Synopsys Posts Financial Results for Third Quarter Fiscal Year 2008

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

MOUNTAIN VIEW, Calif., Aug. 20 /PRNewswire-FirstCall/ -- Synopsys, Inc. (NASDAQ: SNPS), a world leader in software and IP for semiconductor design and manufacturing, today reported results for its third quarter ended July 31, 2008.

For the third quarter, Synopsys reported revenue of \$344.1 million, a 13.2 percent increase compared to \$304.1 million for the third quarter of fiscal 2007.

"Our technology and product pipeline are strong throughout our broad portfolio, and we are seeing good competitive momentum," said Aart de Geus, chairman and CEO of Synopsys. "Even at a time of increased customer caution around spending, Synopsys continues to perform well."

GAAP Results

On a generally accepted accounting principles (GAAP) basis, net income for the third quarter of fiscal 2008 was \$57.7 million, or \$0.39 per share, compared to \$24.9 million, or \$0.17 per share for the third quarter of fiscal 2007. GAAP earnings per share included a \$17.3 million tax benefit associated with the settlement of an IRS tax issue for fiscal years 2000 and 2001.

Non-GAAP Results

On a non-GAAP basis, net income for the third quarter of fiscal 2008 was \$64.5 million, or \$0.44 per share, compared to non-GAAP net income of \$47.7 million, or \$0.32 per share, for the third quarter of fiscal 2007.

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 (which could include in-process research and development charges), facilities realignment charges, and other significant items, including a tax benefit from a settlement with the IRS in the third quarter, and the related tax-effect of each, 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 2008. 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 2008 Targets:

- -- Revenue: \$348 million \$356 million
- -- GAAP expenses: \$295 million \$310 million
- -- Non-GAAP expenses: \$273 million \$283 million
- -- Other income and expense: \$0 \$3 million
- -- Tax rate applied in non-GAAP net income calculations: approximately 27 percent
- -- Fully diluted outstanding shares: 147 million 152 million
- -- GAAP earnings per share: \$0.23 \$0.29
- -- Non-GAAP earnings per share: \$0.36 \$0.39
- -- Revenue from backlog: greater than 90 percent

Full Fiscal Year 2008 Targets:

- -- Revenue: \$1.332 billion \$1.340 billion
- Tax rate applied in non-GAAP net income calculations: approximately 26 percent
- -- Fully diluted outstanding shares: 147 million 150 million
- -- GAAP earnings per share: \$1.20 \$1.26
- -- Non-GAAP earnings per share: \$1.65 \$1.68
- -- Cash flow from operations: \$300 million \$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 (including in-process research and development charges), facilities realignment charges and other significant infrequent items, including a tax benefit from a settlement with the IRS, 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® constitutes an ongoing and recurring expense of the Company, such expense is excluded from non-GAAP results because it is not an expense that requires cash settlement by the Company and because such expense is 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 historical and targeted GAAP financial measures included in this earnings release: total cost of revenue, gross margin, total operating expenses, operating income, income before provision (benefit) for income taxes, provision (benefit) for income taxes, net income and net income per share.

For each such measure, excluding these costs provides management with more consistent, comparable information about the Company's core performance. For example, 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 support 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 periods indicated below:

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GAAP to Non-GAAP Reconciliation of Third Quarter Results (in thousands, except per share amounts)
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Income Statement Reconciliation Three Months Ended Nine Months Ended
                      July 31,
                                   July 31,
                     2008 2007
                                   2008
                                           2007
GAAP net income
                            $57,749 $24,855 $143,581 $89,477
Adjustments:
 Amortization of intangible assets 10,810 12,186 34,841 37,393
 Share-based compensation
                               17.321 16.110 50.806 46.674
 In-process research and development 4,800 2,100 4,800 2,100
 Litigation settlement
                                          (12,500)
                                               (645)
 Facilities realignment charge
 Tax benefit from IRS settlement (17,253) - (17,253)
                        (8,923) (7,552) (26,595) (17,634)
 Tax effect
Non-GAAP net income
                              $64,504 $47,699 $190,180 $144,865
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Three Months Ended Nine Months Ended
                       July 31,
                                     July 31,
                      2008 2007
                                     2008
                                            2007
GAAP earnings per share
                               $0.39 $0.17
                                              $0.97
                                                      $0.60
Adjustments:
Amortization of intangible assets
                                0.07 0.08
                                              0.24
                                                      0.25
                                 0.12 0.11
Share-based compensation
                                               0.34
                                                      0.32
In-process research and development 0.03 0.01
                                                 0.03
                                                         0.01
Litigation settlement
                                           (0.08)
Facilities realignment charge
                                               (0.01)
Tax benefit from IRS settlement (0.12)
                                             (0.12)
Tax effect
                        (0.05) (0.05) (0.17) (0.12)
Non-GAAP earnings per share
                                 $0.44 $0.32 $1.29
                                                        $0.97
                             147,486 149,709 147,760 149,283
Shares used in calculation
```

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 2008 Targets (in thousands, except per share amounts)

Range for Three Months Ending October 31, 2008 Low High

Target GAAP expenses \$295,000 \$310,000

Adjustment:

Estimated impact of amortization of

intangible assets (9,000) (12,000)

Estimated impact of share-based

compensation (13,000) (15,000)

Target non-GAAP expenses \$273,000 \$283,000

Range for Three Months Ending October 31, 2008 Low High

Target GAAP earnings per share \$0.23 \$0.29

Adjustment:

Estimated impact of amortization of

intangible assets 0.08 0.06

Estimated impact of share-based

compensation 0.10 0.08

Net non-GAAP tax effect (0.05) (0.04)
Target non-GAAP earnings per share \$0.36 \$0.39

Shares used in non-GAAP calculation

(midpoint of target range) 149,500 149,500

GAAP to Non-GAAP Reconciliation of Fiscal Year 2008 Targets

Range for Fiscal Year Ending October 31, 2008 Low High

Target GAAP earnings per share \$1.20 \$1.26

Adjustment:

Estimated impact of amortization of

intangible assets 0.32 0.30

Estimated impact of share-based

compensation 0.44 0.43 In-process research and development 0.03 0.03

Tax benefit from IRS settlement (0.12) (0.12)

Net non-GAAP tax effect (0.22) (0.22)

Target non-GAAP earnings per share \$1.65 \$1.68

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.html. A recording of the call will be available by calling +1-800-475-6701 (+1-320-365-3844 for international callers), access code 956118, beginning at 4:00 p.m. Pacific Time today. A webcast replay will also be available on the website from approximately 5:30 p.m. Pacific Time today through the time Synopsys announces its results for the fourth quarter and full fiscal 2008 in December. Synopsys will also 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. In addition, Synopsys makes additional financial information available in a financial supplement posted at Synopsys' corporate website at <a href="http://www.synopsys.com/corporate/invest/inv

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 2008, 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 2008 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 2008 in its quarterly report on Form 10-Q to be filed by September 11, 2008.

About Synopsys

Synopsys, Inc. (NASDAQ: SNPS) is a world leader in electronic design automation (EDA), supplying the global electronics market with the software, intellectual property (IP) and services used in semiconductor design and manufacturing. Synopsys' comprehensive, integrated portfolio of implementation, verification, IP, manufacturing and field-programmable gate array (FPGA) solutions helps address the key challenges designers and manufacturers face today, such as power and yield management, system-to- silicon verification and time-to-results. These technology-leading solutions help give Synopsys customers a competitive edge in bringing the best products to market quickly while reducing costs and schedule risk. Synopsys is headquartered in Mountain View, California, and has more than 60 offices located throughout North America, Europe, Japan, Asia and India. 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;
- 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 for its IP business; 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, 2008 and actual expenses, earnings per share and operating cash flow on a GAAP and non-GAAP basis for fiscal year 2008 could differ materially from the targets stated under "Financial Targets" above for a number of reasons, including, but not limited to, (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 acquisitionrelated 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, (vii) changes driven by new accounting rules, regulations, interpretations or pronouncements, (viii) general economic conditions, and (ix), other risks as detailed in our SEC filings, including those described in the "Risk Factors" section in our Quarterly Report on Form 10-Q for the fiscal guarter ended April 30, 2008. Furthermore, Synopsys' actual tax rates applied to income for the fourth quarter and fiscal year 2008 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 fiscal year 2008 could differ from the targets given in this press release as a result of higher than expected employee stock plan issuances or stock option exercises, 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.

INVESTOR CONTACT:

Lisa L. Ewbank Synopsys, Inc. 650-584-1901

EDITORIAL CONTACT:

Yvette Huygen Synopsys, Inc. 650-584-4547

yvetteh@synopsys.com

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,

2008 2007 2008 2007

Revenue:

 Time-based license
 \$289,250
 \$251,389
 \$835,330
 \$746,091

 Upfront license
 20,558
 18,981
 45,293
 47,108

 Maintenance and service Total revenue
 34,320
 33,728
 103,523
 104,037

 344,128
 304,098
 984,146
 897,236

Cost of revenue:

License 44,654 37,092 126,761 107,269 Maintenance and service 16,110 15,763 48,156 47,459

Amortization of intangible

assets 6,262 5,536 17,111 17,455

Total cost of revenue 67,026 58,391 192,028 172,183 Gross margin 277,102 245,707 792,118 725,053

Operating expenses:

Research and development Sales and marketing 86,816 95,417 247,073 264,237 General and administrative 26,512 24,177 76,524 76,405

In-process research and

development 4,800 2,100 4,800 2,100

Amortization of intangible

assets 4,548 6,650 17,730 19,938

(Benefit) provision for income

taxes (4,770) 8,972 19,655 29,122 Net income \$57,749 \$24,855 \$143,581 \$89,477

Net income per share:

 Basic
 \$0.41
 \$0.17
 \$1.00
 \$0.62

 Diluted
 \$0.39
 \$0.17
 \$0.97
 \$0.60

Shares used in computing per share

amounts:

Basic 142,536 143,820 143,450 143,626 Diluted 147,486 149,709 147,760 149,283

(1) Synopsys' third quarter ended on August 2, 2008 and August 4, 2007, 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) (in thousands, except par value amounts)

ASSETS:

Current assets:

Ourient assets.				
Cash and cash equivalents	\$545,4	89	579,327	
Short-term investments	331,598	3 40	5,126	
Total cash, cash equivalents	and			
short-term investments	877,087	984	4,453	
Accounts receivable, net	143,613	12	3,900	
Deferred income taxes	121,424	12	3,165	
Income taxes receivable	51,233	42	2,525	
Prepaid expenses and other cu	urrent assets	60,814	53,496	,
Total current assets	1,254,171	1,327	,539	
Property and equipment, net	130,5	11 '	131,866	
Goodwill	896,574	767,087		
Intangible assets, net	123,972	78,7	792	
Long-term deferred income taxe	s 151	,077	216,642	

102.552 Other assets 95.411 Total assets \$2,658,857 \$2,617,337

LIABILITIES AND STOCKHOLDERS' EQUITY:

Current liabilities:

Accounts payable and accrued liabilities \$240,676 \$246,209 Accrued income taxes 1,896 207,572 577,295 Deferred revenue 603,525 Total current liabilities 846.097 1.031.076 Deferred compensation and other liabilities 105,513 84,648

Accrued income taxes 123,236

Long-term deferred revenue 65,220 53.607 Total liabilities 1,128,453 1,180,944

Stockholders' equity:

Preferred stock, \$0.01 par value:

2,000 shares authorized; none outstanding

Common stock, \$0.01 par value:

400,000 shares authorized; 142,844 and

1,428 146,365 shares outstanding, respectively 1,464 Capital in excess of par value 1,457,282 1.401.965 Retained earnings 395,378 263,977 Treasury stock, at cost: 14,423 and

10,867 shares, respectively (323,885)(234,918)

Accumulated other comprehensive

3,905 201 income (loss)

1,530,404 Total stockholders' equity 1,436,393

Total liabilities and stockholders'

\$2,658,857 \$2,617,337 equity

(1) Synopsys' third quarter ended on August 2, 2008, and its 2007 fiscal year ended on November 3, 2007. For presentation purposes, the Unaudited Condensed Consolidated Balance Sheets refer to a calendar month end.

SYNOPSYS, INC.

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

Nine Months Ended July 31,

2008 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income \$143,581 \$89,477

Adjustments to reconcile net income to net

cash provided by operating activities:

73,535 77,844 Amortization and depreciation Share-based compensation 50,807 46,674 Allowance for doubtful accounts 429 (330)(Gain) loss on sale of investments (1,347)8 (Gain) on sale of land (4,284)Deferred income taxes 18,852 14,966

Net change in deferred gains and

losses on cash flow hedges 5,169 1,661 4,800 In-process research and development 2,100

Net changes in operating assets and liabilities, net of acquired assets

and liabilities:

Accounts receivable (8,761)

Prepaid expenses and other current assets (11,277) (13,498)

Other assets 458 Accounts payable and accrued liabilities (26,767) (8,255)(33,974)Accrued income taxes (3,313)Deferred revenue 135,279 2,626 Deferred compensation and other (2,928)liabilities 254 Net cash provided by operating activities 215,203 258,389 CASH FLOWS FROM INVESTING ACTIVITIES: Proceeds from sales and maturities of 209,167 short-term investments 512,797 (436, 144)(326,476)Purchases of short-term investments Proceeds from sales of long-term investments Purchases of long-term investments (7,694)(4,620)Purchases of property and equipment (26,500)(36,429)Proceeds from sale of land 26,298 Cash paid for acquisitions and intangible assets, net of cash acquired (181,018)(34, 120)Capitalization of software development (2,114)(2,106)(168, 286)Net cash used in investing activities (140,596)CASH FLOWS FROM FINANCING ACTIVITIES: Payments on lease obligations Issuances of common stock 56,600 151,653 Purchases of common stock (170,052)(140,789)Net cash (used in) provided by financing activities (114,905)10,864 Effect of exchange rate changes on cash and 4,128 cash equivalents Net change in cash and cash equivalents (33,838)105,095 Cash and cash equivalents, beginning

(1) Synopsys' third quarter ended on August 2, 2008 and August 4, 2007, respectively. For presentation purposes, the Unaudited Condensed Consolidated Statements of Cash Flows refer to a calendar month end.

SOURCE: Synopsys, Inc.

of period

CONTACT: Investors, Lisa L. Ewbank, +1-650-584-1901, or Editorial, Yvette Huygen, +1-650-584-4547, yvetteh@synopsys.com, both of Synopsys, Inc.

330,759

\$545,489

\$435,854

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

Cash and cash equivalents, end of period