# Synopsys Announces Record Revenue for Fourth Quarter and Full Year Fiscal 2003

Company Also Issues Outlook for 2004

Synopsys, Inc. (NASDAQ: SNPS), the world leader in semiconductor design software, today reported its results for the fourth quarter and fiscal year ended October 31, 2003. Per share data for the periods presented reflects the Company's 2:1 stock split completed during the quarter.

For the fourth quarter of fiscal 2003, Synopsys reported revenue of $316.5 million, a 2% increase over revenue of $309.3 million in the fourth quarter of fiscal 2002. Pro forma net income was $71.6 million, or $0.44 per share, in the quarter compared to pro forma net income of $73.7 million, or $0.48 per share, in the fourth quarter of fiscal 2002. For fiscal year 2003, Synopsys reported record annual revenue of $1.18 billion and pro forma net income of $252.1 million, or $1.59 per share, compared to pro forma net income of $155.7 million, or $1.11 per share, in fiscal 2002. Pro forma net income and net income on a generally accepted accounting principles ("GAAP") basis are reconciled under "GAAP Reconciliation" below.

On a GAAP basis, fourth quarter of fiscal 2003 net income was $44.6 million, or $0.27 per share, compared to a net loss of ($97.8) million, or ($0.65) per share, for fourth quarter fiscal 2002. Fourth quarter 2003 results include a charge of $14.9 million relating to the Company's decision to realign its workforce for fiscal 2004. For the fiscal year ended October 31, 2003, GAAP net income was $149.7 million, or $0.95 per share, compared to a net loss of ($200.0) million or ($1.50) per share, respectively, for fiscal year ended October 31, 2002. The difference in GAAP results for the fiscal 2002 and fiscal 2003 is primarily due to charges and expenses relating to the Avant! acquisition recorded in fiscal 2002.

"2003 was a milestone year for Synopsys," said Aart de Geus, chairman and CEO of Synopsys. "We were able to grow bookings in a very tough economic environment and became the world's largest EDA company. We are committed to driving growth in the future."

Financial Outlook

Synopsys also announced its operating model targets for the first quarter of fiscal 2004 and full-year fiscal 2004. These targets are forward-looking and 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.

First quarter of fiscal 2004 targets:

-- Revenue: $275 - $290 million;
-- Pro forma expenses: $205 million - $211 million
-- Other income and expense: ($1.0) - $2.0 million
-- Fully diluted outstanding shares: 159 million - 167 million
-- GAAP tax rate applied to pro forma and net income calculation: 31%
-- Pro forma earnings: $0.28 - $0.32 per share
-- Upfront licenses as a percentage of product bookings: 28% - 33%

Fiscal Year 2004 targets:

-- Orders: $1.425 - $1.475 billion
-- Revenue: $1.200 - $1.250 billion
-- Pro forma earnings: $1.50- $1.60 per share
-- Upfront licenses as a percentage of product bookings: 20% - 25%

Effectiveness of Guidance

The targets set forth above represent the Company's expectations only as of the date of this release. 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 first quarter of fiscal 2004 or comment to analysts or investors on, or otherwise update, such targets until it releases its quarterly results in February 2004.

GAAP Reconciliation

Pro forma net income is a non-GAAP financial measure under Section 244.101 of Regulation G. This measure consists of GAAP net income excluding, as applicable, amortization of intangible assets and deferred compensation, in- process research and development charges, integration and other acquisition- related expenses, and in Q4 of fiscal year 2003, charges relating to the Company's workforce realignment. Intangible assets consist primarily of purchased technology, contract rights intangible,

customer-installed base/relationships, trademarks and tradenames, covenants not to compete and customer backlog. Pro forma net income is reduced by the amount of additional taxes that the Company would accrue if it used pro forma results instead of GAAP results to calculate the Company's tax liability.

Company management evalutes and makes operating decisions based on the performance of its core software and services business operations and the direct, ongoing and recurring costs of those operations such as bookings, revenues, cost of revenues, and research and development, sales and marketing and general and administrative expenses. Management does not believe amortization of intangible assets and deferred compensation, in-progress research and development charges, integration and other acquisition-related expenses and workforce realignment charges are ordinary, ongoing and recurring operating charges for the Company's core software and services business operations. Therefore, management calculates the non-GAAP financial measures used in this earnings release excluding these charges, and uses these non-GAAP financial measures to enable it to analyze better and more consistently the period-to-period financial performance of its core business operations. Management believes that though it is important for investors to understand GAAP measures, providing investors with these non-GAAP measures provides investors additional important information to enable them to assess, in a way management assesses, Synopsys' current and future continuing operations.

The following table reconciles the specific items excluded from GAAP in the calculation of pro forma net income for the periods shown below:

| Income Statement Reconciliation (in thousands, except per share data) | Three Months Ended October 31, 2003 | Three Months Ended October 31, 2002 | Twelve Months Ended October 31, 2003 | Twelve Months Ended October 31, 2002 |
|---|---|---|---|---|
| Net income on a GAAP basis | 44,575 | (97,836) | 149,724 | (199,993) |
| Amortization of intangible assets and deferred compensation | 32,836 | 31,999 | 128,174 | 62,585 |
| In-process research and development | -- | 5,200 | 19,850 | 87,700 |
| Integration costs | -- | 11,262 | -- | 128,528 |
| Insurance premium | -- | 240,781 | -- | 240,781 |
| Work force realignment charges | 14,856 | -- | 14,856 | -- |
| Collection of Avant! acquired accounts receivable originally assumed uncollectible | -- | -- | (3,000) | -- |
| Pre-merger liabilities resolved at a lower cost than estimated | (4,714) | -- | (5,330) | -- |
| Tax effect | (15,956) | (117,733) | (52,135) | (163,858) |
| Net income on a pro forma basis | 71,597 | 73,673 | 252,139 | 155,743 |
| | | | | |
| Income Statement Reconciliation Per Share | | | | |
| Diluted earnings per share on a GAAP basis | 0.27 | (0.65) | 0.95 | (1.50) |
| Amortization of intangible assets and deferred compensation per share | 0.20 | 0.21 | 0.81 | 0.47 |
| In-process research and development per share | -- | 0.03 | 0.13 | 0.66 |
| Integration costs per share | -- | 0.08 | -- | 0.96 |
| Insurance premium per share | -- | 1.61 | -- | 1.80 |
| Work force realignment charges per share | 0.09 | -- | 0.09 | -- |
| Collection of Avant! acquired accounts receivable originally assumed uncollectible per share | -- | -- | (0.02) | -- |
| Pre-merger liabilities resolved at a lower cost than estimated per share | (0.03) | -- | (0.03) | -- |
| Tax effect per share and effect of dilutive shares | (0.09) | (0.80) | (0.34) | (1.28) |
| Earnings per share on a pro forma basis | 0.44 | 0.48 | 1.59 | 1.11 |

The specific items excluded from GAAP in calculating the first quarter and full year fiscal 2004 targets are shown below:

| Target Operating Expenses Reconciliation (in thousands, except per share data) | Range for Three Months Ending January 31, 2004 Low | High |
|---|---|---|
| Total target expenses on a GAAP basis | 239,000 | 248,000 |
| Estimated amortization of intangible assets and deferred compensation | 31,000 | 33,000 |
| Estimated work force realignment | | |

| | | |
|---|---|---|
| charges | 3,000 | 4,000 |
| Target expenses on an pro forma basis | 205,000 | 211,000 |

| | Low | High | Low | High |
|---|---|---|---|---|
| Target earnings per share on a GAAP basis | $0.15 | $0.18 | $1.10 | $1.18 |
| Estimated amortization of intangible assets and deferred compensation per share, net of tax effect | $0.12 | $0.12 | $0.39 | $0.40 |
| Estimated work force realignment charges per share, net of tax effect | $0.01 | $0.02 | $0.01 | $0.02 |
| Target earnings per share on a pro forma basis | $0.28 | $0.32 | $1.50 | $1.60 |

The Company will include final financial statements for the fourth quarter and full year fiscal 2003 with its Annual Report on Form 10-K to be filed in January 2004.

Additional Financial Information Available on Synopsys Website

In connection with the issuance of this earnings release, Synopsys is making available to investors supplemental financial information, which can be found on Synopsys' website at https://www.synopsys.com/corporate/invest/finsupp/supldis_q403.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 https://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 705786, beginning at 5:30 p.m. Pacific Time today. A webcast replay will also be available at https://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 results for the first quarter of fiscal 2004 in February 2004. Finally, Synopsys will post copies of the prepared remarks of Aart de Geus, Chairman and Chief Executive Officer of Synopsys, and Steve Shevick, Chief Financial Officer, on its website at https://www.synopsys.com/corporate/invest/invest.html following the call.

About Synopsys

Synopsys, Inc. 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 https://www.synopsys.com/.

Forward-Looking Statements

The sections of this earnings release entitled "Financial 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. Our actual results could differ materially from those described by these statements due to a number of factors, including but not limited to:

- -- continued or increased weakness in the semiconductor or electronic systems industries;
- -- lower-than-expected research and development spending by semiconductor and electronic systems companies;
- -- lower-than-anticipated purchases of software or consulting services by the Company's customers;
- -- difficulties in the ongoing integration of the products and operations of acquired companies into Synopsys' products and operations;
- -- failure to timely complete scheduled new product development or product update releases incorporating new functionality;
- -- changes in the expected mix of time-based licenses and upfront licenses;
- -- variations from currently projected customer payment terms;
- -- continued downward pressure on maintenance orders, adversely affecting the Company's future level of services revenue;
- -- increasing competition in the market for the Company's products and services;
- -- fluctuations in foreign currency exchange rates; and
- -- the effect of international political conflicts or hostilities on customer purchases.

In addition, the Company's actual expenses and earnings per share on a GAAP basis for the fiscal quarter ending January 31, 2004 and earnings per share for the fiscal year ending October 31, 2004 could differ materially from the targets stated under "Financial 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, changes to the size or scope of the work force realignment described above, and integrated and other acquisition-related expenses, amortization of additional intangible assets and deferred compensation associated with future acquisitions, if any.

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 Synopsys has filed with the Securities and Exchange Commission, specifically the section contained in Synopsys' quarterly report on Form 10-Q filed with the SEC on September 15, 2003 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.

NOTE: 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 Operations (1)
Impact of Pro Forma Adjustments on Reported Net Income (Loss)

| | Three Months Ended October 31, 2003(2) | | |
|---|---|---|---|
| | GAAP | Adjustments | Pro Forma |
| Revenue: | | | |
| Product | $87,051 | -- | $87,051 |
| Service | 61,543 | -- | 61,543 |
| Ratable license | 167,859 | -- | 167,859 |
| Total revenue | 316,453 | -- | 316,453 |
| Cost of revenue: | | | |
| Product | 4,816 | -- | 4,816 |
| Service | 21,252 | (2,620) | 18,632 |
| Ratable license | 13,465 | -- | 13,465 |
| Amortization of intangible assets and deferred stock compensation | 23,897 | (23,897) | -- |
| Total cost of revenue | 63,430 | (26,517) | 36,913 |
| Gross margin | 253,023 | 26,517 | 279,540 |
| Operating expenses: | | | |
| Research and development | 79,283 | (6,172) | 73,111 |
| Sales and marketing | 80,295 | (4,637) | 75,658 |
| General and administrative | 23,467 | 3,287 | 26,754 |
| In-process research and development | -- | -- | -- |
| Amortization of intangible assets and deferred stock compensation | 8,939 | (8,939) | -- |
| Integration | -- | -- | -- |
| Total operating expenses | 191,984 | (16,461) | 175,523 |
| Operating income (loss) | 61,039 | 42,978 | 104,017 |
| Other income (expense), net | 2,052 | -- | 2,052 |
| Income before provision (benefit) for income taxes | 63,091 | 42,978 | 106,069 |
| Provision (benefit) for income taxes | 18,516 | 15,956 | 34,472 |
| Net income (loss) | $44,575 | $27,022 | $71,597 |
| Basic earnings per share: | | | |
| Net income (loss) | $0.29 | | $0.46 |
| Weighted average common shares | 155,018 | | 155,018 |
| Diluted earnings per share: | | | |
| Net income (loss) | $0.27 | | $0.44 |
| Weighted average common shares and equivalents | 164,381 | | 164,381 |

| | Three Months Ended October 31, 2002(2) | | |
|---|---|---|---|
| | GAAP | Adjustments | Pro Forma |
| Revenue: | | | |
| Product | $93,249 | -- | $93,249 |
| Service | 78,965 | -- | 78,965 |
| Ratable license | 137,042 | -- | 137,042 |
| Total revenue | 309,256 | -- | 309,256 |
| Cost of revenue: | | | |
| Product | 3,632 | -- | 3,632 |
| Service | 20,273 | -- | 20,273 |
| Ratable license | 11,416 | -- | 11,416 |
| Amortization of intangible assets and deferred stock compensation | 20,570 | (20,570) | -- |
| Total cost of revenue | 55,891 | (20,570) | 35,321 |

| | | | |
|---|---|---|---|
| Gross margin | 253,365 | 20,570 | 273,935 |
| Operating expenses: | | | |
| Research and development | 68,609 | -- | 68,609 |
| Sales and marketing | 72,687 | -- | 72,687 |
| General and administrative | 20,308 | -- | 20,308 |
| In-process research and development | 5,200 | (5,200) | -- |
| Amortization of intangible assets and deferred stock compensation | 11,429 | (11,429) | -- |
| Integration | 11,262 | (11,262) | -- |
| Total operating expenses | 189,495 | (27,891) | 161,604 |
| Operating income (loss) | 63,870 | 48,461 | 112,331 |
| Other income (expense), net | (242,325) | 240,781 | (1,544) |
| Income before provision (benefit) for income taxes | (178,455) | 289,242 | 110,787 |
| Provision (benefit) for income taxes | (80,619) | 117,733 | 37,114 |
| Net income (loss) | $(97,836) | $171,509 | $73,673 |
| Basic earnings per share: | | | |
| Net income (loss) | $(0.65) | | $0.49 |
| Weighted average common shares | 149,640 | | 149,640 |
| Diluted earnings per share: | | | |
| Net income (loss) | $(0.65) | | $0.48 |
| Weighted average common shares and equivalents | 149,640 | | 152,814 |

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

(2) All common share and per share data for all periods presented are adjusted to reflect he Company's stock split completed on September 23, 2003.

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

| | Twelve Months Ended October 31, 2003(2) | | |
|---|---|---|---|
| | GAAP | Adjustments | Pro Forma |
| Revenue: | | | |
| Product | $298,280 | -- | $298,280 |
| Service | 260,679 | -- | 260,679 |
| Ratable license | 618,024 | -- | 618,024 |
| Total revenue | 1,176,983 | -- | 1,176,983 |
| Cost of revenue: | | | |
| Product | 15,950 | -- | 15,950 |
| Service | 77,996 | (2,620) | 75,376 |
| Ratable license | 53,515 | -- | 53,515 |
| Amortization of intangible assets and deferred stock compensation | 92,856 | (92,856) | -- |
| Total cost of revenue | 240,317 | (95,476) | 144,841 |
| Gross margin | 936,666 | 95,476 | 1,032,142 |
| Operating expenses: | | | |
| Research and development | 285,880 | (6,172) | 279,708 |
| Sales and marketing | 310,692 | (4,637) | 306,055 |
| General and administrative | 90,021 | 6,287 | 96,308 |
| In-process research and development | 19,850 | (19,850) | -- |
| Amortization of intangible assets and deferred stock compensation | 35,318 | (35,318) | -- |
| Integration | -- | -- | -- |
| Total operating expenses | 741,761 | (59,690) | 682,071 |
| Operating income (loss) | 194,905 | 155,166 | 350,071 |
| Other income (expense), net | 24,084 | (616) | 23,468 |
| Income before provision (benefit) for income taxes | 218,989 | 154,550 | 373,539 |
| Provision (benefit) for income taxes | 69,265 | 52,135 | 121,400 |
| Net income (loss) | $149,724 | $102,415 | $252,139 |
| Basic earnings per share: | | | |
| Net income (loss) | $0.99 | | $1.67 |
| Weighted average common shares | 151,251 | | 151,251 |
| Diluted earnings per share: | | | |
| Net income (loss) | $0.95 | | $1.59 |
| Weighted average common shares and equivalents | 158,326 | | 158,326 |

| | Twelve Months Ended October 31, 2002(2) | | |
|---|---|---|---|
| | GAAP | Adjustments | Pro Forma |
| Revenue: | | | |
| Product | $245,193 | -- | $245,193 |
| Service | 287,747 | -- | 287,747 |
| Ratable license | 373,594 | -- | 373,594 |
| Total revenue | 906,534 | -- | 906,534 |
| Cost of revenue: | | | |
| Product | 15,319 | -- | 15,319 |
| Service | 78,167 | -- | 78,167 |
| Ratable license | 45,737 | -- | 45,737 |
| Amortization of intangible assets and deferred stock compensation | 33,936 | (33,936) | -- |
| Total cost of revenue | 173,159 | (33,936) | 139,223 |
| Gross margin | 733,375 | 33,936 | 767,311 |
| Operating expenses: | | | |
| Research and development | 225,545 | -- | 225,545 |
| Sales and marketing | 264,809 | -- | 264,809 |
| General and administrative | 78,461 | -- | 78,461 |
| In-process research and development | 87,700 | (87,700) | -- |
| Amortization of intangible assets and deferred stock compensation | 28,649 | (28,649) | -- |
| Integration | 128,528 | (128,528) | -- |
| Total operating expenses | 813,692 | (244,877) | 568,815 |
| Operating income (loss) | (80,317) | 278,813 | 198,496 |
| Other income (expense), net | (208,623) | 240,781 | 32,158 |
| Income before provision (benefit) for income taxes | (288,940) | 519,594 | 230,654 |
| Provision (benefit) for income taxes | (88,947) | 163,858 | 74,911 |
| Net income (loss) | $(199,993) | $355,736 | $155,743 |
| Basic earnings per share: | | | |
| Net income (loss) | $(1.50) | | $1.17 |
| Weighted average common shares | 133,616 | | 133,616 |
| Diluted earnings per share: | | | |
| Net income (loss) | $(1.50) | | $1.11 |
| Weighted average common shares and equivalents | 133,616 | | 140,308 |

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

(2) All common share and per share data for all periods presented are adjusted to reflect he Company's stock split completed on September 23, 2003.

SYNOPSYS, INC.
Unaudited Condensed Consolidated Balance Sheets (1)
(in thousands, except per share data)

| | October 31, 2003 | October 31, 2002 |
|---|---|---|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | $524,308 | $312,580 |
| Short-term investments | 174,049 | 102,153 |
| Cash, cash equivalents and short-term investments | 698,357 | 414,733 |
| Accounts receivable, net of allowances of $8,295 and $11,565, respectively | 200,998 | 207,206 |
| Deferred income taxes | 248,425 | 282,867 |
| Prepaid expenses and other | 91,426 | 24,509 |
| Total current assets | 1,239,206 | 929,315 |
| Property and equipment, net | 184,313 | 185,040 |
| Long-term investments | 8,595 | 39,386 |
| Goodwill, net | 550,732 | 434,554 |
| Intangible assets, net | 285,583 | 355,334 |
| Other assets | 38,924 | 35,085 |
| Total assets | $2,307,353 | $1,978,714 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Current liabilities: | | |

| | | |
|---|---|---|
| Accounts payable, accrued liabilities and current portion of long-term debt | $204,226 | $248,212 |
| Accrued income taxes | 201,855 | 169,912 |
| Deferred revenue | 398,878 | 359,245 |
| Total current liabilities | 804,959 | 777,369 |
| Deferred compensation and other liabilities | 47,390 | 36,387 |
| Long-term deferred revenue | 21,594 | 51,477 |
| Stockholders' equity | | |
| Common stock, $.01 par value; 400,000 shares authorized; 155,837 and 147,124 shares outstanding, respectively | 780 | 735 |
| Additional paid-in capital | 1,199,201 | 1,039,386 |
| Retained earnings | 251,979 | 198,863 |
| Treasury stock, at cost | (20,733) | (116,499) |
| Deferred stock compensation | (7,170) | (8,858) |
| Accumulated other comprehensive income (loss) | 9,353 | (146) |
| Total stockholders' equity | 1,433,410 | 1,113,481 |
| Total liabilities and stockholders' equity | $2,307,353 | $1,978,714 |

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

SOURCE: Synopsys, Inc.

CONTACT: INVESTOR CONTACT: Jessica Kourakos, +1-650-584-4289, or
EDITORIAL CONTACT: Craig Cochran, +1-650-584-4230, both of Synopsys, Inc.

Web site: https://www.synopsys.com/