# Synopsys Posts Financial Results for Second Quarter of Fiscal 2005

PRNewswire-FirstCall MOUNTAIN VIEW, Calif.

Synopsys, Inc. (NASDAQ: SNPS), a world leader in semiconductor design software, today reported results for its second quarter ended April 30, 2005.

For the second quarter of fiscal 2005, Synopsys reported revenue of \$244.3 million, a 1% increase compared to the first quarter of fiscal 2005, and a 17% decrease from \$294.6 million in the second quarter of fiscal 2004. For the six-month period ended April 30, 2005, revenue was \$485.6 million, a decrease of 16% from revenue of \$579.9 million for the same period in fiscal 2004. The year-over-year comparisons reflect the company's shift to an almost-fully ratable license model initiated in the fourth quarter of fiscal 2004, under which most of the company's license revenue is recognized over time rather than upfront in the quarter shipped. As a result, in the most recent quarter more than 90% of revenue came from backlog.

"Synopsys had another very solid quarter," said Aart de Geus, CEO of Synopsys. "We are clearly on the offensive with strong technical momentum, and are making good progress on our growth objectives."

## **GAAP Results**

On a generally accepted accounting principles (GAAP) basis, for the second quarter of fiscal 2005 net loss was (\$4.9) million, or (\$0.03) per share, better than Synopsys internal targets and an improvement over the first quarter of fiscal 2005. In the second quarter of last year, net income was \$28.7 million, or \$0.18 per share.

GAAP net loss for the six-month period ended April 30, 2005 was (\$19.3) million, or (\$0.13) per share, compared to net income of \$60.9 million, or \$0.37 per share, for the same period in 2004.

#### Non-GAAP Results

On a non-GAAP basis, net income for the second quarter of fiscal 2005 was \$12.7 million, or \$0.09 per share, compared to non-GAAP net income of \$57.1 million, or \$0.35 per share, for the second quarter of fiscal 2004. Non-GAAP net income for the six-month period ended April 30, 2005 was \$27.4 million, or \$0.19 per share, compared to \$111.4 million, or \$0.68 per share, for the same period in 2004. Non-GAAP net income consists of GAAP net income excluding, to the extent incurred in a particular quarter or period, amortization of intangible assets and deferred stock compensation, in-process research and development charges, integration and other acquisition-related expenses and one-time items and facilities and workforce realignment charges.

The decreases in GAAP and non-GAAP net income for these periods were due primarily to the decrease in revenue caused by our shift to an almost-fully ratable license model in the fourth quarter of fiscal 2004.

## Financial Targets

Synopsys also announced its operating model targets for the third quarter and full fiscal year 2005. These targets constitute forward-looking information and are based on current expectations. For a discussion of factors that could cause actual results to differ materially from these targets, see "Forward-Looking Statements" below.

Third Quarter of Fiscal 2005 Targets:

- -- Revenue: \$243 million \$253 million
- -- GAAP expenses: \$252 million \$263 million
- -- Non-GAAP expenses: \$228 million \$238 million
- -- GAAP other income and expense: \$30 million \$37 million (including preliminary estimate of valuation of Nassda litigation settlement)
- -- Non-GAAP other income and expense: \$0 million \$4 million (excluding preliminary estimate of valuation of Nassda litigation settlement)
- -- Fully diluted outstanding shares: 142 million 150 million
- -- Tax rate applied in Non-GAAP net income calculations: 28%
- -- GAAP earnings: \$0.08 \$0.12 per share
- -- Non-GAAP earnings: \$0.06 \$0.10 per share
- -- Revenue from backlog: more than 90% of revenue

Full-Year Fiscal Year 2005 Targets
-- Revenue: \$960 million - \$990 million

- -- Fully diluted outstanding shares: 142 million 150 million
- -- Tax rate applied in Non-GAAP net income calculations: 31%
- -- GAAP earnings: \$(0.06) \$(0.01) per share
- -- Non-GAAP earnings: \$0.31 \$0.39 per share

These targets supersede all fiscal 2005 financial targets previously published by Synopsys and include Synopsys' current best estimate of the impact of the acquisition of Nassda Corporation, which Synopsys completed on May 11, 2005 on the results of the combined company.

#### **GAAP** Reconciliation

Non-GAAP net income consists of GAAP net income excluding, to the extent incurred in a particular period, amortization of intangible assets and deferred stock compensation, in-process research and development charges, integration and other acquisition-related expenses and one-time items and facilities and workforce realignment charges. Intangible assets consist primarily of purchased technology, contract rights intangible, customer- installed base/relationships, trademarks and trade names, covenants not to compete, customer backlog and other intangibles. Non-GAAP net income is reduced by the amount of additional taxes that Synopsys would accrue if it used non-GAAP results instead of GAAP results to calculate Synopsys' tax liability.

Synopsys' management evaluates and makes operating decisions primarily based on the bookings and revenues of its core software and services business operations, the direct, ongoing and recurring costs of those operations such as cost of revenues and operating expenses, and gross margin and operating income. Management does not believe amortization of intangible assets and deferred stock compensation, in-process research and development charges, integration and other acquisition-related expenses and one-time items and facilities and workforce realignment charges are ordinary, ongoing and recurring operating costs of core software and services business operations. Therefore, management calculates the non-GAAP financial measures provided in this earnings release excluding these costs and uses these non-GAAP financial measures to enable it to analyze further and more consistently the period-to- period financial performance of its core business operations. Management believes that, although it is important for investors to understand GAAP measures, providing investors with these non-GAAP measures gives them additional important information to enable them to assess, in a way management assesses, Synopsys' current and future continuing operations.

#### Reconciliation of Second Quarter Results

The following tables reconcile the specific items excluded from GAAP in the calculation of non-GAAP earnings per share and non-GAAP expenses for the second quarter of fiscal 2005. A reconciliation of non-GAAP to GAAP net income for the second quarter is included in the Unaudited Condensed Consolidated Statements of Income contained elsewhere in this release.

GAAP to Non-GAAP Reconciliation of Second Quarter Results (in thousands, except per share data)

Three Months Ended Six Months Ended April 30, April 30, 2005 2004 2005 2004

GAAP earnings (loss) per share \$(0.03) \$0.18 \$(0.13) \$0.37 Amortization of intangible assets and deferred stock compensation 0.25 0.21 0.50 Merger termination fee -- 0.06 --0.06 In-process research and development --0.04 Work force realignment charges at a lower cost than estimated (0.01)Facilities realignment charges 0.01 Tax effect (0.13) (0.10) (0.22) (0.17) Non-GAAP earnings (loss) per share \$0.09 \$0.35 \$0.19 \$0.68

Reconciliation of Estimated Target Operating Results

The following tables reconcile the specific items excluded from GAAP in the calculation of target non-GAAP operating results for the periods indicated below:

GAAP to Non-GAAP Reconciliation of Target Third Quarter and Fiscal Year 2005

Targets (in thousands, except per share data)

Range for Three Months Ending July 31, 2005 Low High Adjustment:

Estimated impact of amortization of intangible

24,000 25,000 assets and deferred stock compensation Target Non-GAAP expenses \$228,000 \$238,000

Range for Three Months Ending July 31, 2005

Low High

\$0.08 Target GAAP earnings per share \$0.12

Adjustment:

Estimated impact of amortization of intangible

0.17 assets and deferred stock compensation per share 0.16 Estimated litigation settlement (0.23)(0.21)Income tax effect of Non-GAAP adjustments 0.03 0.04 Target Non-GAAP earnings per share \$0.06 \$0.10

Shares used in calculation (midpoint of target range) 146,000 146,000

Range for Fiscal Year Ending October 31, 2005 Low High

Target GAAP earnings per share \$(0.06) \$(0.01) Adjustment:

In-process research and development 0.04

0.04 Estimated impact of amortization of intangible

assets and deferred stock compensation per share 0.79 Estimated litigation settlement (0.23)(0.21)Income tax effect of Non-GAAP adjustments

(0.25)(0.20)Target Non-GAAP earnings per share \$0.31 \$0.39

Shares used in calculation (midpoint of target range) 146,000 146,000

Additional Financial Information Available on Synopsys Website

In connection with this earnings release, Synopsys is making available to investors supplemental financial information, which can be found on Synopsys' website at http://www.synopsys.com/corporate/invest/finsupp/q205.pdf. 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 1-888-428-4470 (612-332-0530 for international callers), access code 781006, beginning at 5:30 p.m. Pacific Time today. A webcast replay will also be available at http://www.synopsys.com/corporate/invest/invest/invest.html from approximately 5:30 p.m. Pacific Time today through the time of the announcement of Synopsys' results for the third quarter of fiscal 2005 in August 2005. In addition, Synopsys will post copies of the prepared remarks of Aart de Geus, Chairman and Chief Executive Officer, and Steve Shevick, Chief Financial Officer, on its website at http://www.synopsys.com/corporate/invest/invest.html following the call.

## Effectiveness of Information

The targets included in this release, the statements made during the earnings conference call and the information contained in the financial supplement represent Synopsys' expectations and beliefs as of the date of this release only. Although this release, copies of the prepared remarks of the Chief Executive Officer and Chief Financial Officer made during the call and the financial supplement will remain available on Synopsys' website through the date of the third guarter earnings call in August 2005, their continued availability through such date does not mean that Synopsys is reaffirming or confirming their continued validity. Synopsys does not currently intend to report on its progress during the third quarter of fiscal 2005 or comment to analysts or investors on, or otherwise update, the targets given in this earnings release until it releases such results in August 2005. Furthermore, Synopsys is under no obligation to (and expressly disclaims any such obligation to) update or alter any of the forward-looking statements made in this earnings release, the conference call or the financial supplement whether as a result of new information, future events or otherwise unless required by law.

## Availability of Final Financial Statements

Synopsys will include final financial statements for the second guarter of fiscal 2005 in its Quarterly Report on Form 10-Q to be filed in June 2005.

## **About Synopsys**

Synopsys, Inc. (NASDAQ: SNPS) is a world leader in electronic design automation (EDA) software for semiconductor design. The company delivers technology-leading semiconductor design and verification platforms and IC manufacturing software products to the global electronics market, enabling the development and production of complex systems-on-chips. 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 offices in more than 60 locations throughout North America, Europe, Japan and Asia. Visit Synopsys online at <a href="http://www.synopsys.com/">http://www.synopsys.com/</a>.

## Forward-Looking Statements

The statements made in this press release regarding projected financial results in the sections entitled "Financial Targets," and "GAAP Reconciliation -- Reconciliation of Estimated Target Operating Results" and certain statements made in the earnings conference call are 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 uncertainties, including but not limited to the risk of:

- -- weakness or continued budgetary caution in the semiconductor or electronic systems industries;
- lower-than-expected research and development spending by semiconductor and electronic systems companies;
- -- lower-than-anticipated purchases or delays in purchases of software or consulting services by Synopsys' customers, including delays in the renewal, or non-renewal, of Synopsys' license arrangements with major customers:
- -- unexpected changes in the mix of time-based licenses and upfront licenses;
- -- lower-than-expected bookings of licenses on which revenue is recognized upfront;
- -- lower-than-anticipated new IC design starts;
- -- competition in the market for Synopsys' products and services;
- -- failure to continue to improving Synopsys' existing products;
- failure to successfully develop additional intellectual property blocks for Synopsys' IP business or to develop and integrate its design for manufacturing products;
- -- difficulties in the ongoing integration of the products and operations of acquired companies or assets into Synopsys' products and operations; and
- -- continued downward pressure on maintenance orders, adversely affecting Synopsys' future level of service revenue.

In addition, Synopsys' actual expenses, other income and expense and earnings per share on a GAAP basis for the fiscal quarter ending July 31, 2005 and earnings per share and estimated operating cash flow on a GAAP basis for full fiscal year 2005 could differ materially from the targets stated under "Financial Targets" above for a number of reasons, including (i) a determination by Synopsys that any portion of its intangible assets have become impaired, (ii) changes in deferred stock compensation expenses caused by employee terminations, (iii) completion of purchase price accounting and litigation settlement valuation for the Nassda acquisition which closed on May 11, 2005, (iv) application of actual consolidated GAAP tax rate for such periods, (v) integration and other acquisition-related expenses and one-time items, amortization of additional intangible assets and deferred stock compensation associated with future acquisitions, if any, and (vi) increases or decreases to estimated capital expenditures.

For further discussion of these and other factors that may cause results to differ from those projected in this release, readers are referred to the reports which Synopsys has filed with the Securities and Exchange Commission, and which are available at www.sec.gov, particularly the information contained in Part I, Item 2 of Synopsys' Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2005 filed with the SEC on March 10, 2005 under the caption entitled "Factors That May Affect Future Results." 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.

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)

Three Months Ended April 30, 2005 Three Months Ended April 30, 2004

GAAP Adjust- Non-GAAP GAAP Adjust- Non-GAAP Basis ments Basis Basis ments Basis

```
Revenue:
 Time-based
         $175,781
                     -- $175,781
                                   $162,946
                                               -- $162,946
 license
 Upfront
 license
           17,183
                         17,183
                                   75,812
                                            -- 75,812
           51,375
                         51,375
                                   55,846
 Service
                                            --
                                                 55,846
  Total
  revenue 244,339
                         244,339
                                    294,604
                                               -- 294,604
Cost of
revenue:
 License
            23,201
                         23,201
                                   22,192
                                                 22,192
 Maintenance
 and
 services
          18,423
                         18,423
                                   16,991
                                            111
                                                  17,102
 Amortization
 intangible
 assets and
 deferred
 stock
 compensation 28,099 (28,099)
                                      25,715 (25,715)
  Total cost
  of
  revenue 69,723 (28,099) 41,624
                                      64,898 (25,604) 39,294
Gross margin 174,616 28,099 202,715
                                        229,706 25,604 255,310
Operating
expenses:
 Research
 and
 development 80,025
                        -- 80,025
                                      70,136
                                               271 70,407
 Sales and
 marketing 80,779
                       -- 80,779
                                    74,885
                                              209
                                                  75,094
 General and
 admini-
 strative
          25,311
                    -- 25,311
                                  38,474 (10,473) 28,001
 Amortization
 of
 intangible
 assets and
 deferred
 stock
 compensation 8,829 (8,829)
                                      8,636 (8,636)
  Total
  operating
  expenses 194,944 (8,829) 186,115
                                       192,131 (18,629) 173,502
Operating
(loss)
           (20,328) 36,928 16,600
                                      37,575
                                              44,233 81,808
income
Other income,
          1,322
net
                    -- 1,322
                                  925
                                               925
(Loss) income
before
(benefit from)
 provision
 for income
          (19,006) 36,928 17,922
                                     38,500 44,233 82,733
 taxes
(Benefit from)
provision for
income taxes (14,034) 19,233 5,199
                                               15,886 25,647
                                        9,761
Net (loss)
           $(4,972) $17,695 $12,723
                                       $28,739 $28,347 $57,086
income
Basic earnings
per share:
 Net (loss)
 income per
 share
           (0.03)
                         $0.09
                                  $0.19
                                               $0.37
 Weighted-
 average
 common
                         144,801
                                                 154,806
 shares
           144,801
                                   154,806
Diluted
earnings
per share:
 Net (loss)
 income per
                        $0.09
 share
           $(0.03)
                                  $0.18
                                               $0.35
```

```
Weighted-
average
common
shares and
```

Other income (expense), net 6,5

(Loss) income

6,521

6,521

(144)

(144)

equivalents 144,801 145,684 161,840 161,840

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

#### SYNOPSYS, INC.

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

Six Months Ended Six Months Ended
April 30, 2005 April 30, 2004
GAAP Adjust- Non-GAAP GAAP Adjust- Non-GAAP
Basis ments Basis Basis ments Basis

#### Revenue: Time-based license \$362,065 \$362,065 \$333,544 \$333,544 Upfront license 27.981 27,981 135,302 135.302 Service 95,597 95,597 111,022 111,022 Total revenue 485,643 485,643 579,868 579,868 Cost of revenue: License 48,048 48,048 42,523 197 42,720 Maintenance and services 35.452 35,452 32,542 32,653 111 Amortization of intangible assets and deferred stock compensation 56,198 (56,198) 50,955 (50,955) Total cost of revenue 139,698 (56,198) 83,500 126,020 (50,647) 75,373 Gross margin 345,945 56,198 402,143 453,848 50,647 504,495 Operating expenses: Research and development 152,942 -- 152,942 140,473 754 141,227 Sales and marketing 164,769 -- 164,769 145,631 580 146,211 General and administrative 49,534 49,534 67,611 (12,155) 55,456 In-process research and development 5,700 (5,700) Amortization of intangible assets and deferred stock compensation 17,681 (17,681) 17,880 (17,880) Total operating expenses 390,626 (23,381) 367,245 371,595 (28,701) 342,894 Operating (loss) income (44,681) 79,579 34,898 82,253 79,348 161,601

before (benefit from) provision for income 82,109 79,348 161,457 (38,160) 79,579 41,419 taxes (Benefit from) provision for income (18,863) 32,871 14,008 21,218 28,833 50,051 taxes Net (loss) \$(19,297) \$46,708 \$27,411 \$60,891 \$50,515 \$111,406 income Basic earnings per share: Net (loss) income \$0.19 \$0.39 \$0.72 per share \$(0.13) . Weightedaverage common shares 145,429 145,429 155,556 155,556 Diluted earnings per share: Net (loss) income per share \$(0.13) \$0.19 \$0.37 \$0.68 . Weightedaverage common shares and equiv-145,429 146,340 163,779 163,779 alents

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

## SYNOPSYS, INC. Unaudited Condensed Consolidated Balance Sheets (1) (in thousands)

April 30, 2005 October 31, 2004

## ASSETS:

Current assets:

 Cash and cash equivalents
 \$343,129
 \$346,709

 Short-term investments
 181,192
 232,320

Total cash, cash equivalents and short-term

investments 524,321 579,029

Accounts receivable, net of allowances

of \$4,931 and \$7,113, respectively 134,808 132,258 Deferred income taxes 127,721 125,601 Income taxes receivable 46,521 46,583 Prepaid expenses and other current assets 32,756 29,562 Total current assets 866.127 913.033 Property and equipment, net 175,625 178,155 Long-term investments 11,030 12,831 Goodwill 667,113 593,706 Intangible assets, net 151,591 198,069

 Intangible assets, net
 151,591
 198,069

 Long-term deferred taxes
 173,213
 146,360

 Other assets
 57,598
 50,033

 Total assets
 \$2,102,297
 \$2,092,187

#### LIABILITIES AND STOCKHOLDERS' EQUITY:

Current liabilities:

Accounts payable and accrued liabilities \$185,056 \$184,146

 Current portion of long-term debt
 282
 - 

 Accrued income taxes
 189,664
 188,096

 Deferred revenue
 467,162
 368,913

 Total current liabilities
 842,164
 741,155

Deferred compensation and other liabilities 59.783 51,794 Long-term deferred revenue 28,119 34,189 Stockholders' equity: Common stock, \$0.01 par value per share; 400,000 shares authorized; 143,736 and 147,378 shares outstanding, respectively 1.437 1.474 Additional paid-in capital 1,242,313 1,240,568 Retained earnings 176,841 202,146 Treasury stock, at cost; 13,409 and 9,759

shares, respectively (237,802)(175,762)Deferred stock compensation (1,330)(2,732)Accumulated other comprehensive loss (9,228)(645)Total stockholders' equity 1,172,231 1,265,049 Total liabilities and stockholders'

\$2,102,297 \$2,092,187 equity

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

#### SYNOPSYS, INC.

Unaudited Condensed Consolidated Statements of Cash Flows (1) (in thousands)

> Six Months Ended April 30, 2005 2004

#### CASH FLOWS FROM OPERATING ACTIVITIES:

Net income \$(19,297) \$60,891

Adjustments to reconcile net income to net cash

provided by operating activities:

Amortization and depreciation 101,073 96,272 In-process research and development 5,700 Write-down of long-term investments 2.564 1,901 Write-down of goodwill and intangibles 39 Deferred taxes, net (23,220)

Deferred rent (71)

Provision for or recovery of doubtful accounts (2,757)2,000

Net change in unrecognized gains and losses on

foreign exchange contracts (9,739)(5,963)Gain on sale of short- and long-term investments 322 (756)

Net changes in operating assets and liabilities:

Accounts receivable 7,182 (21,731)Income taxes receivable 62 22,796

(2,502) (14,034) Prepaid expenses and other current assets

Other assets (7,484) (11,219)

Accounts payable and accrued liabilities (14,065) (50,294) Accrued income taxes (4,703) (20,186) Deferred revenue 89,556 31,269 Deferred compensation 7,877 10,842

Net cash provided by operating activities 130,608 101,717

## CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of short-term investments

201,800 533,313

Purchases of short-term investments (151,410) (516,099) Proceeds from sale of long-term investments 300 Purchases of long-term investments (1,254)Purchases of property and equipment (21,436) (24,129) Cash paid for acquisitions, net of cash received (91,293) (38,815) Capitalization of software development costs (1,476) (1,371)(63,815) (48,055) Net cash used in investing activities

## CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from credit facility -- 200,000 Payments on credit facility -- (200,000) Issuances of common stock 17,208 117,996 (85,139) (238,338) Purchases of treasury stock (67,931) (120,342) Net cash used in financing activities Effect of exchange rate changes on cash (2,442) (1,505) Net decrease in cash and cash equivalents (3,580) (68,185) Cash and cash equivalents, beginning of period 346.709 524.308 Cash and cash equivalents, end of period \$343,129 \$456,123

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

purposes, the unaudited condensed consolidated financial statements refer to a calendar month end.

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