

# PRESS RELEASE

**INVESTOR CONTACT:**

Jessica Kourakos  
Synopsys, Inc.  
650-584-4289

**EDITORIAL CONTACT:**

Craig Cochran  
Synopsys, Inc.  
650-584-4230

## **Synopsys Posts Financial Results for Fiscal Second Quarter 2003**

**MOUNTAIN VIEW, Calif. May 21, 2003** – Synopsys Inc., (Nasdaq: SNPS), the world leader in integrated circuit (IC) design software, today reported its second quarter results for the period that ended May 3, 2003.

For the second quarter of fiscal 2003, Synopsys reported revenue of \$292.0 million, a 57% increase over revenue of \$185.6 million in the second quarter of fiscal 2002. Net income on an earnings before goodwill (EBG) basis was \$61.2 million, a 144% increase over EBG net income of \$25.1 million in the second quarter of fiscal 2002. EBG per share was \$0.80, a 105% increase over EBG per share of \$0.39 in the second quarter of fiscal 2002. EBG represents earnings on a fully-diluted basis excluding, to the extent incurred in any particular quarter, amortization of intangible assets and deferred compensation, in-process research and development expenses and one-time or extraordinary expenses relating to acquisitions, such as integration expenses.

On a generally accepted accounting principles (GAAP) basis, for the second quarter of fiscal 2003, net income was \$22.3 million, or \$0.29 per share, compared to net income of \$21.4 million, or \$0.33 per share, for the second quarter of fiscal 2002. The difference between net income on an EBG basis and on a GAAP basis for the second quarter of fiscal 2003 was primarily due to charges relating to the acquisition of Numerical Technologies, Inc., which was completed during the quarter, and the amortization of intangibles related to prior acquisitions.

“Despite a tough economic backdrop, our second quarter was the largest orders quarter in Synopsys’ history,” said Aart de Geus, chairman and CEO of Synopsys. “We are pleased with the Company’s current momentum and look forward to achieving strong financial results during the remainder of fiscal 2003.”

## **Outlook**

Synopsys also announced its operating model targets for the third quarter of fiscal year 2003 and for full year fiscal 2003.

### Third quarter of fiscal year 2003 targets (EBG basis):

- Revenue: \$288 - \$303 million;
- Total expenses: \$207 - \$214 million;
- Other income: \$6 - \$9 million;
- Fully diluted outstanding shares: 75 - 79 million;
- Pro forma tax rate: 32.5%;
- Earnings per share: \$0.77 - \$0.82;
- Perpetual licenses as a percentage of product bookings: 20% - 25%; and
- Average length of ratable licenses: 3.3 – 3.6 years.

Fiscal year 2003 targets (EBG basis):

- Revenue: between \$1.130 - \$1.180 billion;
- Earnings per share: \$2.95 - \$3.10;
- Perpetual licenses as a percentage of product bookings: 20%-25%;
- Average length of ratable licenses: 3.0 - 3.35 years.

**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 third fiscal quarter or comment to analysts or investors on, or otherwise update, such targets until it releases its quarterly results in August 2003.

**GAAP Reconciliation**

This earnings release contains financial information presented on both an EBG and GAAP basis. EBG is a non-GAAP financial measure under Section 244.101 of Regulation G. EBG represents earnings on a fully-diluted basis, excluding, to the extent incurred in any particular quarter, amortization of intangible assets and deferred compensation, in-process research and development expenses and one-time or extraordinary expenses relating to acquisitions, such as integration expenses. Intangible assets consist primarily of purchased technology, contract rights intangible, customer installed base/relationships, trademarks and tradenames, covenants not to compete and customer backlog. EBG is reduced by the amount of additional taxes that would be required to be accrued if EBG results were used instead of GAAP results to calculate the Company's tax liability.

The Company believes that providing financial information on an EBG basis, in addition to a GAAP basis, allows investors a useful way to compare the results of multiple fiscal periods. The Company believes it is appropriate to exclude the items described in the

preceding paragraph from its EBG financial measures because such items do not constitute direct and ongoing costs of Synopsys' business operations, such as cost of revenues or research and development, sales and marketing and general and administrative expenses. Excluding such non-cash, one-time or extraordinary expenses from the Company's EBG financial measures also makes it easier for investors to evaluate the ongoing operating results of the Company's business.

The specific items excluded from GAAP in calculating EBG for the periods given in this press release are shown in the table below:

Three Months and Six Months ended April 30, 2003

	<b>Three Months Ended April 30</b>		<b>Six Months Ended April 30</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
(in thousands, except per share data)				
Net income on a GAAP basis	\$22,289	\$21,380	\$ 56,674	\$35,432
Amortization of intangible assets and deferred compensation	33,478	4,356	62,261	8,400
In-process research and development	18,250	--	18,250	--
Tax effect	(12,826)	(660)	(23,527)	(1,437)
Net income on an EBG basis	\$61,191	\$25,076	\$113,658	\$42,395
Diluted earnings per share on a GAAP basis	\$0.29	\$0.33	\$0.74	\$ 0.55
Amortization of intangible assets and deferred compensation per share	\$0.44	\$0.07	\$0.81	\$0.12
In-process research and development per share	\$0.24	\$ --	\$0.24	\$ --
Tax effect per share	\$(0.17)	\$(0.01)	\$(0.31)	\$(0.02)
Earnings per share on an EBG basis	\$ 0.80	\$0.39	\$1.48	\$0.65

Third Quarter and Full Year Fiscal 2003 Targets

	<b>Range for Three Months Ending July 31, 2003</b>	
	<u>Low</u>	<u>High</u>
(in thousands, except per share data)		
Total target expenses on a GAAP basis	\$238,000	\$248,000
Estimated amortization of intangible assets and deferred compensation	31,000	34,000
Target expenses on an EBG basis	\$207,000	\$214,000

	Range for Three Months Ending July 31, 2003		Range for Fiscal Year Ending October 31, 2003	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
Target earnings per share on a GAAP basis	\$0.52	\$0.56	\$1.68	\$1.83
Estimated amortization of intangible assets and deferred compensation per share	\$0.25	\$0.26	\$1.27	\$1.27
Target earnings per share on an EBG basis	\$0.77	\$0.82	\$2.95	\$3.10

### **Unaudited Financial Statements**

The financial statements presented with this release are unaudited, preliminary and subject to review and adjustment in the ordinary course of the Company's quarterly review process. Final unaudited 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 earnings 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 at Synopsys' corporate website at <http://www.synopsys.com/corporate/invest/invest.html>. A recording of the call will be available by calling 1-800-659-1025 (904-779-4707 for international callers), access code 16360633, beginning at 5:30 p.m. Pacific Time today. A Webcast replay will also be available at <http://www.synopsys.com/corporate/invest/invest.html> from approximately 5:30 p.m. Pacific Time today through the time of the announcement of the Company's third quarter earnings results in August. Following the call, copies of the prepared remarks of Aart de Geus, chairman and chief executive officer of Synopsys,

and Steve Shevick, chief financial officer, will be posted on Synopsys' corporate website at <http://www.synopsys.com/corporate/invest/invest.html>.

### **About Synopsys**

Synopsys, Inc. (Nasdaq:SNPS) is the world leader in electronic design automation (EDA) software for integrated circuit (IC) design. The Company delivers technology-leading IC design and verification platforms to the global electronics market, enabling the development of complex systems-on-chips (SoCs). Synopsys also provides intellectual property and design services to simplify the design process and accelerate time-to-market for its customers. Synopsys is headquartered in Mountain View, California, and has more than 60 offices located throughout North America, Europe, Japan and Asia. Visit Synopsys online at <http://www.synopsys.com>.

### **Forward Looking Statements**

The fourth paragraph of this earnings release and the sections entitled "Outlook" and "GAAP Reconciliation" 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 due to a number of factors, including: lower than expected research and development spending by semiconductor and electronic systems companies; continued or increased weakness in the semiconductor or electronic systems industries; difficulties encountered in the continued integration of the products and operations of Avant! and Numerical into Synopsys' products and operations; the possibility that the Company may sell fewer perpetual licenses than expected; a lower-than-anticipated level of purchases of software or consulting services by the Company's customers; the effect of international political conflict or hostilities on customer purchases; the effect of the outbreak of Severe Acute Respiratory Syndrome on sales of the Company's products and services; fluctuations in foreign currency exchange rates; 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 March 18, 2003 (pp. 35-39). 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.

In addition, the Company's actual expenses and earnings per share on a GAAP basis for the fiscal quarter ending August 2, 2003, and earnings per share on a GAAP basis for the fiscal year ending November 1, 2003, could differ materially from the targets stated under "Outlook" above for a number of reasons, including a determination by the Company that any portion of its intangible assets have become impaired, changes in deferred compensation expenses caused by employee terminations and one-time expenses and the amortization of additional intangible assets and deferred compensation associated with future acquisitions, if any.

###

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)*

	<u>Three Months Ended April 30,</u>		<u>Six Months Ended April 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenue:				
Product	\$ <b>82,000</b>	\$ 52,293	\$ <b>136,520</b>	\$ 91,848
Service	<b>61,967</b>	65,765	<b>134,354</b>	134,858
Ratable license	<u><b>148,061</b></u>	<u>67,580</u>	<u><b>289,290</b></u>	<u>134,477</u>
Total revenue	<u><b>292,028</b></u>	<u>185,638</u>	<u><b>560,164</b></u>	<u>361,183</u>
Cost of revenue:				
Product	<b>3,845</b>	3,221	<b>7,598</b>	7,287
Service	<b>17,750</b>	17,391	<b>39,770</b>	38,075
Ratable license	<b>13,472</b>	13,780	<b>26,258</b>	24,220
Amortization of intangible assets and deferred				
Stock compensation	<u><b>20,491</b></u>	<u>--</u>	<u><b>40,394</b></u>	<u>--</u>
Total cost of revenue	<u><b>55,558</b></u>	<u>34,392</u>	<u><b>114,020</b></u>	<u>69,582</u>
Gross margin	<u><b>236,470</b></u>	<u>151,246</u>	<u><b>446,144</b></u>	<u>291,601</u>
Operating expenses:				
Research and development	<b>68,612</b>	46,649	<b>135,881</b>	95,355
Sales and marketing	<b>80,970</b>	63,201	<b>152,208</b>	123,000
General and administrative	<b>24,240</b>	17,537	<b>46,791</b>	36,245
In-process research and development	<b>18,250</b>	--	<b>18,250</b>	--
Amortization of intangible assets and deferred				
Stock compensation	<u><b>12,987</b></u>	<u>4,356</u>	<u><b>21,867</b></u>	<u>8,400</u>
Total operating expenses	<u><b>205,059</b></u>	<u>131,743</u>	<u><b>374,997</b></u>	<u>263,000</u>
Operating income	<b>31,411</b>	19,503	<b>71,147</b>	28,601
Other income, net	<u><b>7,515</b></u>	<u>11,213</u>	<u><b>16,725</b></u>	<u>22,294</u>
Income before provision for income taxes	<b>38,926</b>	30,716	<b>87,872</b>	50,895
Provision for income taxes	<u><b>16,637</b></u>	<u>9,336</u>	<u><b>31,198</b></u>	<u>15,463</u>
Net income	<u><b>\$ 22,289</b></u>	<u>\$ 21,380</u>	<u><b>\$ 56,674</b></u>	<u>\$ 35,432</u>
Basic earnings per share:				
Net income	<u><b>\$ 0.30</b></u>	<u>\$ 0.35</u>	<u><b>\$ 0.76</b></u>	<u>\$ 0.58</u>
Weighted average common shares	<u><b>74,351</b></u>	<u>61,232</u>	<u><b>74,220</b></u>	<u>60,670</u>
Diluted earnings per share:				
Net income	<u><b>\$ 0.29</b></u>	<u>\$ 0.33</u>	<u><b>\$ 0.74</b></u>	<u>\$ 0.55</u>
Weighted average common shares and equivalents	<u><b>76,517</b></u>	<u>64,934</u>	<u><b>76,551</b></u>	<u>64,956</u>

(1) The company's fiscal year and second quarter ends on the Saturday nearest to October 31 and to April 30, respectively. For presentation purposes, the condensed consolidated financial statements refer to a calendar month end.

# SYNOPSYS, INC.

## Condensed Consolidated Balance Sheets <sup>(1)</sup>

*(in thousands, except par value per share amounts)*

	<b>April 30, 2003</b>	<b>October 31, 2002</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 268,822	\$ 312,580
Short-term investments	<u>123,277</u>	<u>102,153</u>
Cash, cash equivalents and short-term investments	<b>392,099</b>	414,733
Accounts receivable, net of allowances of \$10,760 and \$11,565, respectively	<b>246,006</b>	207,206
Deferred taxes	<b>270,058</b>	282,867
Prepaid expenses and other	<u>22,202</u>	<u>24,509</u>
Total current assets	<b>930,365</b>	929,315
Property and equipment, net	<b>180,122</b>	185,040
Long-term investments	<b>25,567</b>	39,386
Goodwill, net	<b>548,746</b>	434,554
Intangible assets, net	<b>345,403</b>	355,334
Long-term deferred taxes and other assets	<u>34,149</u>	<u>35,085</u>
Total assets	<b><u>\$ 2,064,352</u></b>	<b><u>\$ 1,978,714</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 168,516	\$ 246,789
Current portion of long-term debt	28	1,423
Accrued income taxes	<b>153,780</b>	169,912
Deferred revenue	<u>445,189</u>	<u>359,245</u>
Total current liabilities	<b>767,513</b>	777,369
Deferred compensation and other long-term liabilities	<b>65,946</b>	36,387
Long-term deferred revenue	<b>32,053</b>	51,477
Stockholders' equity		
Common stock, \$.01 par value; 400,000 shares authorized; 73,967 and 73,562 shares outstanding respectively	<b>740</b>	735
Additional paid-in capital	<b>1,063,828</b>	1,039,386
Retained earnings	<b>236,114</b>	198,863
Treasury stock, at cost	<b>(101,573)</b>	(116,499)
Deferred stock compensation	<b>(10,844)</b>	(8,858)
Accumulated other comprehensive (loss) income	<u>10,575</u>	<u>(146)</u>
Total stockholders' equity	<b><u>\$ 1,198,840</u></b>	<b><u>\$ 1,113,481</u></b>
Total liabilities and stockholders' equity	<b><u>\$ 2,064,352</u></b>	<b><u>\$ 1,978,714</u></b>

(1) The company's fiscal year and second quarter ends on the Saturday nearest to October 31 and to April 30, 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 April 30		Six Months Ended April 30	
	2003	2002	2003	2002
Revenue:				
Product	\$ 82,000	\$ 52,293	\$ 136,520	\$ 91,848
Service	61,967	65,765	134,354	134,858
Ratable license	<u>148,061</u>	<u>67,580</u>	<u>289,290</u>	<u>134,477</u>
Total revenue	<u>292,028</u>	<u>185,638</u>	<u>560,164</u>	<u>361,183</u>
Cost of revenue:				
Product	3,845	3,221	7,598	7,287
Service	17,750	17,391	39,770	38,075
Ratable license	<u>13,472</u>	<u>13,780</u>	<u>26,258</u>	<u>24,220</u>
Total cost of revenue	<u>35,067</u>	<u>34,392</u>	<u>73,626</u>	<u>69,582</u>
Gross margin	<u>256,961</u>	<u>151,246</u>	<u>486,538</u>	<u>291,601</u>
Operating expenses:				
Research and development	68,612	46,649	135,881	95,355
Sales and marketing	80,970	63,201	152,208	123,000
General and administrative	<u>24,240</u>	<u>17,537</u>	<u>46,791</u>	<u>36,245</u>
Total operating expenses	<u>173,822</u>	<u>127,387</u>	<u>334,880</u>	<u>254,600</u>
Operating income	83,139	23,859	151,658	37,001
Other income, net	<u>7,515</u>	<u>11,213</u>	<u>16,725</u>	<u>22,294</u>
Income before provision for income taxes	90,654	35,072	168,383	59,295
Provision for income taxes	<u>29,463</u>	<u>9,996</u>	<u>54,725</u>	<u>16,900</u>
Net income	<u>\$ 61,191</u>	<u>\$ 25,076</u>	<u>\$ 113,658</u>	<u>\$ 42,395</u>
Basic earnings per share:				
Net income	<u>\$ 0.82</u>	<u>\$ 0.41</u>	<u>\$ 1.53</u>	<u>\$ 0.70</u>
Weighted average common shares	<u>74,351</u>	<u>61,232</u>	<u>74,220</u>	<u>60,670</u>
Diluted earnings per share:				
Net income	<u>\$ 0.80</u>	<u>\$ 0.39</u>	<u>\$ 1.48</u>	<u>\$ 0.65</u>
Weighted average common shares and equivalents	<u>76,517</u>	<u>64,394</u>	<u>76,551</u>	<u>64,956</u>

(1) The company's fiscal year and second quarter ends on the Saturday nearest to October 31 and to April 30, 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.