Synopsys Posts Financial Results for Third Quarter Fiscal Year 2007

PRNewswire-FirstCall MOUNTAIN VIEW, Calif. (NASDAQ:SNPS)

MOUNTAIN VIEW, Calif., Aug. 22 PRNewswire-FirstCall/ -- Synopsys, Inc. (NASDAQ: SNPS), a world leader in semiconductor design software, today reported results for its third quarter ended July 31, 2007.

For the third quarter, Synopsys reported revenue of \$304.1 million, a 10 percent increase compared to \$277.2 million for the third quarter of fiscal 2006.

"In the third quarter we delivered strong earnings growth and cash flow, and entered into very important customer alliances," said Aart de Geus, chairman and CEO of Synopsys. "We are confident about our position, and look forward to ending the year strongly and well-positioned for 2008."

GAAP Results

On a generally accepted accounting principles (GAAP) basis, net income for the third quarter of fiscal 2007 was \$24.9 million, or \$0.17 per share, compared to \$7.6 million, or \$0.05 per share, for the third quarter of fiscal 2006.

Non-GAAP Results

On a non-GAAP basis, net income for the third quarter of fiscal 2007 was \$47.7 million, or \$0.32 per share, compared to non-GAAP net income of \$30.1 million, or \$0.21 per share, for the third quarter of fiscal 2006.

Non-GAAP net income consists of GAAP net income excluding employee share- based compensation expense calculated in accordance with FAS 123® and, to the extent incurred in a particular quarter or period, amortization of intangible assets, inprocess research and development charges, integration and other acquisition-related expenses, facilities and workforce realignment charges, and other significant items which, in the opinion of management, are infrequent or non-recurring. See "GAAP Reconciliation" below.

Financial Targets

Synopsys also provided its operating model targets for the fourth quarter and full fiscal year 2007. 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.

Fourth Quarter of Fiscal Year 2007 Targets:

- * Revenue: \$300 million \$310 million
- * GAAP expenses: \$261 million \$277 million
- * Non-GAAP expenses: \$236 million \$246 million
- * Other income and expense: \$3 million \$6 million
- * Tax rate applied in non-GAAP net income calculations: 25 26 percent
- * Fully diluted outstanding shares: 146 million 151 million
- * GAAP earnings per share: \$0.18 \$0.26
- * Non-GAAP earnings per share: \$0.34 \$0.37
- * Revenue from backlog: greater than 90 percent

Full-Year Fiscal Year 2007 Targets

- * Revenue: \$1.195 billion \$1.205 billion
- * Tax rate applied in non-GAAP net income calculations: approximately 25 percent
- * Fully diluted outstanding shares: 146 million 151 million
- * GAAP earnings per share: \$0.78 \$0.86
- * Non-GAAP earnings per share: \$1.31 \$1.34
- * Cash flow from operations: greater than \$325 million

Synopsys' management evaluates and makes decisions about the Company's business operations primarily based on the bookings, revenue and direct, ongoing and recurring costs of those operations. Management does not believe amortization of intangible assets, in-process research and development charges, integration and other acquisition-related expenses, facilities and workforce realignment charges and other significant infrequent items are ongoing and recurring operating costs of its core software, intellectual property and service business operations. In addition, while employee share-based compensation expense calculated in accordance with FAS 123® and change in the fair value of the Company's non-qualified deferred compensation plan obligations constitute ongoing and recurring expenses of the Company, such expenses are excluded from non-GAAP results because they are not expenses that require cash settlement by the Company and because such expenses are not used by management to assess the core performance of the Company's business operations. Therefore, management excludes such costs, to the extent incurred in a particular quarter, from the following GAAP financial measures included in this earnings release: total cost of revenue, gross margin, total operating expenses, operating income (loss), income (loss) before provision (benefit) for income taxes, provision (benefit) for income taxes, net income (loss) and net income (loss) per share.

For each such measure, excluding these costs provides management with more consistent, comparable information about the Company's core performance. For example, since the Company does not acquire businesses on a predictable cycle, management would have difficulty evaluating the Company's performance as measured by gross margin, operating margin, income before taxes and net income on a period-to-period basis unless it excluded acquisition-related charges. Similarly, the Company does not undertake significant restructuring or realignments on a regular basis, and, as a result, excludes associated charges in order to enable better and more consistent evaluations of the Company's operating expenses before and after such actions are taken. Management also uses these measures to help it make budgeting decisions, for example, as between product development expenses (which affect cost of revenue and gross margin) and research and development, sales and marketing and general and administrative expenses (which affect operating expenses and operating margin). Finally, the availability of such information helps management track performance to both internal and externally communicated financial targets and to its competitors' operating results.

Management recognizes that the use of these non-GAAP measures has certain limitations, including the fact that management must exercise judgment in determining whether certain types of charges, such as those relating to workforce reductions executed in the ordinary course, should be excluded from non-GAAP results. However, 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 Third Quarter Results

The following tables reconcile the specific items excluded from GAAP in the calculation of non-GAAP net income and earnings per share for the third quarter 2007.

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GAAP to Non-GAAP Reconciliation of Third Quarter Results (unaudited, in thousands, except per share amounts)
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Three Months Ended Nine Months Ended
Income Statement Reconciliation
                                    July 31,
                       July 31,
                     2007 2006
                                     2007
                                            2006
GAAP net income
                            $24,855 $7,550 $89,477 $14,622
Adjustments:
Amortization of intangible assets
                               12,186 13,354 37,393 42,980
Share-based compensation
                                16,110 15,601 46,674 47,932
In-process research and development 2,100
                                                 2,100
Litigation settlement
                                  - (12,500)
                                          (645)
Facilities realignment charge
Tax effect
                        (7,552) (6,359) (17,634) (25,222)
Non-GAAP net income
                              $47,699 $30,146 $144,865 $81,112
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Three Months Ended Nine Months Ended
                        July 31,
                                     July 31,
                                            2006
                       2007 2006
                                   2007
GAAP earnings per share
                                $0.17 $0.05 $0.60 $0.10
Adjustments:
Amortization of intangible assets
                                 0.08 0.09 0.25
                                                     0.29
Share-based compensation
                                 0.11
                                        0.11
                                               0.32 0.33
In-process research and development 0.01
                                                0.01
Litigation settlement
                                      (80.0)
Facilities realignment charge
                                          (0.01)
Tax effect
                         (0.05) (0.04) (0.12) (0.17)
Non-GAAP earnings per share
                                  $0.32 $0.21 $0.97 $0.56
                              149,709 143,964 149,283 145,662
Shares used in calculation
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Reconciliation of 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 Fourth Quarter Fiscal Year 2007 Targets (unaudited, in thousands, except per share amounts)

> Range for Three Months Ending October 31, 2007 Low High

Target GAAP expenses \$261,000 \$277,000

Adjustment:

Estimated impact of amortization of

intangible assets (11,000)(13,000)

Estimated impact of share-based

compensation (14,000)(18,000)

Target non-GAAP expenses \$236,000 \$246,000

> Range for Three Months Ending October 31, 2007 Iow High

Target GAAP earnings per share \$0.18 \$0.26

Adjustment:

Estimated impact of amortization of

intangible assets 0.09 0.07

Estimated impact of share-based

compensation 0.12 0.09

Net non-GAAP tax effect (0.05)(0.05)Target non-GAAP earnings per share \$0.34 \$0.37

Shares used in non-GAAP calculation

148,500 148,500 (midpoint of target range)

GAAP to Non-GAAP Reconciliation of Fiscal Year 2007 Targets

Range for Fiscal Year Ending October 31, 2007 High

Target GAAP earnings per share \$0.78 \$0.86

Adjustment:

Estimated impact of amortization of

0.34 intangible assets 0.33

Estimated impact of share-based

compensation 0.44 0.42

In process research and development 0.01 0.01

Litigation settlement and facilities

realignment charge (0.09)(0.09)Net non-GAAP tax effect (0.17)(0.19)Target non-GAAP earnings per share \$1.31

Shares used in non-GAAP calculation

(midpoint of target range) 148,500 148,500

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 (+1-320-365-3844 for international callers), access code 883145, 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 Synopsys announces its results for the fourth quarter and full-year fiscal 2007 in December 2007. In addition, Synopsys will post copies of the prepared remarks of Aart de Geus, chairman and chief executive officer, and Brian Beattie, chief financial officer, on its website 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 press 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 fourth quarter earnings call in December 2007, 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 fourth quarter of fiscal 2007 or comment to analysts or investors on, or otherwise update, the targets given in this earnings release.

Availability of Final Financial Statements

Synopsys will include final financial statements for the third quarter of fiscal 2007 in its Quarterly Report on Form 10-Q to be filed in September 2007.

About Synopsys

Synopsys, Inc. (NASDAQ: SNPS) is a world leader in electronic design automation (EDA) software for semiconductor design. The Company delivers technology-leading system and semiconductor design and verification platforms, IC manufacturing and yield optimization solutions, semiconductor intellectual property and design services to the global electronics market. These solutions enable the development and production of complex integrated circuits and electronic systems. Through its comprehensive solutions, Synopsys addresses the key challenges designers and manufacturers face today, including power management, accelerated time to yield and system-to-silicon verification. 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 statements made in this press release regarding projected financial results in the sections entitled "Financial Targets," and "Reconciliation of 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:

- * weakness or continued budgetary caution in the semiconductor or electronics industries;
- * lower-than-expected research and development spending by semiconductor and electronic systems companies;
- * competition in the market for Synopsys' products and services; lower-than-anticipated new IC design starts;
- * 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:
- * failure of customers to pay license fees as scheduled;
- * changes in the mix of time-based licenses and upfront licenses;
- * lower-than-expected bookings of licenses on which revenue is recognized upfront;
- * failure of Synopsys' cost control efforts, including recent efforts to outsource certain internal functions, to result in the anticipated savings;
- * failure to successfully develop additional intellectual property blocks or to develop and integrate Synopsys' design for manufacturing and yield management products; and
- * difficulties in the integration of the products and operations of acquired companies or assets into Synopsys' products and operations.

In addition, Synopsys' actual expenses and earnings per share on a GAAP and non-GAAP basis for the fiscal quarter ending October 31, 2007 and actual earnings per share and operating cash flow on a GAAP and non-GAAP basis for fiscal year 2007 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 goodwill or intangible assets have become impaired, (ii) application of the actual consolidated GAAP and non-GAAP tax rates for such periods, or judgment by management, based upon the status of pending audits, to increase or decrease an income tax asset or liability, (iii) integration and other acquisition-related expenses including amortization of additional intangible assets associated with future acquisitions, if any, (iv) changes in the anticipated amount of employee share-based compensation expense recognized on Synopsys' financial statements, (v) actual change in the fair value of Synopsys' non-qualified deferred compensation plan obligations, (vi) increases or decreases to estimated capital expenditures, and (vii) charges driven by adoption of Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," which Synopsys is required to adopt during fiscal year 2007. Furthermore, Synopsys' actual tax rates applied to non-GAAP net income for the fourth quarter and full-year fiscal 2007 could differ from the targets given in this press release as a result of a number of factors, including the actual geographic mix of revenue during the quarter. Finally, Synopsys' targets for outstanding shares in the fourth quarter and full-year fiscal 2007 could differ from the targets given in this press release as a result of higher than expected employee stock

plan issuances, acquisitions and the extent of Synopsys' stock repurchase activity.

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 otherwise required by law.

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

SYNOPSYS, INC.

Unaudited Condensed Consolidated Statements of Operations (1) (in thousands, except per share amounts)

Three Months Ended Nine Months Ended July 31, July 31, 2007 2006 2007 2006

Revenue:

Time-based license \$251,389 \$224,782 \$746,091 \$645,309
Upfront license 18,981 14,418 47,108 48,744
Maintenance and service 33,728 38,008 104,037 118,123
Total revenue 304,098 277,208 897,236 812,176

Cost of revenue:

 License
 37,092
 32,665
 107,269
 95,304

 Maintenance and service
 15,763
 16,201
 47,459
 49,678

 Amortization of intangible assets
 5,536
 6,579
 17,455
 21,733

 Total cost of revenue
 58,391
 55,445
 172,183
 166,715

 Gross margin
 245,707
 221,763
 725,053
 645,461

Operating expenses:

Research and development Sales and marketing 94,365 93,972 282,205 275,111 95,417 81,171 264,237 245,460 General and administrative 24,177 26,692 76,405 84,845

In-process research and

development 2,100 - 2,100 800

Amortization of intangible assets 6,650 6,775 19,938 21,247

Total operating expenses 222,709 208,610 644,885 627,463

Operating income 22,998 13,153 80,168 17,998

Other income, net 10,829 2,421 38,431 9,745

Income before income taxes 33,827 15,574 118,599 27,743

Provision for income taxes 8,972 8,024 29,122 13,121

Provision for income taxes 8,972 8,024 29,122 13,121 Net income \$24,855 \$7,550 \$89,477 \$14,622

Net income per share:

Basic \$0.17 \$0.05 \$0.62 \$0.10 Diluted \$0.17 \$0.05 \$0.60 \$0.10

Shares used in computing per share

amounts:

Basic 143,820 142,538 143,626 143,629 Diluted 149,709 143,964 149,283 145,662

(1) Synopsys' third quarter ends on August 4, 2007 and July 29, 2006, respectively. For presentation purposes, the Unaudited Condensed Consolidated Statements of Operations refer to a calendar month end.

SYNOPSYS, INC.

Unaudited Condensed Consolidated Balance Sheets (1) (2) (in thousands, except par value amounts)

July 31, 2007 October 31, 2006

ASSETS:

Current assets:

Intangible assets, net

Cash and cash equivalents \$435.854 \$330.759 Short-term investments 358,368 241,963 Total cash, cash equivalents and short-term investments 794,222 572,722 Accounts receivable, net 204,787 122,584 112.342 112.445 Deferred income taxes Income taxes receivable 43,665 42,538 Prepaid expenses and other current assets 51,348 44,304 1,206,467 Total current assets 894.490 Property and equipment, net 128,739 140,660 Goodwill 752.955 735.643

79,807

106,144

Long-term deferred income taxes 197,039 206.254

90,039 74,631 Other assets Total assets \$2,455,046 \$2,157,822

LIABILITIES AND STOCKHOLDERS' EQUITY:

Current liabilities:

Accounts payable and accrued liabilities \$232,014 \$234,149

Accrued income taxes 188,164 191,349 Deferred revenue 568,838 445,598 Total current liabilities 989,016 871,096 Deferred compensation and other liabilities 81.511 69.889 Long-term deferred revenue 66,564 53,670

Total liabilities 1,137,091 994,655

Stockholders' equity:

Preferred stock, \$0.01 par value: 2,000 shares authorized; none

outstanding

Common stock, \$0.01 par value: 400,000 shares authorized; 143,634 and 140,568 shares

outstanding, respectively 1,436 1,406 Capital in excess of par value 1.363.458 1.316.252 Retained earnings 249,097 170,743

Treasury stock, at cost: 13,589

and 16,619 shares, respectively (292.322)(312.753)(3,714)Accumulated other comprehensive loss (12,481)Total stockholders' equity 1,317,955 1,163,167 Total liabilities and stockholders'

equity \$2,455,046 \$2,157,822

- (1) Synopsys' third guarter ends on August 4, 2007 and July 29, 2006, respectively. For presentation purposes, the Unaudited Condensed Consolidated Balance Sheets refer to a calendar month end.
- (2) The prior year tax provision and related balance sheet accounts (longterm deferred income taxes, capital in excess of par value and retained earnings accounts) have been revised to reflect immaterial adjustments originating in years prior to fiscal 2006.

SYNOPSYS, INC.

Unaudited Condensed Consolidated Statement of Cash Flows (1) (2) (in thousands)

Nine Months Ended July 31,

2007 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income \$89,477 \$14,622

Adjustments to reconcile net income to net

cash provided by operating activities:

77,844 85,546 Amortization and depreciation Share-based compensation 46.674 47.935 In-process research and development 2,100 800 Deferred income taxes 14,966 3,833 Provision for doubtful accounts (330)(125)Net change in deferred gains and

losses on cash flow hedges 1,661 (1,491)Write-down of long-term investments 1,336

(Gain) on sale of land (4,284)

Loss (gain) on sale of short and

long-term investment (17)

Net changes in operating assets and liabilities,

net of acquired assets and liabilities:

Accounts receivable (80.511)(9.337)

Prepaid expenses and other current assets (11,555)(4,473)Other assets 317 (3)

Accounts payable and accrued liabilities (8,255)(41,685)Accrued income taxes (6,086)(3,313)135,279 Deferred revenue 15,027 261 Deferred compensation and other liabilities 254 Net cash provided by operating activities 260,332 106,143

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of

short-term investments 209,167 221,311

Proceeds from sales of long-term

investments - 248

Purchases of short-term investments (328,419) (281,126)
Purchases of long-term investments (4,620) (1,539)
Purchases of property and equipment (36,429) (34,129)

Cash paid for acquisitions and intangible

assets, net of cash received (34,120) (20,850)

Proceeds from sale of land 26,298

Capitalization of software development costs (2,106) (2,342) Net cash used in investing activities (170,229) (118,427)

CASH FLOWS FROM FINANCING ACTIVITIES:

Issuances of common stock 151,653 43,139 Repurchases of common stock (140,789) (169,544)

Net cash provided by (used in)

financing activities 10,864 (126,405)

Effect of exchange rate changes on

cash and cash equivalents 4,128 3,970

Net change in cash and cash equivalents 105,095 (134,719) Cash and cash equivalents, beginning of period 330,759 404,436 Cash and cash equivalents, end of period \$435,854 \$269,717

- (1) Synopsys' third quarter ends on August 4, 2007 and July 29, 2006, respectively. For presentation purposes, the Unaudited Condensed Consolidated Balance Sheets refer to a calendar month end.
- (2) The prior year tax provision and related balance sheet accounts (long-term deferred income taxes, capital in excess of par value and retained earnings accounts) have been revised to reflect immaterial adjustments originating in years prior to fiscal 2006.

SOURCE: Synopsys, Inc.

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