

PRESS RELEASE

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Synopsys Posts Financial Results for Fiscal Third Quarter 2003

MOUNTAIN VIEW, Calif. August 20, 2003 – Synopsys Inc., (Nasdaq: SNPS), the world leader in semiconductor design software, today reported its third quarter results for the period ended July 31, 2003.

For the third quarter of fiscal 2003, Synopsys reported revenue of \$300.4 million, a 27% increase over revenue of \$236.1 million in the third quarter of fiscal 2002. Net income on an earnings before goodwill (EBG) basis was \$66.9 million, a 69% increase over EBG net income of \$39.7 million in the third quarter of fiscal 2002. EBG per share was \$0.82, a 55% increase over EBG per share of \$0.53 in the third 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 items relating to acquisitions, such as integration expenses.

On a generally accepted accounting principles (GAAP) basis, for the third quarter of fiscal 2003, net income was \$48.5 million, or \$0.60 per share, compared to a net loss of (\$137.6) million, or (\$1.93) per share, for the third quarter of fiscal 2002. The difference between net income on a GAAP basis for the third quarter of fiscal 2003 compared to the third quarter of fiscal 2002 was primarily due to one-time charges and expenses relating to the closing of the acquisition of Avant! Corporation in June 2002. The difference between net income on an EBG basis and on a GAAP basis for the third quarter of fiscal 2003 was primarily due to the amortization of intangibles and deferred stock compensation related to prior acquisitions.

“Q3 was another well-executed quarter,” said Aart de Geus, chairman and CEO of Synopsys. “With three solid quarters under our belt, we have laid a solid foundation to deliver on our full-year revenue and earnings targets.”

Two-For-One Stock Split Announced

Synopsys also announced separately today that its Board of Directors authorized a two-for-one stock split in the form of a 100% stock dividend. The stock dividend will be paid on September 23, 2003 to all stockholders of record as of September 2, 2003. All per share and outstanding share information contained in this earnings release is given on a pre-split basis.

Financial Outlook

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

Fourth quarter of fiscal 2003 targets (EBG basis):

- Revenue: \$305 - \$320 million;
- Total expenses: \$212 - \$219 million;
- Other income: \$0 - \$4 million;
- Fully diluted outstanding shares: 81 - 85 million;
- Pro forma tax rate: 32.5%;
- Earnings per share: \$0.77- \$0.84;

- Perpetual licenses as a percentage of product bookings: 21% - 26%; and
- Average length of ratable licenses: 3.5 – 3.8 years.

Fiscal year 2003 targets (EBG basis):

- Revenue: between \$1.165 - \$1.180 billion, a refinement of our prior guidance of between \$1.130 - \$1.180 billion;
- Earnings per share: \$3.05 - \$3.15, versus our prior guidance of \$2.95 - \$3.10;
- Perpetual licenses as a percentage of product bookings: 20%-25%; and
- Average length of ratable licenses: 3.4 - 3.7 years, versus our prior guidance of 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 fourth quarter or comment to analysts or investors on, or otherwise update, such targets until it releases its quarterly results in December 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 items 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, gives 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 items 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 below:

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------|-------------------|-----------|
| | July 31, | | July 31, | |
| | 2003 | 2002 | 2003 | 2002 |
| (in thousands, except per share data) | | | | |
| Net income on a GAAP basis | 48,475 | (137,589) | 105,149 | (102,157) |
| Amortization of intangible assets and deferred compensation | 33,077 | 22,186 | 95,338 | 30,586 |
| In-process research and development | 1,600 | 82,500 | 19,850 | 82,500 |
| Integration | - | 117,266 | - | 117,266 |
| Collection of Avant! acquired accounts receivable originally assumed uncollectable | (3,000) | - | (3,000) | - |
| Avant! pre-merger liabilities resolved at a lower cost than estimated | (616) | - | (616) | - |
| Tax effect | (12,652) | (44,688) | (36,179) | (46,125) |
| Net income on an EBG basis | 66,884 | 39,675 | 180,542 | 82,070 |
| Diluted earnings per share on a GAAP basis | 0.60 | (1.93) | 1.35 | (1.59) |
| Amortization of intangible assets and deferred compensation per share | 0.41 | 0.30 | 1.22 | 0.45 |
| In-process research and development per share | 0.02 | 1.10 | 0.25 | 1.20 |
| Integration per share | - | 1.56 | - | 1.71 |
| Collection of Avant! acquired accounts receivable originally assumed uncollectable per share | (0.04) | - | (0.04) | - |
| Avant! pre-merger liabilities resolved at a lower cost than estimated per share | (0.01) | - | (0.01) | - |
| Tax effect per share and effect of dilutive shares | (0.16) | (0.50) | (0.46) | (0.58) |
| Earnings per share on an EBG basis | 0.82 | 0.53 | 2.31 | 1.19 |

| (in thousands, except per share data) | Range for Three Months Ending October 31, 2003 | |
|---|---|-------------|
| | <u>Low</u> | <u>High</u> |
| Total target expenses on a GAAP basis | \$245,000 | \$253,000 |
| Estimated amortization of intangible assets and deferred compensation | \$ 33,000 | \$ 34,000 |
| Target expenses on an EBG basis | \$212,000 | \$219,000 |

| | Range for Three Months Ending October 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 | \$0.58 | \$1.84 | \$1.89 |
| Estimated amortization of intangible assets and deferred compensation per share, net of tax effect | \$0.25 | \$0.26 | \$1.21 | \$1.26 |
| Target earnings per share on an EBG basis | \$0.77 | \$0.84 | \$3.05 | \$3.15 |

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 to be filed in September.

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 1-800-475-6701 (320-365-3844 for international callers), access code 694147, 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 fourth quarter earnings results in December 2003. 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 semiconductor design. The Company delivers technology-leading semiconductor 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 Technologies, Inc. into

Synopsys' products and operations; the possibility that the Company may sell fewer perpetual licenses or longer term ratable licenses than expected; the continued pressure on orders for maintenance, which would adversely affect the Company's future level of services revenue; 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; 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' quarterly report on Form 10-Q filed with the SEC on June 16, 2003 (pp. 28-33). 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 October 31, 2003 and earnings per share on a GAAP basis for the fiscal year ending October 31, 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.

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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.
Pro Forma Unaudited Condensed Consolidated Statements of Income (1)
Impact of Pro Forma Adjustments on Reported Net Income (Loss)
(in thousands, except per share data)

| | Three Months Ended July 31, 2003 | | | Three Months Ended July 31, 2002 | | |
|--|----------------------------------|-----------------|------------------|----------------------------------|------------------|----------------|
| | GAAP | Adjustments | Pro Forma | GAAP | Adjustments | Pro Forma |
| Revenue: | | | | | | |
| Product | \$ 74,709 | - | \$ 74,709 | \$ 60,096 | - | \$ 60,096 |
| Service | 64,782 | - | 64,782 | 73,924 | - | 73,924 |
| Ratable license | <u>160,875</u> | - | <u>160,875</u> | 102,075 | - | 102,075 |
| Total revenue | <u>300,366</u> | - | <u>300,366</u> | 236,095 | - | 236,095 |
| Cost of revenue: | | | | | | |
| Product | 3,536 | - | 3,536 | 4,400 | - | 4,400 |
| Service | 16,974 | - | 16,974 | 19,819 | - | 19,819 |
| Ratable license | 13,792 | - | 13,792 | 10,101 | - | 10,101 |
| Amortization of intangible assets and deferred stock compensation | <u>23,856</u> | (23,856) | <u>-</u> | 13,366 | (13,366) | - |
| Total cost of revenue | <u>58,158</u> | <u>(23,856)</u> | <u>34,302</u> | <u>47,686</u> | <u>(13,366)</u> | <u>34,320</u> |
| Gross margin | <u>242,208</u> | <u>23,856</u> | <u>266,064</u> | <u>188,409</u> | <u>13,366</u> | <u>201,775</u> |
| Operating expenses: | | | | | | |
| Research and development | 70,716 | - | 70,716 | 61,581 | - | 61,581 |
| Sales and marketing | 78,189 | - | 78,189 | 69,122 | - | 69,122 |
| General and administrative | 19,763 | 3,000 | 22,763 | 21,908 | - | 21,908 |
| In-process research and development | 1,600 | (1,600) | - | 82,500 | (82,500) | - |
| Amortization of intangible assets and deferred stock compensation | 9,221 | (9,221) | - | 8,820 | (8,820) | - |
| Integration | - | - | - | 117,266 | (117,266) | - |
| Total operating expenses | <u>179,489</u> | <u>(7,821)</u> | <u>171,668</u> | <u>361,197</u> | <u>(208,586)</u> | <u>152,611</u> |
| Operating income (loss) | <u>62,719</u> | 31,677 | <u>94,396</u> | (172,788) | 221,952 | 49,164 |
| Other income, net | <u>5,307</u> | (616) | <u>4,691</u> | 11,408 | - | 11,408 |
| Income before provision (benefit) for income taxes | <u>68,026</u> | 31,061 | <u>99,087</u> | (161,380) | 221,952 | 60,572 |
| Provision (benefit) for income taxes | <u>19,551</u> | 12,652 | <u>32,203</u> | (23,791) | 44,688 | 20,897 |
| Net income (loss) | <u>\$ 48,475</u> | \$ 18,409 | <u>\$ 66,884</u> | \$ (137,589) | \$ 177,264 | \$ 39,675 |
| Basic earnings per share: | | | | | | |
| Net income (loss) | <u>\$ 0.63</u> | | <u>\$ 0.87</u> | \$ (1.93) | | <u>\$ 0.56</u> |
| Weighted average common shares | <u>76,620</u> | | <u>76,620</u> | <u>71,157</u> | | <u>71,157</u> |
| Diluted earnings per share: | | | | | | |
| Net income (loss) | <u>\$ 0.60</u> | | <u>\$ 0.82</u> | \$ (1.93) | | <u>\$ 0.53</u> |
| Weighted average common shares and equivalents | <u>81,348</u> | | <u>81,348</u> | <u>71,157</u> | | <u>74,955</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.

SYNOPSYS, INC.

Pro Forma Unaudited Condensed Consolidated Statements of Income (1)

Impact of Pro Forma Adjustments on Reported Net Income (Loss)

(in thousands, except per share data)

| | Nine Months Ended July 31, 2003 | | | Nine Months Ended July 31, 2002 | | |
|--|---------------------------------|-------------|-------------------|---------------------------------|-------------|----------------|
| | GAAP | Adjustments | Pro Forma | GAAP | Adjustments | Pro Forma |
| Revenue: | | | | | | |
| Product | \$ 211,229 | - | \$ 211,229 | \$ 151,944 | -- | \$ 151,944 |
| Service | 199,136 | - | 199,136 | 208,782 | -- | 208,782 |
| Ratable license | <u>450,165</u> | - | <u>450,165</u> | 236,552 | -- | 236,552 |
| Total revenue | <u>860,530</u> | - | <u>860,530</u> | 597,278 | -- | 597,278 |
| Cost of revenue: | | | | | | |
| Product | 11,134 | - | 11,134 | 11,687 | -- | 11,687 |
| Service | 56,744 | - | 56,744 | 57,894 | -- | 57,894 |
| Ratable license | 40,050 | - | 40,050 | 34,321 | -- | 34,321 |
| Amortization of intangible assets and deferred stock compensation | <u>68,959</u> | (68,959) | <u>-</u> | 13,366 | (13,366) | <u>--</u> |
| Total cost of revenue | <u>176,887</u> | (68,959) | <u>107,928</u> | <u>117,268</u> | (13,366) | <u>103,902</u> |
| Gross margin | <u>683,643</u> | 68,959 | <u>752,602</u> | 480,010 | 13,366 | 493,376 |
| Operating expenses: | | | | | | |
| Research and development | 206,597 | - | 206,597 | 156,936 | -- | 156,936 |
| Sales and marketing | 230,397 | - | 230,397 | 192,122 | -- | 192,122 |
| General and administrative | 66,554 | 3,000 | 69,554 | 58,153 | -- | 58,153 |
| In-process research and development | 19,850 | (19,850) | - | 82,500 | (82,500) | -- |
| Amortization of intangible assets and deferred stock compensation | 26,379 | (26,379) | - | 17,220 | (17,220) | -- |
| Integration | -- | - | - | 117,266 | (117,266) | -- |
| Total operating expenses | <u>549,777</u> | (43,229) | <u>506,548</u> | 624,197 | (216,986) | 407,211 |
| Operating income (loss) | 133,866 | 112,188 | 246,054 | (144,187) | 230,352 | 86,165 |
| Other income, net | <u>22,032</u> | (616) | <u>21,416</u> | 33,702 | -- | 33,702 |
| Income before provision (benefit) for income taxes | 155,898 | 111,572 | 267,470 | (110,485) | 230,352 | 119,867 |
| Provision (benefit) for income taxes | <u>50,749</u> | 36,179 | <u>86,928</u> | (8,328) | 46,125 | 37,797 |
| Net income (loss) | <u>\$ 105,149</u> | \$ 75,393 | <u>\$ 180,542</u> | \$ (102,157) | \$ 184,227 | \$ 82,070 |
| Basic earnings per share: | | | | | | |
| Net income (loss) | \$ 1.40 | | \$ 2.41 | \$ (1.59) | | \$ 1.28 |
| Weighted average common shares | <u>75,004</u> | | <u>75,004</u> | <u>64,157</u> | | <u>64,157</u> |
| Diluted earnings per share: | | | | | | |
| Net income (loss) | \$ 1.35 | | \$ 2.31 | \$ (1.59) | | \$ 1.19 |
| Weighted average common shares and equivalents | <u>78,160</u> | | <u>78,160</u> | <u>64,157</u> | | <u>68,698</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.

SYNOPSYS, INC.
Condensed Consolidated Balance Sheets (1)
(in thousands, except par value data)

| | July 31, 2003 | October 31, 2002 |
|---|----------------------|-------------------------|
| | (unaudited) | |
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 426,284 | \$ 312,580 |
| Short-term investments | <u>141,809</u> | <u>102,153</u> |
| Cash, cash equivalents and short-term investments | 568,093 | 414,733 |
| Accounts receivable, net of allowances of \$8,599 and \$11,565, respectively | 201,802 | 207,206 |
| Deferred taxes | 286,146 | 282,867 |
| Prepaid expenses and other | <u>17,968</u> | <u>24,509</u> |
| Total current assets | 1,074,009 | 929,315 |
| Property and equipment, net | 180,745 | 185,040 |
| Long-term investments | 9,563 | 39,386 |
| Goodwill, net | 551,103 | 434,554 |
| Intangible assets, net | 317,083 | 355,334 |
| Other assets | <u>36,747</u> | <u>35,085</u> |
| Total assets | <u>\$ 2,169,250</u> | <u>\$ 1,978,714</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 181,607 | \$ 246,789 |
| Current portion of long-term debt | 28 | 1,423 |
| Accrued income taxes | 178,497 | 169,912 |
| Deferred revenue | <u>425,830</u> | 359,245 |
| Total current liabilities | 785,962 | 777,369 |
| Deferred compensation and other liabilities | 62,630 | 36,387 |
| Long-term deferred revenue | 22,916 | 51,477 |
| Stockholders' equity | | |
| Common stock, \$.01 par value; 400,000 shares authorized; 77,047 and 73,562 shares outstanding, respectively | 771 | 735 |
| Additional paid-in capital | 1,137,594 | 1,039,386 |
| Retained earnings | 240,139 | 198,863 |
| Treasury stock, at cost | (74,374) | (116,499) |
| Deferred stock compensation | (8,748) | (8,858) |
| Accumulated other comprehensive income (loss) | <u>2,360</u> | <u>(146)</u> |
| Total stockholders' equity | <u>\$ 1,297,742</u> | <u>\$ 1,113,481</u> |
| Total liabilities and stockholders' equity | <u>\$ 2,169,250</u> | <u>\$ 1,978,714</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.