



### Statement of Potential Outcome of Case

The parties disagree on both liability and damages and do not agree on the average amount of damages per share that would be recoverable if plaintiffs were to have prevailed on each claim alleged. The issues on which the parties disagree include (a) the appropriate economic model for determining the amounts by which Magma securities were allegedly artificially inflated (if at all) during the Class Period; (b) the amounts by which Magma securities were allegedly artificially inflated (if at all) during the Class Period; (c) the effect of various market forces influencing the trading prices of Magma securities at various times during the Class Period; (d) the extent to which external factors, such as general market and industry conditions, influenced the trading prices of Magma securities at various times during the Class Period; (e) the extent to which the various matters that plaintiffs alleged were materially false or misleading influenced (if at all) the trading prices of Magma securities at various times during the Class Period; (f) the extent to which the various allegedly adverse material facts that plaintiffs alleged were omitted influenced (if at all) the trading prices of Magma securities at various times during the Class Period; (g) whether the statements made or facts allegedly omitted were material or otherwise actionable under the federal securities laws; and (h) whether the Defendants acted with the requisite state of mind, or *scienter*, to be liable under the federal securities laws. The Defendants deny that they are liable to the plaintiffs or the Class and deny that plaintiffs or the Class have suffered any damages.

### Statement of Attorneys' Fees and Costs Sought

Plaintiffs' Counsel are moving the Court to award attorneys' fees not to exceed one-third (33 $\frac{1}{3}$ %) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of this Action in the approximate amount of \$1,200,000. The requested fees and expenses would amount to an average of 17.2¢ per damaged share and \$5.17 per \$1,000 of face value of Magma non-callable zero coupon convertible subordinated notes due May 15, 2008 in total for fees and expenses. Application will also be made for reimbursement to Lead Plaintiff Frank Weiler for an amount not to exceed \$33,000 for reimbursement of the reasonable costs and expenses (including lost wages) directly relating to his representation of the Class. Plaintiffs' Counsel have expended considerable time and effort in the prosecution of this litigation on a contingent fee basis, and have advanced the expenses of the litigation, in the expectation that if they were successful in obtaining a recovery for the Class they would be paid from such recovery. In this type of litigation it is customary for counsel to be awarded a percentage of the common fund recovery as their attorneys' fees.

### Further Information

Further information regarding the Action and this Notice may be obtained by contacting Plaintiffs' Lead Counsel: Jeff S. Westerman, Esq., Milberg LLP, 300 South Grand Avenue, Suite 3900, Los Angeles, CA 90071-3172, Telephone (213) 617-1200.

### Reasons for the Settlement

For the plaintiffs, the principal reason for the settlement is the benefit to be provided to the Class now. This benefit must be compared to the risk that no recovery might be achieved after a contested trial and likely appeals, possibly years into the future. Plaintiffs further considered, after substantial investigation into the facts of this case and pre-trial discovery, the risks to proving liability and damages and whether a larger judgment could ultimately be collected if plaintiffs were successful at trial.

For the Defendants, who deny all allegations of wrongdoing or liability whatsoever, the principal reason for the settlement is to eliminate the expense, risks, and uncertain outcome of the litigation.

**[END OF COVER PAGE]**

**WHAT THIS NOTICE CONTAINS**

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## BASIC INFORMATION

### 1. Why did I get this notice package?

You or someone in your family may have purchased or otherwise acquired the securities of Magma Design Automation, Inc. ("Magma") during the period between October 23, 2002 through April 12, 2005, inclusive, and been damaged thereby.

The Court directed that this Notice be sent to Class Members because they have a right to know about a proposed settlement of a class action lawsuit, and about all of their options, before the Court decides whether to approve the settlement. If the Court approves the settlement, and after objections and appeals are resolved, an administrator appointed by the Court will make the payments that the settlement allows.

This package explains the lawsuit, the settlement, Class Members' legal rights, what benefits are available, who is eligible for them, and how to get them.

The Court in charge of the case is the United States District Court for the Northern District of California, San Francisco Division, and the case is known as *In re Magma Design Automation, Inc. Securities Litigation*, Case No. C-05-2394 CRB. This case was assigned to United States District Judge Charles R. Breyer. The people who sued are called plaintiffs, and the company and the person they sued, Magma and Rajeev Madhavan ("Madhavan") (Magma's Chief Executive Officer and a director during the Class Period), are called the Defendants. Plaintiffs sued two other officers of the Company, Gregory C. Walker ("Walker") (Magma's Chief Financial Officer during the Class Period) and Roy E. Jewell ("Jewell") (Magma's President, Chief Operating Officer and a director during the Class Period), but, as described in the answer to question 4 below, the claims against them were dismissed by the Court. Magma and Madhavan are the only remaining Defendants. Walker and Jewell are excluded from the Class and are among the Released Parties in this Settlement

### 2. What is this lawsuit about?

Magma is a Santa Clara, California-based provider of electronic design automation ("EDA"). EDA helps chip companies design and produce complex integrated circuits used in the communications, computing, consumer electronics, networking and semiconductor industries.

This class action alleging violations of federal securities laws was initially filed in this Court on or about June 13, 2005 and is referred to as the "Action." On December 9, 2005, the Court appointed Frank Weiler as the Lead Plaintiff and appointed Milberg Weiss Bershad & Schulman LLP (now known as Milberg LLP) as Plaintiffs' Lead Counsel.

The operative complaint in the Action, the First Amended Consolidated Complaint for Violations of Federal Securities Laws (the "Complaint"), was filed on June 29, 2006.

The Complaint generally alleges, among other things, that Magma, Madhavan, Walker, and Jewell, in a scheme to artificially inflate the value of Magma's securities, issued materially false and misleading public statements during the Class Period which failed to disclose that Magma faced the serious risk of infringing on intellectual property rights of competitor Synopsys, Inc. because inventions that were critical to Magma's business, and which were patented by Magma, were designed by Magma's Chief Scientist, while he was employed by Synopsys. The Complaint alleges that this fact, and the significant risk it posed, was known to Defendants or recklessly disregarded by them, but was concealed from Magma investors and that Magma insiders sold their personally held Magma securities at inflated prices during that time. The Defendants deny any wrongdoing whatsoever.

The Complaint seeks money damages against the Defendants for violations of the federal securities laws. The Defendants deny all allegations of misconduct contained in the Complaint, and deny having engaged in any wrongdoing whatsoever.

### 3. Why is this a class action?

In a class action, one or more people called class representatives (in this case Frank Weiler), sue on behalf of people who have similar claims. All these people are a Class or Class Members. Bringing a case, such as this one, as a class action allows adjudication of many similar claims of persons and entities that might be economically too small to bring in individual actions. One court resolves the issues for all Class Members.

### 4. Why is there a settlement?

On July 14, 2006, Magma, Madhavan, Walker, and Jewell moved to dismiss the Complaint. Lead Plaintiff filed opposition papers on July 28, 2006. Magma, Madhavan, Walker, and Jewell filed their reply on August 4, 2006. By Order dated August 18, 2006, the Court granted the motion to dismiss as to Walker and Jewell for failure to plead with particularity the requisite *scienter*, but denied the motion to dismiss as to Magma and Madhavan. As a result of the Court's August 18, 2006 Order, Magma and Madhavan are the only remaining Defendants.

On September 29, 2006, the Defendants filed their answer to the Complaint in which they denied that they violated any laws or committed any improper acts and asserted affirmative defenses. Defendants maintain that their actions were proper under the federal securities laws and assert that they are not liable to Lead Plaintiff or the members of the Class upon the claims asserted in the Complaint.

On June 19, 2007, plaintiffs moved to certify the Action as a class action and to certify the Lead Plaintiff Frank Weiler as class representative and Milberg Weiss LLP as lead counsel for the class. The Defendants filed their opposition papers on July 20, 2007. Lead Plaintiff filed his reply on August 3, 2007. By Order dated August 16, 2007, the Court certified the Action to proceed as a class action and certified Frank Weiler as class representative and Milberg Weiss LLP as lead counsel on behalf of the Class.

On October 12, 2007, the Defendants moved for summary judgment and Lead Plaintiff also moved for partial summary judgment. The parties each filed their opposition papers on November 9, 2007 and filed their reply papers on November 16, 2007. Just before the November 30, 2007 hearing on the motions for summary judgment, Lead Plaintiff and Defendants agreed in principle to this Settlement.

Plaintiffs' Lead Counsel engaged in extensive discovery with Defendants and third parties and have received over 2 million pages of documents from Defendants and from several third parties, which Plaintiffs' Lead Counsel reviewed through electronic word searches on a document database. Plaintiffs' Lead Counsel also took or defended five depositions and reviewed 51 deposition transcripts from the Synopsys patent case. The parties also engaged various experts, prepared expert reports, and engaged in expert discovery, including depositions.

The Court did not finally decide in favor of Plaintiffs or Defendants. Instead, both sides, with the assistance of former Chief Magistrate Judge of the U.S. District Court, Northern District of California, Edward A. Infante acting as a mediator, agreed to a settlement. That way, they avoid the risks and cost of a trial, and the people affected will get compensation. The Class Representatives and their attorneys think the settlement is best for all Class Members.

### WHO IS IN THE SETTLEMENT

To see if you will get money from this settlement, you first have to decide if you are a Class Member.

5. How do I know if I am part of the settlement?

The Court decided that everyone who fits this description is a Class Member: *All persons and entities who purchased or otherwise acquired the securities of Magma between October 23, 2002 through April 12, 2005, inclusive, and who were damaged thereby.*

6. Are there exceptions to being included?

Excluded from the Class are the Defendants, the officers and directors of the company [including Walker and Jewell], members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

A prior notice of pendency of this Action as a class action was mailed to Class Members beginning on October 1, 2007, and a summary notice was published in *Investor's Business Daily* on October 5, 2007. If you submitted a request for exclusion in response to the prior notice of pendency, then you are excluded from the Class and may not submit a Proof of Claim form to participate in the settlement.

If one of your mutual funds purchased Magma securities during the Class Period, that alone does not make you a Class Member. You are a Class Member only if you directly purchased or otherwise acquired Magma securities during the Class Period. Check your investment records or contact your broker to see if you purchased or otherwise acquired Magma securities during the Class Period.

If you **sold** Magma securities during the Class Period, that alone does not make you a Class Member. You are a Class Member only if you **purchased or otherwise acquired** Magma securities during the Class Period.

7. What if I am still not sure if I am included?

If you are still not sure whether you are included, you can ask for free help. You can call 1-877-458-3651 or visit [www.gilardi.com](http://www.gilardi.com) for more information. Or you can fill out and return the Proof of Claim form described on page 6, in question 10, to see if you qualify.

### THE SETTLEMENT BENEFITS — WHAT YOU GET

8. What does the settlement provide?

In exchange for the Settlement and dismissal of the Action, Defendants have agreed to create a \$13.5 million fund to be divided, after fees and expenses, among all Class Members who send in valid Proof of Claim forms.

9. How much will my payment be?

Your share of the fund will depend on the total Recognized Claims represented by the valid Proof of Claim forms that Class Members send in, which Magma securities you bought, how much you paid for them, and when you bought and whether or when you sold them, and if so for how much you sold them.

You can calculate your Recognized Claim in accordance with the formula shown below in the Plan of Allocation. It is unlikely that you will get a payment for all of your Recognized Claim. After all Class Members have sent in their Proof of Claim forms, the payment you get will be a part of the Net Settlement Fund equal to your Recognized Claim divided by the total of everyone's Recognized Claims. See the Plan of Allocation beginning on page 9 for more information on your Recognized Claim.

## HOW YOU GET A PAYMENT — SUBMITTING A PROOF OF CLAIM FORM

### 10. How can I get a payment?

To qualify for a payment, you must send in a Proof of Claim form. A Proof of Claim form is being circulated with this Notice. You may also get a Proof of Claim form on the Internet at [www.gilardi.com](http://www.gilardi.com). Read the instructions carefully, fill out the Proof of Claim form, include all the documents the form asks for, sign it, and mail it postmarked no later than **December 17, 2008**.

### 11. When would I get my payment?

The Court will hold a hearing on **November 21, 2008**, to decide whether to approve the settlement. If the Court approves the settlement after that, there may be appeals. It is always uncertain whether these appeals can be resolved, and resolving them can take time, perhaps more than a year. It also takes time for all the Proofs of Claim to be processed. Please be patient.

### 12. What am I giving up to get a payment or stay in the Class?

Upon the Effective Date, you will release all “Settled Claims” (as defined below) against the “Released Parties” (as defined below).

“Settled Claims” means any and all claims, debts, demands, rights or causes of action or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys’ fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on federal, state, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or un-accrued, liquidated or un-liquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and Unknown Claims, (i) that have been asserted in this Action by the Class Members or any of them against any of the Released Parties, or (ii) that could have been asserted in any forum by the Class Members or any of them against any of the Released Parties which arise out of, relate to or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Complaint and which relate to the purchase or other acquisition of Magma securities during the Class Period. “Settled Claims” does not mean or include claims, if any, against the Released Parties arising under the Employee Retirement Income Security Act of 1974, 29 U.S.C. § 1001, *et seq.* (“ERISA”) which are not common to all Class Members. “Settled Claims” does not mean or include any derivative claims, which are the subject of an action, *Willis v. Madhavan, et al.*, No. 1-05-CV-045834, pending in the Superior Court of California, Santa Clara County.

“Released Parties” means any and all of the Defendants, their past or present subsidiaries, parents, successors and predecessors, divisions, joint ventures, officers (including Walker and Jewell), directors, agents, employees, attorneys, advisors, investment advisors, auditors, insurers, co-insurers, reinsurers, controlling shareholders, accountants, and any person, firm, trust, corporation, officer, director or other individual or entity in which any Defendant has a controlling interest or which is related to or affiliated with any of the Defendants, and the personal or legal representatives, spouses, immediate family members, heirs, successors in interest or assigns of the Defendants, or any trust of which any Defendant is the settler or which is for the benefit of any Defendant’s family.

The “Effective Date” will occur when an Order entered by the Court approving the Settlement becomes final and not subject to appeal.

### NO FURTHER EXCLUSION FROM THE CLASS

The Court previously certified this litigation to proceed as a class action on behalf of all persons and entities who purchased or otherwise acquired Magma securities during the period between October 23, 2002 through April 12, 2005, inclusive. As described in the prior notice of pendency and the prior summary notice, Class Members were previously provided the opportunity, until November 15, 2007, to elect either to exclude themselves from the Class for all purposes or to remain as members of the Class and be bound by these proceedings. The settlement does not provide for any new right to be excluded from the Class with respect to the settlement with the Defendants. If the settlement is approved, it will be binding on all Class Members.

The persons and entities who previously requested exclusion from the Class are excluded from the Class for purposes of this settlement. Class Members who did not request exclusion in response to the notice of pendency may not now request exclusion from the Class.

If you previously submitted a request for exclusion from the Class in accordance with the prior notice of pendency, then you may not submit a Proof of Claim form to participate in the settlement herein.

### 13. Can I exclude myself from the Class now?

No. Pursuant to the prior notice of pendency, Class Members were allowed to request exclusion until November 15, 2007. The settlement does not provide another opportunity to request exclusion. As described in question 17 below, Class Members may object to the settlement.

14. If I previously excluded myself, can I get money from the proposed settlement?

No. If you previously excluded yourself, you cannot get money from the proposed settlement. Do not send in a Proof of Claim form to ask for any money.

#### THE LAWYERS REPRESENTING YOU

15. Do I have a lawyer in this case?

The Court ordered that the law firm of Milberg LLP<sup>2</sup> in Los Angeles, CA will represent all Class Members. These lawyers are called Plaintiffs' Lead Counsel. You will not be separately charged for these lawyers. The Court will determine the amount of Plaintiffs' Lead Counsel's fees and expenses, which will be paid from the Gross Settlement Fund. If you want to be represented by your own lawyer, you may hire one at your own expense.

16. How will the lawyers be paid?

Plaintiffs' Lead Counsel are moving the Court to award attorneys' fees from the Gross Settlement Fund in an amount not to exceed one-third (33 $\frac{1}{3}$ %) of the Gross Settlement Fund and for reimbursement of their expenses in the approximate amount of \$1,200,000, plus interest on such expenses at the same rate as earned by the Settlement Fund.

Plaintiffs' Lead Counsel are also moving the Court to award a payment of up to \$33,000 to the Class Representative, Frank Weiler, for the reasonable costs and expenses (including lost wages) directly relating to his representation of the Class.

Plaintiffs' Lead Counsel, without further notice to the Class, will subsequently apply to the Court for payment of the Claims Administrator's fees and expenses incurred in connection with giving notice, administering the settlement and distributing the settlement proceeds to the members of the Class.

#### OBJECTING TO THE SETTLEMENT

You can tell the Court that you do not agree with the settlement or some part of it.

17. How do I tell the Court that I do not like the proposed settlement?

If you are a Class Member you can object to the Settlement or any of its terms, the proposed Plan of Allocation and/or the application by Plaintiffs' Lead Counsel for an award of fees and expenses. You may write to the Court setting out your objection. You may give reasons why you think the Court should not approve any or all of the Settlement terms or arrangements. The Court will consider your views if you file a proper objection within the deadline identified, and according to the following procedures.

To object, you must send a signed letter stating that you object to the proposed settlement in the *In re Magma Design Automation, Inc. Securities Litigation*, Case No. C-05-2394 CRB. Be sure to include your name, address, telephone number, and your signature, identify the date(s), price(s), and number(s) of shares of all purchases, acquisitions, and sales of the Magma securities you made during the Class Period, and state the reasons why you object to the Settlement. Your objection must be filed with the Court and served on all the following counsel on or before **October 27, 2008**:

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<sup>2</sup> Milberg LLP was formerly known as Milberg Weiss Bershad & Schulman LLP. On May 18, 2006 in the United States District Court for the Central District of California (Los Angeles), Milberg Weiss Bershad & Schulman LLP and two of its partners, David J. Bershad and Steven G. Schulman, and others, were named as defendants in an indictment. On September 20, 2007 a superseding indictment was filed which added Melvyn I. Weiss as a named defendant. The indictments alleged that, in certain cases identified in the indictments, portions of attorneys' fees awarded to the firm were improperly shared with certain plaintiffs. The three partners named in the indictments have left the firm and have pleaded guilty to a charge of conspiracy. The indictments do not refer to this action, and make no allegations of any impropriety in the conduct of this action.

On June 16, 2008, Milberg LLP entered into a non-prosecution case disposition agreement with the government providing for dismissal of the indictment against Milberg LLP. The government determined that the former senior partners who had engaged in misconduct "took affirmative steps to conceal their illegal activities from other partners, associates, and employees of the Firm." The government determined that dismissal of the indictment and non-prosecution of Milberg LLP were appropriate in light of its belief that "no attorney currently a partner or associate with Milberg LLP is criminally culpable" with respect to conduct charged in the indictment.

**COURT**

Clerk of the Court  
United States District Court for the Northern District of California,  
San Francisco Division  
450 Golden Gate Ave., 16<sup>th</sup> Floor  
San Francisco, CA 94102

**PLAINTIFFS' LEAD COUNSEL**

Jeff S. Westerman, Esq.  
Milberg LLP  
300 South Grand Avenue, Suite 3900  
Los Angeles, CA 90071-3172

**DEFENDANTS' COUNSEL**

Meredith N. Landy, Esq.  
O'Melveny & Myers LLP  
2765 Sand Hill Road  
Menlo Park, CA 94025-7019

You do not need to go to the Settlement Fairness Hearing to have your written objection considered by the Court. At the Settlement Fairness Hearing, any Class Member who has not previously submitted a request for exclusion from the Class and who has complied with the procedures set out in this question 17 and question 20 below for filing with the Court and providing to the counsel for Plaintiffs and Defendants a statement of an intention to appear at the Settlement Fairness Hearing may also appear and be heard, to the extent allowed by the Court, to state any objection to the Settlement, the Plan of Allocation or Plaintiffs' Lead Counsel's motion for an award of attorneys' fees and reimbursement of expenses. Any such objector may appear in person or arrange, at that objector's expense, for a lawyer to represent the objector at the Hearing.

**THE COURT'S SETTLEMENT FAIRNESS HEARING**

The Court will hold a hearing to decide whether to approve the proposed settlement. You may attend and you may ask to speak, but you do not have to.

18. When and where will the Court decide whether to approve the proposed settlement?

The Court will hold a Settlement Fairness Hearing at **10:00 a.m.** on **Friday, November 21, 2008**, at the United States District Court for the Northern District of California, San Francisco Division, 450 Golden Gate Ave., 19<sup>th</sup> Floor, Courtroom 8, San Francisco, California 94102. At this hearing the Court will consider whether the settlement is fair, reasonable and adequate. At the Settlement Fairness Hearing, the Court also will consider the proposed Plan of Allocation for the proceeds of the Settlement and the application of Plaintiffs' Lead Counsel for attorneys' fees and reimbursement of expenses. The Court will take into consideration any written objections filed in accordance with the instructions at question 17. The Court also may listen to people who have properly indicated, within the deadline identified above, an intention to speak at the hearing; but decisions regarding the conduct of the hearing will be made by the Court. See questions 17 and 20 for more information about speaking at the hearing. The Court may also decide how much to pay to Plaintiffs' Counsel. After the hearing, the Court will decide whether to approve the settlement. We do not know how long these decisions will take.

Unless otherwise ordered by the Court, you should be aware that the Court may change the date and time of the Settlement Fairness Hearing. Thus, if you want to come to the hearing, you should check with Plaintiffs' Lead Counsel before coming to be sure that the date and/or time has not changed.

19. Do I have to come to the hearing?

No. Plaintiffs' Counsel will answer questions the Court may have. But, you are welcome to come at your own expense. If you send an objection, you do not have to come to Court to talk about it. As long as you filed your written objection on time, the Court will consider it. You may also pay your own lawyer to attend, but it is not necessary. Class Members do not need to appear at the hearing or take any other action to indicate their approval.

20. May I speak at the hearing?

If you object to the Settlement, you may ask the Court for permission to speak at the Settlement Fairness Hearing. To do so, you must include with your objection (see question 17 above) a statement stating that it is your "Notice of Intention to Appear in *In re Magma Design Automation, Inc. Securities Litigation*, Case No. C-05-2394 CRB." You cannot speak at the hearing if you previously excluded yourself. Persons who intend to object to the Settlement, the Plan of Allocation, and/or counsel's application for an award of attorneys' fees and expenses and costs and expenses for the Class Representative and desire to present evidence at the Settlement Fairness Hearing must include in their written objections the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the Settlement Fairness Hearing.

You cannot speak at the hearing if you previously excluded yourself from the Class or if you have not provided written notice of your intention to speak at the Settlement Fairness Hearing by the deadline identified, and in accordance with the procedures described in questions 17 and 18 above.

## IF YOU DO NOTHING

21. What happens if I do nothing at all?

If you do nothing, you will get no money from this settlement. You must submit a Proof of Claim form (see question 10) in order to share in the Net Settlement Fund.

The Order and Final Judgment approving the Settlement will dismiss the Action and settle all Class Members' Settled Claims as against all Released Parties. Whether or not they submit a Proof of Claim form, all Class Members will be barred and enjoined from starting a lawsuit, continuing with a lawsuit, or being part of any other lawsuit against Magma and the other Released Parties about the Settled Claims in this case, ever again.

## GETTING MORE INFORMATION

22. Are there more details about the proposed settlement?

This notice summarizes the proposed settlement. More details are in a Stipulation and Agreement of Settlement dated May 15, 2008 (the "Stipulation"). You can get a copy of the Stipulation by writing to Jeff S. Westerman, Esq., Milberg LLP, 300 South Grand Avenue, Suite 3900, Los Angeles, CA 90071-3172, or by visiting [www.gilardi.com](http://www.gilardi.com).

You also can call the Claims Administrator at 1-877-458-3651 toll free; write to In re Magma Design Automation, Inc. Securities Litigation, c/o Gilardi & Co. LLC, Claims Administrator, Post Office Box 990, Corte Madera, CA 94976-0990; or visit the website at [www.gilardi.com](http://www.gilardi.com), where you will find answers to common questions about the settlement, a Proof of Claim form, plus other information to help you determine whether you are a Class Member and whether you are eligible for a payment.

23. How do I get more information?

For even more detailed information concerning the matters involved in this Action, reference is made to the pleadings, to the Stipulation, to the Orders entered by the Court and to the other papers filed in the Action, which may be inspected at the Office of the Clerk of the United States District Court for the Northern District of California, San Francisco Division, 450 Golden Gate Ave., 16<sup>th</sup> Floor, San Francisco, California 94102, during regular business hours.

## PLAN OF ALLOCATION OF NET SETTLEMENT FUND AMONG CLASS MEMBERS

The \$13.5 million Cash Settlement Amount and the interest earned thereon shall be the Gross Settlement Fund. The Gross Settlement Fund, less all taxes, approved costs, fees and expenses (the "Net Settlement Fund") shall be distributed to members of the Class who submit acceptable Proofs of Claim ("Authorized Claimants").

The Claims Administrator shall determine each Authorized Claimant's *pro rata* share of the Net Settlement Fund based upon each Authorized Claimant's "Recognized Claim." The Recognized Claim formula is not intended to be an estimate of the amount of what a Class Member might have been able to recover after a trial; nor is it an estimate of the amount that will be paid to Authorized Claimants pursuant to the settlement. The Recognized Claim formula is the basis upon which the Net Settlement Fund will be proportionately allocated to the Authorized Claimants.

The following proposed Plan of Allocation reflects the proposition that the prices of Magma Design common stock, call options on common stock and notes were artificially inflated (and put options artificially deflated) by reason of the allegedly false and misleading statements made by Defendants during the Class Period until April 13, 2005 when — upon the revelations that Magma's co-founder and Chief Scientist van Ginneken admitted in a sworn declaration filed in the Synopsys infringement action that inventions covered by Magma patents were in fact conceived by him while he was employed by Synopsys and that his supervisor at Magma, and likely others, knew those inventions were covered by an agreement with Synopsys establishing Synopsys' rights to those inventions — the price of Magma common stock declined precipitously, reflecting the elimination of the artificial inflation (and deflation) that the Defendants' misrepresentations allegedly caused. On April 12, 2005, Magma common stock closed at \$9.42 per share. On the next day following the revelation of the van Ginneken declaration, April 13, 2005, Magma common stock closed at \$5.58 per share, a drop of \$3.84 per share. Magma Notes, which had closed at \$79.13 per Note on April 12, 2005, closed at \$73.37 per Note on April 13, 2005, a drop of \$5.76 per Note.

However, during the 90 day period following the end of the Class Period the prices of Magma common stock and Magma Notes partially rebounded and during this 90 day period had an average closing price of \$7.77 per share and \$75.00 per Note. Therefore, under the PSLRA an adjustment is required for post-Class Period trading.

For purposes of calculating claims, the following terms shall have the indicated meanings:

"PPP" means the purchase price paid for a security, and it includes the purchase price and any brokerage commissions or other charges incurred on the purchase.

"SPR" means the sales proceeds received and it is the net amount received for the security sold after deduction of brokerage commissions and other sales charges incurred on the sale.

"Recognized Claims" will be calculated for purposes of the Settlement as follows:

### **PURCHASES OF MAGMA COMMON STOCK (CUSIP: 559181102):**

For shares of Magma common stock purchased during the Class Period, "Recognized Claims" will be calculated for purposes of the Settlement as follows:

(1) If the shares purchased during the Class Period were sold on or before April 12, 2005, then an Authorized Claimant's "Recognized Claim" on such shares shall be zero (\$0.00).

(2) If the shares purchased during the Class Period were sold at a loss<sup>3</sup> during the period between April 13, 2005 and July 11, 2005, inclusive, then an Authorized Claimant's "Recognized Claim" from such shares shall mean **the least of:** (a) \$3.84 per share (\$9.42 minus \$5.58 -- the amount that the common stock dropped upon the disclosure); **or** (b) the PPP, but not more than \$9.42 per share, minus the SPR, but not less than \$5.58 per share; **or** (c) the PPP, but not more than \$9.42 per share, less the average closing price of Magma common shares during the period from April 13, 2005 to the date of sale.

(3) If the shares purchased during the Class Period were still held as of the close of trading on July 11, 2005, then an Authorized Claimant's "Recognized Claim" from such shares shall mean **the lesser of:** (a) \$1.65 per share (\$9.42 minus \$7.77 -- the amount that the common stock dropped in the 90 days following the disclosure) **or** (b) the PPP<sup>4</sup>, but not more than \$9.42 per share, minus \$7.77 per share (the average closing price for the 90 days after the Class Period).

#### **PURCHASES OF CALL OPTIONS ON MAGMA COMMON STOCK:**

For call options on Magma common stock purchased during the Class Period, "Recognized Claims" will be calculated for purposes of the Settlement as follows:

(1) If the call options purchased during the Class Period were sold or expired on or before April 12, 2005, then an Authorized Claimant's "Recognized Claim" on such call options shall be zero (\$0.00).

(2) If the call options purchased during the Class Period were still owned and exercisable as of the close of trading on April 12, 2005, and were sold or expired on or before July 11, 2005, then an Authorized Claimant's "Recognized Claim" on such call options shall mean one-half (50%)<sup>5</sup> of **the least of:** (a) the difference, if a loss, between the PPP and the SPR (if the call option expired after April 12, 2005 and on or before July 11, 2005 and while still owned by the Authorized Claimant, then the SPR is considered to be \$0.00); **or** (b) \$3.84 per share covered by the call option; **or** (c) the difference between \$9.42 minus the average closing price of Magma common shares during the period from April 13, 2005 to the date of sale, for each share covered by the call option.

(3) If the call options purchased during the Class Period were still owned and exercisable as of the close of trading on July 11, 2005, then an Authorized Claimant's "Recognized Claim" on such call options shall mean one-half (50%)<sup>6</sup> of **the lesser of:** (a) the difference, if a loss, between the PPP and the SPR (if the call option expired after April 12, 2005 and on or before July 11, 2005 and while still owned by the Authorized Claimant, then the SPR is considered to be \$0.00); **or** (b) \$1.65 per share covered by the call option.

(4) No loss shall be recognized based on a sale or writing of any call option that was subsequently repurchased.

(5) Shares of Magma common stock acquired during the Class Period through the exercise of a call option shall be treated as a purchase on the date of exercise for the exercise price plus the cost of the call option, and any Recognized Claim arising from such transaction shall be computed as provided for other purchases of common stock.

#### **SALES OF PUT OPTIONS ON MAGMA COMMON STOCK:**

For put options on Magma common stock sold (written) during the Class Period, "Recognized Claims" will be calculated for purposes of the Settlement as follows:

(1) If the put options sold (written) during the Class Period were not the obligation of the Authorized Claimant as of the close of trading on April 12, 2005, then an Authorized Claimant's "Recognized Claim" from such put options shall be zero (\$0.00).

(2) If the put options sold (written) during the Class Period were still the obligation of the Authorized Claimant as of the close of trading on April 12, 2005, and were repurchased on or before July 11, 2005, then an Authorized Claimant's "Recognized Claim" shall mean **the lesser of:** (a) the difference, if a loss, between the PPP on the repurchase of the option and the SPR on the original sale (writing) of the put option; **or** (b) \$3.84 per share covered by the put option; **or** (c) the difference between \$9.42 minus the average closing price of Magma common shares during the period from April 13, 2005 to the date of repurchase, for each share covered by the put option.

(3) If the put options sold (written) during the Class Period were still the obligation of the Authorized Claimant as of the close of trading on July 11, 2005, then an Authorized Claimant's "Recognized Claim" shall mean **the lesser of:** (a) the difference, if a loss, between the PPP on the repurchase of the option and the SPR on the original sale (writing) of the put option; **or** (b) \$1.65 per share covered by the put option.

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<sup>3</sup> Shares purchased during the Class Period and sold for a gain (or no loss) shall have zero (\$0.00) Recognized Claim.

<sup>4</sup> Shares purchased during the Class Period for \$7.77 or less and held at the close of trading on July 11, 2005 have zero (\$0.00) Recognized Claim.

<sup>5</sup> This discount reflects the fact that a purchase of a call option includes the payment of a time premium.

<sup>6</sup> This discount reflects the fact that a purchase of a call option includes the payment of a time premium.

(4) For put options on Magma common stock sold (written) during the Class Period that were “put” to the Authorized Claimant (i.e. exercised and assigned to the Authorized Claimant) at any time, the Authorized Claimant’s “Recognized Claim” shall be calculated as if the transaction was a purchase of common stock on the date the put option was sold (written), and the PPP shall be equal to the put option’s exercise price less the proceeds received from the sale of the put option, and the Recognized Claim shall be calculated under the rules for purchases of Magma common stock during the Class Period.

(5) No loss shall be recognized for put options on Magma common stock sold (written) during the Class Period that expired unexercised while still the obligation of the claimant.

(6) No loss shall be recognized based on a sale of any put option that was previously purchased.

**TRANSACTIONS IN OPTIONS ON MAGMA COMMON STOCK:**

**NOTE: The total recovery for all options transactions shall not exceed 5% of the total Net Settlement Fund.**

**PURCHASES OF MAGMA NON-CALLABLE ZERO COUPON CONVERTIBLE SUBORDINATED NOTES DUE MAY 15, 2008 (CUSIP: 559181AA0; 559181AB8) (“MAGMA NOTES”):**

For Magma Notes purchased during the Class Period, “Recognized Claims” will be calculated for purposes of the Settlement as follows:

(1) If the Notes purchased during the Class Period were sold at a loss on or before April 12, 2005, then an Authorized Claimant’s “Recognized Claim” from such Notes shall be zero (\$0.00).

(2) If the Notes purchased during the Class Period were sold at a loss during the period April 13, 2005 through July 11, 2005, inclusive, then an Authorized Claimant’s “Recognized Claim” shall mean **the least of: (a)** \$5.76 per Note (\$79.13 minus \$73.37-- the amount that the Notes dropped upon the disclosure); **or (b)** the PPP, but not more than \$79.13 per Note, minus the SPR, but not less than \$73.37 per Note; **or (c)** the PPP, but not more than \$79.13 per Note, less the average closing price of the Notes during the period from April 13, 2005 to the date of sale.

(3) If the Notes purchased during the Class Period were still held as of the close of trading on July 11, 2005, then an Authorized Claimant’s “Recognized Claim” shall mean **the lesser of: (a)** \$4.13 per Note (\$79.13 minus \$75.00 -- the amount that the Notes dropped in the 90 days following the disclosure) **or (b)** the PPP<sup>7</sup>, but not more than \$79.13 per Note, minus \$75.00 per Note (the average closing price of the Notes for the 90 days after the end of the Class Period).

In the event a Class Member has more than one purchase, acquisition, or sale of Magma common stock, call options, put options, and Notes, all purchases, acquisitions, and sales shall be matched on a First In First Out (“FIFO”) basis, Class Period sales will be matched first against any Magma shares, options, and Notes held at the beginning of the Class Period and then against purchases or acquisitions in chronological order. A purchase, acquisition, or sale of Magma common stock, call options, put options, and Notes shall be deemed to have occurred on the “contract” or “trade” date as opposed to the “settlement” or “payment” date. The receipt or grant by gift, devise or operation of law of Magma common stock, call options, put options, and Notes during the Class Period shall not be deemed a purchase, acquisition, or sale of Magma common stock, call options, put options, and Notes for the calculation of an Authorized Claimant’s Recognized Claim nor shall it be deemed an assignment of any claim relating to the purchase or acquisition of such Magma common stock, call options, put options, and Notes unless specifically provided in the instrument of gift or assignment.

To the extent a Claimant had a gain from his, her or its overall transactions in Magma common stock, call options, put options, and Notes during the Class Period, the value of the Recognized Claim will be zero. To the extent that a Claimant suffered an overall loss on his, her or its overall transactions in Magma common stock, call options, put options, and Notes during the Class Period, but that loss was less than the Recognized Claim calculated above, then the Recognized Claim shall be limited to the amount of the actual loss.

For purposes of determining whether a Claimant had a gain from his, her or its overall transactions in Magma common stock, call options, put options, and Notes during the Class Period or suffered a loss, the Claims Administrator shall: (i) total the amount paid for all Magma common stock, call options, put options, and Notes purchased/acquired during the Class Period by the Claimant, and add the liability of the Claimant on any open put option obligations as of the close of trading on April 13, 2005 calculated as the strike price per share less \$7.77 per common share covered by all such open put options<sup>8</sup> (the “Total Purchase Amount”); (ii) match any sales of Magma common stock, call options, put options, and Notes during the Class Period first against the Claimant’s opening positions in the stock, call options, put options, and Notes (the proceeds of those sales will not be considered for purposes of calculating gains or losses); (iii) total the amount received for sales of the remaining Magma common stock, call options, and Notes sold during the Class Period (the “Sales Proceeds”); and (iv) ascribe a \$7.77 per common share, and \$75.00 per Note holding value for the Magma common stock and Notes purchased or acquired during the Class Period and still held at the close of trading on July 11, 2005, and add a holding value for any call options purchased during the Class Period and still owned on July 11,

<sup>7</sup> Notes purchased during the Class Period for \$75.00 or less and held at the close of trading on July 11, 2005 have zero (\$0.00) Recognized Claim.

<sup>8</sup> For any put options with an exercise or strike price of \$7.77 or less the liability shall be considered to be zero (\$0.00)

2005 that had an exercise or strike price of \$7.77 or less calculated as the difference between \$7.77 and the strike price for each share covered by such call options ("Holding Value"). The difference between (x) the Total Purchase Amount ((i) above) and (y) the sum of the Sales Proceeds ((iii) above) and the Holding Value ((iv) above) will be deemed a Claimant's gain or loss on his, her or its overall transactions in Magma common stock, call options, put options, and Notes during the Class Period.

Each Authorized Claimant shall be allocated a *pro rata* share of the Net Settlement Fund based on his, her or its Recognized Claim as compared to the total Recognized Claims of all Authorized Claimants. The minimum distribution amount to an Authorized Claimant with a valid Recognized Claim shall be \$10.00.

Class Members who do not submit acceptable Proofs of Claim will not share in the settlement proceeds. Class Members who do not submit acceptable Proofs of Claim will nevertheless be bound by the settlement and the Order and Final Judgment of the Court dismissing this Action.

Distributions will be made to Authorized Claimants after all claims have been processed and after the Court has finally approved the settlement. If any funds remain in the Net Settlement Fund by reason of un-cashed distributions or otherwise, then, after the Claims Administrator has made reasonable and diligent efforts to have Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their distributions, any balance remaining in the Net Settlement Fund one (1) year after the initial distribution of such funds shall be re-distributed to Class Members who have cashed their initial distributions and who would receive at least \$10.00 from such re-distribution, after payment of any unpaid costs or fees incurred in administering the Net Settlement Fund for such re-distribution. If after six months after such re-distribution any funds shall remain in the Net Settlement Fund, then such balance shall be contributed to non-sectarian, not-for-profit, 501(c)(3) organization(s) designated by Plaintiffs' Lead Counsel.

Plaintiffs, Defendants, their respective counsel, and all other Released Parties shall have no responsibility for or liability whatsoever for the investment or distribution of the Settlement Fund, the Net Settlement Fund, the Plan of Allocation or the determination, administration, calculation, or payment of any Proof of Claim or non-performance of the Claims Administrator, the payment or withholding of taxes owed by the Settlement Fund or any losses incurred in connection therewith.

#### **SPECIAL NOTICE TO SECURITIES BROKERS AND OTHER NOMINEES**

If you purchased or otherwise acquired the securities of Magma Designs Automation, Inc. ("Magma") — including purchases of Magma common stock (NASDAQ ticker symbol: LAVA; CUSIP: 559181102), purchases of call options on Magma common stock, sales of put options on Magma common stock, and purchases of Magma non-callable zero coupon convertible subordinated notes due May 15, 2008 (CUSIP: 559181AA0; 559181AB8) — during the period between October 23, 2002 through April 12, 2005, inclusive, for the beneficial interest of a person or organization other than yourself, **and if you have not previously provided the Claims Administrator with a list of the names and addresses of your customers who are potential Class Members in connection with the prior notice of pendency**, the Court has directed that, WITHIN SEVEN (7) DAYS OF YOUR RECEIPT OF THIS NOTICE, you either (a) provide to the Claims Administrator the name and last known address of each person or organization for whom or which you purchased or otherwise acquired Magma securities during such time period or (b) request additional copies of this Notice and the Proof of Claim form, which will be provided to you free of charge, and within seven (7) days mail the Notice and Proof of Claim form directly to the beneficial owners of those Magma securities. If you choose to follow alternative procedure (b), the Court has directed that, upon such mailing, you send a statement to the Claims Administrator confirming that the mailing was made as directed. You are entitled to reimbursement from the Settlement Fund of your reasonable expenses actually incurred in connection with the foregoing, including reimbursement of postage expense and the cost of ascertaining the names and addresses of beneficial owners. Those expenses will be paid upon request and submission of appropriate supporting documentation. **If you previously provided the Claims Administrator with a list of the names and addresses of your beneficiaries for whom you purchased Magma securities, then you do not need to respond; the Claims Administrator will send this Notice to those persons as well.** All communications concerning the foregoing should be addressed to the Claims Administrator:

In re Magma Design Automation, Inc. Securities Litigation  
c/o Gilardi & Co. LLC  
Claims Administrator  
P.O. Box 990  
Corte Madera, CA 94976-0990  
1-877-458-3651

Dated: San Francisco, California  
July 28, 2008

By Order of the Court  
CLERK OF THE COURT