000 Stock Plan or the Company s 2001 Stock Plan. No options were exercised by such officers in 2002.

	Number of Securities Underlying Unexercised Options at December 31, 2002 (#)		Value of Unexercised In-the-Money Options at December 31, 2002 ($)(1)	
Name	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Narendra K. Gupta		415,000		8,000
Yagyensh C. (Buno) Pati	54,687	370,313		
Lawrence C. Hollatz	270,833		154,375	
Atul Sharan	250,000	100,000		
Richard Mora	150,000	150,000		
Yao-Ting Wang	43,830	206,370		
Fabio Angelillis	62,500	437,500		

(1) The value of underlying securities is based on the $3.46 per share closing price of our common stock on December 31, 2002, minus the aggregate exercise price.

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The Compensation Committee of Numerical s Board determines the compensation of its Chief Executive Officer. In addition, the Compensation Committee overseas the nature and timing of awards and grants under Numerical s stock option plans and approves the general compensation programs for Numerical s executive officers and all employees. The Compensation Committee is composed entirely of outside directors.

The goals of the compensation program are to align compensation with the Company s performance and objectives and to attract, retain and reward executive officers whose contributions are critical to the Company s long-term success.

The primary components of Numerical s compensation package are salary, bonuses and stock options.

Salary

The level of base salary for executive officers is set based upon their scope of responsibility, level of experience and individual performance. The salary range for each position is reviewed against the Radford Survey, a third party compensation survey containing data for high-tech companies with similar sales volumes. Additionally, the Compensation Committee takes into account general business and economic conditions. The Compensation Committee sets the Company s salaries to be competitive with the marketplace. None of the factors considered is assigned a specific weight.

Bonuses

The Company s executive bonus plan provides the opportunity for quarterly cash bonuses based on accomplishment of specific individual performance objectives and Numerical s profit objectives. These objectives are set at the beginning of the fiscal year based on the Company s long-term and short-term objectives, and performance against these objectives is assessed each quarter.

Stock Options

The Compensation Committee believes that the granting of stock options is an important method of rewarding and motivating management by aligning management s interests with the Company s stockholders. The Compensation Committee also recognizes that a stock incentive program is a necessary element in a competitive compensation package. The program utilizes a vesting schedule to encourage the Company s key employees to continue in the Company s employ and encourages employees to maintain a long-term perspective. In determining the size of stock option grants, the Compensation Committee focuses primarily on the Company s performance and the perceived role of the executive in accomplishing these objectives as well as the satisfaction of individual performance objectives. The Compensation Committee also considers the number of outstanding unvested options that the officer holds and the size of previous option awards to that officer. The Compensation Committee does not assign specific weights to these items.

Compensation of the Chief Executive Officer During Fiscal Year Ended December 21, 2002

Yagyensh C. Pati served as Numerical s President and Chief Executive Officer from 1995 until August 1, 2002. During fiscal 2002, Dr. Pati s annual base salary was $250,000 and he was awarded a bonus of $43,750. In addition, Dr. Pati was granted an option to purchase 300,000 shares of the Company s common stock under the Company s 2000 stock plan at an exercise price of $4.00 per share. On August 1, 2002, Larry Hollatz was appointed to replace Dr. Pati as the Company s President and Chief Executive Officer. Mr. Hollatz served as the Company s President and Chief Executive Officer until his resignation on December 2, 2002. During fiscal 2002, Mr. Hollatz s base salary was $375,000 and he was guaranteed a bonus of $75,000 for the remainder of 2002, of which he was awarded a bonus of $65,000, which included a hiring bonus of $35,000. Mr. Hollatz was also granted an option to purchase 1,000,000 shares of the Company s common stock under the Company s 2001 stock plan at an exercise price of $2.89 per share. For additional information concerning the resignation of Mr. Hollatz as Numerical s President, Chief Executive Officer and director and concerning the terms of such resignation, see Certain Transactions Larry Hollatz above. Narendra K. Gupta currently serves as the Company s interim President and Chief Executive Officer. On October 16, 2002, Dr. Gupta was granted an option to purchase 200,000 shares of the Company s common stock under the Company s 2000 stock plan at an exercise price of $3.52 per share in connection with his appointment as Lead Director of the Company. In addition, on December 11, 2002, Dr. Gupta was granted an additional option to purchase 200,000 shares of the Company s common stock under the Company s 2000 stock plan at an exercise price of $3.42 per share in connection with his appointment as interim President and Chief Executive Officer of the Company. Dr. Gupta received no cash compensation during fiscal 2002.

The Compensation Committee used the same compensation policy described above for all executive officers to determine Dr. Pati s, Mr. Hollatz s and Dr. Gupta s fiscal 2002 compensation. In setting both the cash-based and the equity-based elements of such compensation, the Compensation Committee considered competitive forces, the Company s performance and each such person s leadership in achieving the Company s long-term strategic goals.

Policy Regarding Deductibility of Compensation

Numerical is required to disclose its policy regarding qualifying executive compensation for deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended, which provides that, for purposes of the regular income tax, the otherwise allowable deduction for compensation paid or accrued with respect to the executive officers of a publicly-held company, which is not performance-based compensation, is limited to no more than $1 million per year. It is not expected that the compensation to be paid to the Company s executive officers for fiscal 2003 will exceed the $1 million limit per officer. However, to the extent such compensation to be paid to such executive officers exceeds the $1 million limit per officer, such excess will be treated as performance-based compensation.

The Compensation Committee is pleased to submit this report to the stockholders with regard to the above matters.

William H. Davidow, Ph.D.
Harvey Jones
Thomas Kailath, Ph.D.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2002, the Compensation Committee was comprised of William H. Davidow, Harvey Jones and Thomas Kailath, all of whom were non-employee directors. No interlocking relationship exists between the Board or the Compensation Committee and the Board of Directors or the Compensation Committee of any other company, nor has any such interlocking relationship existed in the past.

REPORT OF THE AUDIT COMMITTEE

As the Company s 2002 fiscal year ended as of December 31, 2002, as the Company s annual audit has not been completed and as the Company s fiscal year 2002 audited financial statements have not been prepared, the following report of the Audit Committee relating to the Audit Committee s activities of fiscal year 2001 is reproduced in its entirety from the Company s Proxy Statement dated April 1, 2002:

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of Numerical s Board of Directors serves as the representative of Numerical s Board of Directors for the general oversight of Numerical s financial accounting and reporting process, systems of internal control, audit process and the process for monitoring compliance with laws and regulations and Numerical s Standards of Business Conduct. Numerical s management has primary responsibility for preparing Numerical s financial statements and Numerical s financial reporting process. Numerical s independent accountants, PricewaterhouseCoopers LLP, are responsible for expressing an opinion on the conformity of Numerical s audited financial statements to generally accepted accounting principles.

In this context, the Audit Committee reports as follows:

(a) The Audit Committee has reviewed and discussed the audited financial statements with Numerical s management.

(b) The Audit Committee has discussed with Numerical s independent accountants the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU 380), as modified or supplemented.

(c) The Audit Committee has received the written disclosures and the letter from Numerical s independent accountants required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), as modified or supplemented, and has discussed with Numerical s independent accountants their independence.

(d) Based on the review and discussions referred to in paragraphs (1) through (3) above, the Audit Committee recommended to the Board of Directors, and Numerical s Board of Directors has approved, that the audited financial statements be included in Numerical s Annual Report on Form 10-K for the fiscal year ended December 31, 2001, for filing with the SEC.

Numerical s Board of Directors has adopted a written charter for the Audit Committee, a copy of which was attached to the Proxy Statement for the 2001 Annual Meeting of Stockholders. Each of the members of

Numerical s Audit Committee is independent as defined under the rules of the National Association of Securities Dealers listing standards, as modified or supplemented.

The Audit Committee is pleased to submit this report to the stockholders with regard to the above matters.

Abbas El Gamal, Ph.D.
Narendra K. Gupta, Ph.D.
Harvey Jones

STOCK PRICE PERFORMANCE GRAPH

The graph below compares the cumulative total return to stockholders on Numerical common stock with the cumulative total return on the Nasdaq Stock Market Index-U.S. (*Nasdaq US Index*), the JP Morgan H&Q Technology Index (*JP Morgan H&Q Index*) and the RDG Technology Composite Index (*RDG Index*) during the period commencing on April 7, 2000 and ending December 31, 2002; provided, however, that the JP Morgan H&Q Index is not used as a comparison index after December 31, 2001 as such index is no longer published. The graph assumes that $100 was invested in the Company s common stock on April 7, 2000, the first trading day after the effective date of the Company s initial public offering, and in the Nasdaq US Index, the JP Morgan H&Q Index and the RDG Index, including reinvestment of dividends. Historic stock price performance is not necessarily indicative of future stock price performance.

ADDITIONAL INFORMATION REGARDING THE MERGER

Amount to be Received by Executive Officers and Directors

The discussion set forth in Item 3. Past Contacts, Transactions, Negotiations and Agreements of the foregoing Schedule 14D-9 is incorporated herein by reference.

Change Of Control Agreements

The discussion set forth in Item 3. Past Contacts, Transactions, Negotiations and Agreements of the foregoing Schedule 14D-9 is incorporated herein by reference.

Early Exercise Provisions and Stock Purchase Rights

The discussion set forth in Item 3. Past Contacts, Transactions, Negotiations and Agreements of the foregoing Schedule 14D-9 is incorporated herein by reference.

Director Compensation

The discussion set forth in Item 3. Past Contacts, Transactions, Negotiations and Agreements of the foregoing Schedule 14D-9 is incorporated herein by reference.

Stock Option Plans

The discussion set forth in Item 3. Past Contacts, Transactions, Negotiations and Agreements of the foregoing Schedule 14D-9 is incorporated herein by reference.

Employee Stock Purchase Plan

The discussion set forth in Item 3. Past Contacts, Transactions, Negotiations and Agreements of the foregoing Schedule 14D-9 is incorporated herein by reference.

The Merger Agreement

The discussion set forth in Item 3. Past Contacts, Transactions, Negotiations and Agreements of the foregoing Schedule 14D-9 is incorporated herein by reference.

Stockholder Tender Agreement

The discussion set forth in Item 3. Past Contacts, Transactions, Negotiations and Agreements of the foregoing Schedule 14D-9 is incorporated herein by reference.

Confidentiality Agreements Between Numerical and Synopsys

The discussion set forth in Item 3. Past Contacts, Transactions, Negotiations and Agreements of the foregoing Schedule 14D-9 is incorporated herein by reference.

Indemnification; Directors and Officers Insurance

The discussion set forth in Item 3. Past Contacts, Transactions, Negotiations and Agreements of the foregoing Schedule 14D-9 is incorporated herein by reference.

Prior Relationship between Numerical Director and Synopsys

The discussion set forth in Item 3. Past Contracts, Transactions, Negotiations and Agreements of the foregoing Schedule 14D-9 is incorporated herein by reference.

SCHEDULE I

As of the date of this Information Statement, Synopsys has advised the Company that it has not determined who will be the Synopsys Designees. However, Synopsys has advised the Company that the Synopsys Designees will be selected from the following list of designees of Synopsys or its affiliates. The information contained herein concerning Synopsys has been furnished by Synopsys and Purchaser. The Company assumes no responsibility for the accuracy or completeness of such information.

The name, age, present principal occupation or employment and five-year employment history of each of the persons is set forth below. Synopsys owns 40,562 Exchangeable Shares. To the knowledge of Synopsys and Purchaser, none of the persons listed below owns any Shares or has engaged in transactions with respect to Shares during the past 60 days. To the knowledge of Synopsys and Purchaser, during the last five years none of the persons listed below has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) nor was such person a party to a civil proceeding of a judicial or administrative body of competent jurisdiction, and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of such laws. None of the persons listed below (1) is currently a director of, or holds any position with, the Company, (2) has a familial relationship with any director or executive officers of the Company, or (3) based on information provided to the Company by Synopsys (which is to the best of Synopsys knowledge), beneficially owns any securities (or any right to acquire securities) of the Company. The Company has been advised by Synopsys and Purchaser that, to the knowledge of Synopsys and Purchaser, none of the potential Synopsys Designees listed below have been involved in any transactions with the Company or any of its directors, officers or affiliates which are required to be disclosed pursuant to the rules and regulations of the SEC, except as may be disclosed herein.

SYNOPSYS DESIGNEES

Synopsys has advised the Company that the following table sets forth the name, age, present principal occupation or employment and material occupations, positions, offices or employments for the past five years of each of the potential Synopsys Designees. Unless otherwise indicated, the current business address of each person is 700 East Middlefield Road, Mountain View, California 94043. Unless otherwise indicated, each such person is a citizen of the United States and each occupation set forth opposite an individual s name refers to employment with Synopsys.

Designees include:

Name	Age	Current Principal Occupation or Employment; Material Positions Held During the Past Five Years
Aart J. de Geus	48	Dr. Aart J. de Geus co-founded Synopsys and currently serves as Chief Executive Officer and Chairman of the Board of Directors. Since the inception of Synopsys in December 1986, he has held a variety of positions including Senior Vice President of Engineering and Senior Vice President of Marketing. From 1986 to 1992, Dr. de Geus served as Chairman of the Board. He served as President from 1992 to 1998. Dr. de Geus has served as Chief Executive Officer since January 1994 and has held the additional title of Chairman of the Board since February 1998. He has served as a Director since 1986. From 1982 to 1986, Dr. de Geus was employed by General Electric Corporation, where he was the Manager of the Advanced Computer-Aided Engineering Group. Dr. de Geus holds an M.S.E.E. from the Swiss Federal Institute of Technology in Lausanne, Switzerland and a Ph.D. in electrical engineering from Southern Methodist University.
Chi-Foon Chan	53	Dr. Chi-Foon Chan joined Synopsys as Vice President of Application Engineering & Services in May 1990. Since April 1997 he has served as Chief Operating Officer and since February 1998 he has held the additional title of President. Dr. Chan also became a Director of Synopsys in February 1998. From September 1996 to February 1998 he served as Executive Vice President, Office of the President. From February 1994 until April 1997 he served as Senior Vice President, Design Tools Group and from October 1996 until April 1997 as Acting Senior Vice President, Design Reuse Group. Additionally, he has held the titles of Vice President, Engineering and General Manager, DesignWare Operations and Senior Vice President, Worldwide Field Organization. From March 1987 to May 1990, Dr. Chan was employed by NEC Electronics, where his last position was General Manager, Microprocessor Division. From 1977 to 1987, Dr. Chan held a number of senior engineering positions at Intel Corporation. Dr. Chan holds an M.S. and Ph.D. in computer engineering from Case Western Reserve University.
Vicki L. Andrews	47	Vicki L. Andrews joined Synopsys in May 1993 and currently serves as Senior Vice President, Worldwide Sales. Before holding that position, she served in a number of senior sales roles at Synopsys, including Vice President, Global and Strategic Sales, Vice President, North America Sales and Director, Western United States Sales. She has more than 18 years of experience in the EDA industry. Ms. Andrews holds a B.S. in biology and chemistry from the University of Miami.

Name	Age	Current Principal Occupation or Employment; Material Positions Held During the Past Five Years
Steven K. Shevick	46	Steven K. Shevick joined Synopsys in July 1995 and currently serves as Senior Vice President, Finance and Chief Financial Officer, and as the Company Secretary. Mr. Shevick was appointed Senior Vice President and Chief Financial Officer in January 2003. From October 1999 to January 2003, he was Vice President, Investor Relations and Legal and Secretary. From March 1998 to October 1999, he was Vice President, Legal, General Counsel and Assistant Corporate Secretary. From July 1995 to March 1998 he served as Deputy General Counsel and Assistant Corporate Secretary. Mr. Shevick holds an A.B. from Harvard College and a J.D. from Georgetown University Law Center.
Deborah A. Coleman	50	Deborah A. Coleman has been a Director of Synopsys since November 1995. Ms. Coleman is co-founder and currently General Partner of SmartForest Ventures in Portland, Oregon. Ms. Coleman was Chairman of the Board of Merix Corporation, a manufacturer of printed circuit boards, from May 1994, when it was spun off from Tektronix, Inc., until September 2001. She also served as Chief Executive Officer of Merix from May 1994 to September 1999 and as President from March 1997 to September 1999. Ms. Coleman joined Merix from Tektronix, a diversified electronics corporation, where she served as Vice President of Materials Operations, responsible for worldwide procurement, distribution, component engineering and component manufacturing operation. Prior to joining Tektronix in November 1992, Ms. Coleman was with Apple Computer, Inc. for eleven years, where she held several executive positions, including Chief Financial Officer, Chief Information Officer and Vice President of Operations. She is a Director of Applied Materials, Inc., a manufacturer of semiconductor fabrication equipment.
Bruce R. Chizen	47	Bruce R. Chizen has been a Director of Synopsys since April 2001. Mr. Chizen has served as President of Adobe Systems Incorporated, a provider of graphic design, publishing and imaging software for Web and print production, since April 2000 and as Chief Executive Officer since December 2000. He joined Adobe Systems in August 1994 as Vice President and General Manager, Consumer Products Division and in December 1997 became Senior Vice President and General Manager, Graphics Products Division. In August 1998, Mr. Chizen was promoted to Executive Vice President, Products and Marketing. From November 1992 to February 1994, he was Vice President and General Manager, Claris Clear Choice for Claris Corp., a wholly-owned subsidiary of Apple Computer. He is a Director of Adobe Systems Incorporated and Viewpoint Corporation, a provider of advanced 3D product visualization and marketing solutions.

Name	Age	Current Principal Occupation or Employment; Material Positions Held During the Past Five Years
A. Richard Newton	51	Dr. A. Richard Newton has been a Director of Synopsys since January 1995. Previously, Dr. Newton was a Director of Synopsys from January 1987 to June 1991. Dr. Newton has been a Professor of Electrical Engineering and Computer Sciences at the University of California at Berkeley since 1979 and is currently Dean of the College of Engineering. From July 1999 to June 2000, Dr. Newton was Chair of the Electrical Engineering and Computer Sciences Department. Since 1988, Dr. Newton has acted as a Venture Partner with Mayfield Fund, a venture capital partnership, and has contributed to the evaluation and development of over two dozen new companies. From November 1994 to July 1995, he was acting President and Chief Executive Officer of Silicon Light Machines, a private company which has developed display systems based on the application of micromachined silicon light-valves. Dr. Newton is also a Director of Simplex Solutions, Inc., which provides software and services for integrated circuit design and verification. Dr. Newton is a citizen of Australia.
Richard Rowley	46	Richard Rowley joined Synopsys in November 1996 and currently serves as Vice President and Corporate Controller, a position he has held since August 1999. From November 1998 until August 1999, Mr. Rowley was Assistant Corporate Controller. Prior to that, Mr. Rowley served as a Director, Corporate Reporting and Planning.
Sasson Somekh	56	Dr. Sasson Somekh has been a Director of Synopsys since January 1999. He is Executive Vice President of Applied Materials, Inc., a manufacturer of semiconductor fabrication equipment. From December 1993 to November 2000, Dr. Somekh served as Senior Vice President. Dr. Somekh served as Group Vice President from 1990 to 1993. Prior to that, he was a divisional Vice President. Dr. Somekh joined Applied Materials in 1980 as a Project Manager.
Steven C. Walske	50	Steven C. Walske has been a Director of Synopsys since December 1991. Mr. Walske has been Chief Business Strategist of Parametric Technology Corporation, a supplier of software products for mechanical computer aided engineering, since June 2000 and served as Chairman, Chief Executive Officer and a Director from August 1994 until June 2000. From December 1986 to August 1994, Mr. Walske served as President and Chief Executive Officer of that company.

ANNEX B

January 12, 2003

Board of Directors
Numerical Technologies, Inc.
70 West Plumeria Drive
San Jose, CA 95134

Members of the Board:

You have asked us to advise you with respect to the fairness, from a financial point of view, to the holders of shares of common stock, par value $0.0001 per share (the Company Common Stock) of Numerical Technologies, Inc. (the Company), other than Synopsys, Inc. (the Parent) and its affiliates, of the consideration to be received by such stockholders pursuant to the terms of the Agreement and Plan of Merger, dated as of January 12, 2003 (the Merger Agreement), by and among Parent, Neon Acquisition Corporation, a direct wholly owned subsidiary of Parent (Sub), and the Company. The Merger Agreement provides for, among other things, (i) that Sub will commence, and Parent will cause Sub to commence, a tender offer (the Offer) to purchase all of the outstanding shares of Company Common Stock at a purchase price of $7.00 per share net to the seller in cash (the Consideration), upon the terms and subject to the conditions set forth in the Merger Agreement and (ii) following the consummation of the Offer, Sub will merge with and into the Company (the Merger), pursuant to which the Company will become a wholly owned subsidiary of Parent and each outstanding share of Company Common Stock not owned directly or indirectly by Parent or the Company will be converted into the right to receive the Consideration, without interest.

In arriving at our opinion, we have reviewed the Merger Agreement and certain related documents, as well as certain publicly available business and financial information relating to the Company. We have also reviewed certain other information relating to the Company, including publicly available financial forecasts, provided to or discussed with us by the Company, and have met with the management of the Company to discuss the businesses and prospects of the Company. We also have considered certain financial and stock market data of the Company, and we have compared that data with similar data for other publicly held companies in businesses we deemed similar to that of the Company, and we have considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which have recently been effected or announced. We also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant.

In connection with our review, we have not assumed any responsibility for independent verification of any of the foregoing information and have relied on such information being complete and accurate in all material respects. With respect to the publicly available financial forecasts for the Company referred to above, we have reviewed and discussed such forecasts with the management of the Company and have been advised and have assumed, with your consent, that such forecasts represent reasonable estimates and judgments as to the future financial performance of the Company. We also have assumed, with your consent, that in the course of obtaining any necessary regulatory and third party approvals and consents for the Offer and the Merger, no modification, delay, limitation, restriction or condition will be imposed that will have an adverse effect on the Company or the contemplated benefits of the Offer and/or the Merger and that the Offer and the Merger will be consummated in accordance with the terms of the Merger Agreement, without waiver, modification or amendment of any material terms, conditions or agreements therein. In addition, we have not been requested to make, and have not made, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company, nor have we been furnished with any such evaluations or appraisals. Our opinion is necessarily based upon information available to us as of the date hereof and upon financial, economic, market and other conditions as they exist and can be evaluated on the date hereof. Our opinion does not address the relative merits of the Offer and the Merger as compared to other business strategies that might be available to the Company, nor does it address the underlying business decision of the Company to proceed with the Offer and the Merger.

We have acted as financial advisor to the Company in connection with the Offer and the Merger and will receive a fee for our services, a significant portion of which is contingent upon the consummation of the Offer. We will also receive a fee for rendering this opinion. In the past, we and our affiliates have provided certain investment banking and financial services unrelated to the proposed Offer and the Merger to Parent and the Company for which we have received compensation, and we and our affiliates may in the future provide certain investment banking and financial services to Parent and its affiliates, for which we would expect to receive compensation. In the ordinary course of business, we and our affiliates may actively trade the debt and equity securities of Parent and the Company for our and such affiliates   own accounts and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

It is understood that this letter is for the information of the Board of Directors of the Company in connection with its consideration of the Offer and the Merger and does not constitute a recommendation to any stockholder as to whether or not such holder should tender shares of Company Common Stock pursuant to the Offer or as to how such stockholder should vote or act on any matter relating to the Merger.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Consideration to be received by the holders of Company Common Stock in the Offer and the Merger is fair, from a financial point of view, to the holders of Company Common Stock, other than Parent and its affiliates.

Very truly yours,

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