

# PRESS RELEASE

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## **Synopsys Posts Strong Financial Results for Third Quarter 2002**

**MOUNTAIN VIEW, California. August 21, 2002** – Synopsys Inc., (Nasdaq: SNPS) today reported its third quarter results for the period that ended on August 3, 2002.

For the third quarter of fiscal 2002, Synopsys reported revenue of \$236.1 million and net earnings on a diluted basis excluding amortization of intangible assets, integration expenses and in-process research and development (EBG) of \$39.7 million, or \$0.53 per share. This represents a 34% increase in revenue and a 120% increase in earnings on an EBG basis as compared to the third quarter of fiscal 2001 revenue of \$176.1 million and earnings on an EBG basis of \$18.0 million, or \$0.28 per share. EBG represents earnings on a diluted basis excluding amortization of intangible assets, integration expenses and in-process research and development.

"Synopsys is continuing to build strength, even in a very difficult semiconductor and electronics environment," said Aart de Geus, chairman and CEO, Synopsys, Inc. "We closed our merger with Avant! midway through the quarter and the integration is right on schedule. We are already engaging with customers on our future product plans and the feedback has been strongly positive. "

For the nine-month period ended August 3, 2002, Synopsys reported revenue of \$597.3 million and net income, on an EBG basis, of \$82.1 million, or \$1.19 per share. Revenue and net income, on an EBG basis, were \$496.8 million and \$46.5 million, or \$0.71 per share, respectively, for the nine-month period ended August 4, 2001.

On a generally accepted accounting principles (GAAP) basis, for the third quarter of 2002, net loss after amortization of intangible assets, integration expenses and in-process research and development, was (\$137.6) million, or (\$1.93) per share, compared to net income of \$14.4 million, or \$0.22 per share, for the third quarter of fiscal 2001. For the nine-month period ended August 3, 2002, net loss, on a GAAP basis, was (\$102.2) million, or (\$1.59) per share, compared to \$36.4 million, or \$0.56 per share, respectively, for the nine-month period ended August 4, 2001.

### Outlook

Synopsys also announced its operating model targets for the fourth quarter of fiscal year 2002 and for the full fiscal year.

#### Fourth quarter of fiscal year 2002 targets:

- Revenue: between \$305 million and \$312 million;
- Total expenses: between \$210 and \$215 million;
- Other income & expense: between \$3 million and \$6 million;
- Average diluted shares outstanding: between 74 million and 78 million;
- Pro forma tax rate: 33.5%; and
- EBG: between \$0.85 and \$0.90 per share.

#### Full fiscal year 2002 targets:

- Revenue: between \$903 million and \$910 million;
- Total expenses: between \$720 million and \$725 million;
- Other income & expense: Between \$37 million and \$40 million (including approximately \$22 million of gain on the sale of investments held by the Company);
- Average diluted shares outstanding: between 70 million and 75 million;
- Pro forma tax rate: 32.5%; and
- EBG: between \$2.04 and \$2.09 per share.

With respect to fiscal year 2003, Synopsys stated that in light of the continuing difficult economic environment and, in particular, recent reductions in estimates of 2003 growth in

research and development spending by semiconductor companies and decreasing visibility in its business, it is modifying the preliminary operating commentary announced on June 4, 2002. For the year, Synopsys expects to manage its business to generate \$3.25 in EBG per share, and to hold total expenses flat at the fourth quarter fiscal 2002 level. The preliminary revenue and expense commentary announced in June are being withdrawn. Synopsys continues to expect a pro forma tax rate of 32.5% and average diluted shares outstanding of 80 million to 84 million.

The foregoing statements are forward-looking statements. Factors that could cause actual results to differ materially from those expected include, but are not limited to, the factors noted in the “Forward Looking Statements” section below, and in Synopsys’ filings with the Securities and Exchange Commission.

#### **Effectiveness of Guidance**

The targets set forth above represent the Company’s expectations only as of the date of this release and should not be viewed as a statement about the Company’s expectations after this date. Although this release will remain available on the Company’s website, its continued availability does not indicate that the Company is reaffirming or confirming its continued validity. The Company will not report on its progress during the quarter or comment to analysts or investors on, or otherwise update, such targets until it releases its quarterly results.

#### **GAAP Reconciliation**

The Company presents unaudited pro forma condensed consolidated statements of income. These statements are not presented in accordance with, or as an alternative to, financial statements prepared in accordance with GAAP and may be different from pro forma statements presented by other companies. Pro forma earnings is computed by adjusting GAAP earnings for the effects of the following items.

<i>(in thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 31,</b>		<b>July 31,</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Net (loss) income on a GAAP basis	(\$137,589)	\$ 14,450	(\$102,157)	\$ 36,404
Integration costs	117,266		117,266	
In-process research and development	82,500		82,500	
Amortization of intangibles	22,186	4,163	30,586	12,514
Tax effect on integration costs, in-process research and development and amortization of intangibles	(44,688)	(570)	(46,125)	(2,429)
Net income on an EBG basis	<u>\$ 39,675</u>	<u>\$ 18,043</u>	<u>\$ 82,070</u>	<u>\$ 46,489</u>

The financial statements presented with this release are preliminary and subject to review and adjustment in the ordinary course of the Company's quarterly review process. Final financial statements will be published with the Company's quarterly report on Form 10-Q.

#### **Additional Financial Information Available on Synopsys Website**

In connection with the issuance of this press release, Synopsys is making available to investors certain current and historical information regarding its performance in geographic markets and product categories. The information can be found at <http://www.synopsys.com/corporate/invest/invest.html>. Synopsys currently intends to provide this information on a quarterly basis.

#### **Earnings Call Open to Investors**

Synopsys will hold a conference call for financial analysts and investors today at 2:00 p.m., Pacific Time. A live Webcast of the call will be available from Synopsys' corporate website at <http://www.synopsys.com/corporate/invest/invest.html>. A recording of the call will be available by calling 1-800-475-6701 (320-365-3844 for international callers), access code 648864, beginning at 5:30 p.m. today and ending on August 31, 2002. A Webcast replay will also be available from Synopsys' corporate web site at <http://www.synopsys.com/corporate/invest/invest.html> from approximately 5:30 p.m. today and ending on August 31, 2002. Copies of the prepared remarks of Aart de Geus, Chairman and Chief Executive Officer of Synopsys, and Brad Henske, Chief Financial

Officer, will be posted on Synopsys' corporate website following the call at <http://www.synopsys.com/corporate/invest/invest.html>.

### **Forward Looking Statements**

The third paragraph of this press release and the section entitled "Outlook" contain forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those described by these statements. Factors that could cause results to differ from these statements include: slower than assumed growth in research and development spending by semiconductor companies, continued or increased weakness in the semiconductor or electronic systems industries; difficulties encountered in the integration of Avant!'s products and operations into Synopsys, which could materially interfere with sales efforts; a lower-than-anticipated level of purchases of software or consulting services by the Company's customers; and increasing competition in the market for the Company's products and services. For further discussion of these and other factors that may cause results to differ from those projected in this release, readers are referred to documents filed by Synopsys with the Securities and Exchange Commission, specifically Synopsys' report on Form 10-Q filed with the SEC on June 17, 2002 (pp. 25-30). Synopsys is under no obligation to (and expressly disclaims any such obligation to) update or alter these forward-looking statements whether as a result of new information, future events or otherwise.

### **About Synopsys**

Synopsys, Inc. (Nasdaq: SNPS), headquartered in Mountain View, California, creates leading electronic design automation (EDA) tools for the global electronics market. The company delivers advanced design technologies and solutions to developers of complex integrated circuits, electronic systems, and systems on a chip. Synopsys also provides consulting and support services to simplify the overall IC design process and accelerate time to market for its customers. Visit Synopsys at <http://www.synopsys.com>.

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Synopsys is a registered trademark of Synopsys, Inc. All other trademarks mentioned in this release are the intellectual property of their respective owners.

**SYNOPSYS, INC.**  
**Unaudited Condensed Consolidated Statements of Income (1)**  
*(in thousands, except per share data)*

	<b>Three Months Ended July 31,</b>		<b>Nine Months Ended July 31,</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
<b>Revenue:</b>				
Product	\$ 60,096	\$ 44,858	\$ 151,944	\$ 117,152
Service	73,924	81,430	208,782	259,900
Ratable license	102,075	49,822	236,552	119,736
Total Revenue	<u>236,095</u>	<u>176,110</u>	<u>597,278</u>	<u>496,788</u>
<b>Cost of Revenue:</b>				
Product	4,400	6,086	11,687	17,616
Service	19,819	19,158	57,894	58,427
Ratable license	10,101	7,476	34,321	19,689
Amortization of intangible assets and deferred compensation	13,366	-	13,366	-
Total cost of revenue	<u>47,686</u>	<u>32,720</u>	<u>117,268</u>	<u>95,732</u>
Gross Margin	<u>188,409</u>	<u>143,390</u>	<u>480,010</u>	<u>401,056</u>
<b>Operating expenses:</b>				
Research and development	61,581	49,382	156,936	143,239
Sales and marketing	69,122	68,954	192,122	207,735
General and administrative	21,908	19,140	58,153	50,933
Amortization of intangible assets & deferred compensation	8,820	4,163	17,220	12,514
Integration	117,266	-	117,266	-
In-process research & development	82,500	-	82,500	-
Total operating expenses	<u>361,197</u>	<u>141,639</u>	<u>624,197</u>	<u>414,421</u>
Operating income (loss)	(172,788)	1,751	(144,187)	(13,365)
Other income, net	11,408	19,499	33,702	66,901
Income (loss) before provision (benefit) for income taxes	(161,380)	21,250	(110,485)	53,536
Provision (benefit) for income taxes	(23,791)	6,800	(8,328)	17,132
Net income (loss)	<u>\$ (137,589)</u>	<u>\$ 14,450</u>	<u>\$ (102,157)</u>	<u>\$ 36,404</u>
<b>Basic earnings per share:</b>				
Net income (loss)	<u>\$ (1.93)</u>	<u>\$ 0.24</u>	<u>\$ (1.59)</u>	<u>\$ 0.60</u>
Weighted average common shares	<u>71,157</u>	<u>60,048</u>	<u>64,157</u>	<u>61,050</u>
<b>Diluted earnings per share:</b>				
Net income (loss)	<u>\$ (1.93)</u>	<u>\$ 0.22</u>	<u>\$ (1.59)</u>	<u>\$ 0.56</u>
Weighted average common shares and equivalents	<u>71,157</u>	<u>64,887</u>	<u>64,157</u>	<u>65,362</u>

(1) The Company's fiscal year and third quarter ends on the Saturday nearest to October 31 and to July 31, respectively. For presentation purposes, the condensed consolidated financial statements refer to a calendar month end.

## SYNOPSIS, INC.

### Condensed Consolidated Balance Sheets (1)

*(in thousands)*

	July 31, 2002	October 31, 2001
	<i>(unaudited)</i>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 347,661	\$ 271,696
Short-term investments	98,547	204,740
Accounts receivable, net	233,157	146,294
Deferred tax assets	169,208	149,239
Prepaid expenses and other	54,973	19,413
Total current assets	903,546	791,382
Property and equipment, net	185,872	192,304
Long-term investments	48,767	61,699
Goodwill, net	368,068	35,077
Intangible assets, net	351,249	3,197
Other assets	301,503	45,248
Total assets	\$ 2,159,005	\$ 1,128,907
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 233,756	\$ 134,966
Current portion of long-term debt	178	535
Income taxes payable	123,338	110,867
Deferred revenue	379,897	290,052
Total current liabilities	737,169	536,420
Deferred compensation and other long term liabilities	50,400	17,124
Long-term deferred revenue	63,167	89,707
Stockholders' equity:		
Common stock	1,031,944	575,998
Retained earnings	303,755	436,662
Treasury stock	(9,875)	(531,117)
Deferred stock compensation	(7,592)	
Accumulated other comprehensive income	(9,963)	4,113
Total stockholders' equity	1,308,269	485,656
Total liabilities and stockholders' equity	\$ 2,159,005	\$ 1,128,907

(1) The Company's fiscal year and third quarter ends on the Saturday nearest to October 31 and to July 31, respectively. For presentation purposes, the condensed consolidated financial statements refer to a calendar month end.



## SYNOPSYS, INC.

### Unaudited Pro Forma Condensed Consolidated Statements of Income (1) (2)

*(in thousands, except per share data)*

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2002	2001	2002	2001
<b>Revenue:</b>				
Product	\$ 60,096	\$ 44,858	\$ 151,944	\$ 117,152
Service	73,924	81,430	208,782	259,900
Ratable license	102,075	49,822	236,552	119,736
Total Revenue	<u>236,095</u>	<u>176,110</u>	<u>597,278</u>	<u>496,788</u>
<b>Cost of Revenue:</b>				
Product	4,400	6,086	11,687	17,616
Service	19,819	19,158	57,894	58,427
Ratable license	10,101	7,476	34,321	19,689
Total cost of revenue	<u>34,320</u>	<u>32,720</u>	<u>103,902</u>	<u>95,732</u>
Gross Margin	<u>201,775</u>	<u>143,390</u>	<u>493,376</u>	<u>401,056</u>
<b>Operating expenses:</b>				
Research and development	61,581	49,382	156,936	143,239
Sales and marketing	69,122	68,954	192,122	207,735
General and administrative	21,908	19,140	58,153	50,933
Total operating expenses	<u>152,611</u>	<u>137,476</u>	<u>407,211</u>	<u>401,907</u>
Operating income (loss)	49,164	5,914	86,165	(851)
Other income, net	<u>11,408</u>	<u>19,499</u>	<u>33,702</u>	<u>66,901</u>
Income before provision for income taxes	60,572	25,413	119,867	66,050
Provision for income taxes	20,897	7,370	37,797	19,561
Net income	<u>\$ 39,675</u>	<u>\$ 18,043</u>	<u>\$ 82,070</u>	<u>\$ 46,489</u>
<b>Basic earnings per share:</b>				
Net income	<u>\$ 0.56</u>	<u>\$ 0.30</u>	<u>\$ 1.28</u>	<u>\$ 0.76</u>
Weighted average common shares	<u>71,157</u>	<u>60,048</u>	<u>64,157</u>	<u>61,050</u>
<b>Diluted earnings per share:</b>				
Net income	<u>\$ 0.53</u>	<u>\$ 0.28</u>	<u>\$ 1.19</u>	<u>\$ 0.71</u>
Weighted average common shares and equivalents	<u>74,955</u>	<u>64,887</u>	<u>68,698</u>	<u>65,362</u>

(1) The Company's fiscal year and third quarter ends on the Saturday nearest to October 31 and to July 31, respectively. For presentation purposes, the condensed consolidated financial statements refer to a calendar month end.

(2) Amounts and per share data for the periods presented exclude amortization of intangible assets and in-process research and development, if any.