

Synopsys Posts Financial Results for Second Quarter Fiscal Year 2010

MOUNTAIN VIEW, Calif., May 19 /PRNewswire-FirstCall/ -- Synopsys, Inc. (Nasdaq: SNPS), a world leader in software and IP for semiconductor design, verification and manufacturing, today reported results for its second quarter of fiscal year 2010.

For the second quarter of fiscal 2010, Synopsys reported revenue of \$338.1 million compared to \$336.8 million for the second quarter of fiscal 2009.

"Synopsys again delivered solid results this quarter," said Aart de Geus, chairman and CEO of Synopsys. "While the customer backdrop remains cautious, we continue to execute well on our strategy to address customer needs ranging from mainstream to the most advanced silicon design flows, all the way to the rapidly growing IP and systems space. This quarter we made particular progress in the latter, where we believe we have an especially promising outlook."

GAAP Results

On a generally accepted accounting principles (GAAP) basis, net income for the second quarter of fiscal 2010 was \$39.5 million, or \$0.26 per share, compared to \$48.3 million, or \$0.33 per share, for the second quarter of fiscal 2009.

Non-GAAP Results

On a non-GAAP basis, net income for the second quarter of fiscal 2010 was \$61.9 million, or \$0.41 per share, compared to non-GAAP net income of \$65.9 million, or \$0.45 per share, for the second quarter of fiscal 2009.

Financial Targets

Synopsys also provided its financial targets for the third quarter and full fiscal year 2010. These targets do not include future acquisition-related expenses that may be incurred in fiscal 2010. 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 Year 2010 Targets:

- Revenue: \$330 million - \$338 million
- GAAP expenses: \$275 million - \$292 million
- Non-GAAP expenses: \$251 million - \$261 million
- Other income and expense: \$0 - \$3 million
- Tax rate applied in non-GAAP net income calculations: approximately 27 percent
- Fully diluted outstanding shares: 149 million - 154 million
- GAAP earnings per share: \$0.21 - \$0.27
- Non-GAAP earnings per share: \$0.36 - \$0.38
- Revenue from backlog: greater than 90 percent

Full-Year Fiscal Year 2010 Targets:

- Revenue: \$1.340 billion - \$1.355 billion
- Other income and expense: \$4 million - \$8 million
- Tax rate applied in non-GAAP net income calculations: approximately 27 percent
- Fully diluted outstanding shares: 149 million - 154 million
- GAAP earnings per share: \$1.56 - \$1.75
- Non-GAAP earnings per share: \$1.52 - \$1.62
- Cash flow from operations: \$205 million - \$225 million

GAAP Reconciliation

Synopsys continues to provide all information required in accordance with GAAP, but believes evaluating its ongoing operating results may not be as useful if an investor is limited to reviewing only GAAP financial measures.

Accordingly, Synopsys presents non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate Synopsys' operating results in a manner that focuses on what Synopsys believes to be its ongoing business operations and what Synopsys uses to evaluate its ongoing operations and for internal planning and forecasting purposes. Synopsys' management does not itself, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Synopsys' management believes it is useful for itself and investors to review, as applicable, both GAAP information that includes: (i) the amortization of acquired intangible assets; (ii) the impact of stock compensation; (iii) in-process research and development expenses, (iv) acquisition-related costs; (v) other significant items, including the effect of a tax benefit from a settlement with the Internal Revenue Service, and (vi) the income tax effect of non-GAAP pre-tax adjustments from the provision for income taxes; and the non-GAAP measures that exclude such information in order to assess the performance of Synopsys' business and for planning and forecasting in subsequent periods. Whenever Synopsys uses such a non-GAAP financial measure, it provides a reconciliation of the non-GAAP financial measure to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure as detailed below.

Reconciliation of Second Quarter Fiscal Year 2010 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 periods indicated below.

GAAP to Non-GAAP Reconciliation of Second Quarter Fiscal Year 2010 Results

(unaudited and in thousands, except per share amounts)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
GAAP net income	\$ 39,549	\$ 48,288	\$ 172,335	\$ 100,717
Adjustments:				
Amortization of intangible assets	11,814	10,620	22,464	22,428
Stock compensation	13,466	14,661	30,700	28,804
In-process research and development	-	-	-	600
Acquisition-related costs	6,120	-	7,166	-
Tax benefit from IRS settlement	-	-	(91,649)	-
Tax effect	(9,015)	(7,666)	(16,663)	(15,050)
Non-GAAP net income	<u>\$ 61,934</u>	<u>\$ 65,903</u>	<u>\$ 124,353</u>	<u>\$ 137,499</u>

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
GAAP net income per share	\$ 0.26	\$ 0.33	\$ 1.14	\$ 0.70
Adjustments:				
Amortization of intangible assets	0.08	0.07	0.15	0.16
Stock compensation	0.09	0.10	0.20	0.19
In-process research and development	-	-	-	0.01
Acquisition-related costs	0.04	-	0.05	-
Tax benefit from IRS settlement	-	-	(0.61)	-
Tax effect	(0.06)	(0.05)	(0.11)	(0.11)
Non-GAAP net income per share	<u>\$ 0.41</u>	<u>\$ 0.45</u>	<u>\$ 0.82</u>	<u>\$ 0.95</u>
Shares used in calculation	152,482	145,421	151,635	144,024

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 Third Quarter Fiscal Year 2010 Targets

(in thousands, except per share amounts)

	Range for Three Months Ending July 31, 2010	
	Low	High
Target GAAP expenses	\$ 275,000	\$ 292,000
Adjustment:		
Estimated impact of amortization of intangible assets	(10,000)	(13,000)
Estimated impact of stock compensation	(14,000)	(18,000)
Target non-GAAP expenses	<u>\$ 251,000</u>	<u>\$ 261,000</u>

	Range for Three Months Ending July 31, 2010	
	Low	High
Target GAAP earnings per share	\$ 0.21	\$ 0.27
Adjustment:		
Estimated impact of amortization of intangible assets	0.09	0.06
Estimated impact of stock compensation	0.12	0.09
Net non-GAAP tax effect	(0.06)	(0.04)
Target non-GAAP earnings per share	<u>\$ 0.36</u>	<u>\$ 0.38</u>

Shares used in non-GAAP calculation (midpoint of target range)	151,500	151,500
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GAAP to Non-GAAP Reconciliation of Fiscal Year 2010 Targets

	Range for Fiscal Year Ending October 31, 2010	
	Low	High
Target GAAP earnings per share	\$ 1.56	\$ 1.75
Adjustment:		
Estimated impact of amortization of intangible assets	0.33	0.26
Estimated impact of stock compensation	0.40	0.35
Acquisition-related costs	0.05	0.05
Tax benefit from IRS settlement	(0.61)	(0.61)
Net non-GAAP tax effect	(0.21)	(0.18)
Target non-GAAP earnings per share	<u>\$ 1.52</u>	<u>\$ 1.62</u>

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 www.synopsys.com. A recording of the call will be available by calling +1-800-475-6701 (+1-320-365-3844 for international callers), access code 156545, 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 third quarter fiscal 2010 in August 2010. 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. In addition, Synopsys makes additional financial information available in a financial supplement also posted on the corporate website.

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 (available in the Investor Relations section of Synopsys' website at www.synopsys.com) 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 third quarter fiscal 2010 earnings call in August 2010, 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 2010 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 second quarter fiscal 2010 in its quarterly report on Form 10-Q to be filed by June 10, 2010.

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, verification 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, software-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 65 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:

- continued uncertainty in the global economy in general, and weakness in the semiconductor and electronics industries;
- failure of customers to pay license fees as scheduled;
- 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;
- changes in the mix of time-based licenses and upfront licenses;
- lower-than-expected orders; 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, earnings per share and tax rate on a GAAP and non-GAAP basis for the fiscal quarter ending July 31, 2010 and actual expenses, earnings per share, tax rate, cash flow from operations and other projections on a GAAP and non-GAAP basis for fiscal year 2010 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 and settlements to increase or decrease an income tax asset or liability, (iii) integration and other acquisition-related costs including amortization of intangible assets and costs formerly capitalized but now expensed due to new accounting guidance related to business combinations, (iv) changes in the anticipated amount of employee stock 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 guidance, (viii) general economic conditions, and (ix) other risks as detailed in our SEC filings, including those described in the "Risk Factors" section in our latest Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2010.

Furthermore, Synopsys' actual tax rates applied to income for the third quarter and fiscal year 2010 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 and year, and actions by the government. Finally, Synopsys' targets for outstanding shares in the third quarter and fiscal year 2010 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.

SYNOPSYS, INC.

Unaudited Consolidated Statements of Operations (1)

(in thousands, except per share amounts)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009 (2)	2010	2009 (2)
Revenue:				
Time-based license	\$ 288,672	\$ 287,315	\$ 561,147	\$ 574,991
Upfront license	12,715	12,675	33,161	28,378
Maintenance and service	36,719	36,845	73,965	73,221
Total revenue	338,106	336,835	668,273	676,590
Cost of revenue:				
License	44,930	42,292	86,144	84,115
Maintenance and service	15,268	15,048	31,778	30,627
Amortization of intangible assets	8,829	7,679	16,686	15,701
Total cost of revenue	69,027	65,019	134,608	130,443
Gross margin	269,079	271,816	533,665	546,147
Operating expenses:				
Research and development	113,050	102,996	214,282	200,803
Sales and marketing	79,363	82,520	158,979	159,904
General and administrative	28,713	28,691	54,566	55,873
In-process research and development	-	-	-	600
Amortization of intangible assets	2,985	2,941	5,778	6,727
Total operating expenses	224,111	217,148	433,605	423,907
Operating income	44,968	54,668	100,060	122,240
Other income, net	8,905	10,445	11,155	12,544

Income before income taxes	53,873	65,113	111,215	134,784
Provision (benefit) for income taxes	14,324	16,823	(61,120)	34,084
Net income	\$ 39,549	\$ 48,288	\$ 172,335	\$ 100,717
Net income per share:				
Basic	\$ 0.27	\$ 0.34	\$ 1.17	\$ 0.71
Diluted	\$ 0.26	\$ 0.33	\$ 1.14	\$ 0.70
Shares used in computing per share amounts:				
Basic	148,890	143,275	147,860	142,562
Diluted	152,482	145,421	151,635	144,024

- (1) Synopsys' second quarter ended on the Saturday nearest April 30. For presentation purposes, the Unaudited Consolidated Statements of Operations refer to a calendar month end.
- (2) For the three and six months ended April 30, 2009, Synopsys reclassified \$3.3 million and \$5.9 million from upfront license to time-based licensed revenue to conform to the current year presentation which had no impact on total revenue.

SYNOPSYS, INC.
Unaudited Consolidated Balance Sheets (1)
(in thousands, except par value amounts)

	April 30, 2010	October 31, 2009
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 669,431	\$ 701,613
Short-term investments	409,023	466,713
Total cash, cash equivalents and short-term investments	1,078,454	1,168,326
Accounts receivable, net	149,654	127,010
Deferred income taxes	70,229	73,453
Income taxes receivable	36,294	51,191
Prepaid and other current assets	45,263	43,820
Total current assets	1,379,894	1,463,800
Property and equipment, net	140,630	146,910
Goodwill	998,910	932,691
Intangible assets, net	119,806	96,810
Long-term deferred income taxes	270,365	205,396
Other long-term assets	95,731	93,247
Total assets	\$ 3,005,336	\$ 2,938,854
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 186,802	\$ 255,095
Accrued income taxes	28,024	5,508
Deferred revenue	505,771	553,990
Total current liabilities	720,597	814,593
Long-term accrued income taxes	88,132	157,354
Other long-term liabilities	100,220	88,002
	38,226	34,739

Long-term deferred revenue	947,175	1,094,688
Total liabilities		
Stockholders' equity:		
Preferred stock, \$0.01 par value: 2,000 shares authorized; none outstanding	-	-
Common stock, \$0.01 par value: 400,000 shares authorized; 149,802 and 146,945 shares outstanding, respectively	1,498	1,469
Capital in excess of par value	1,512,888	1,500,166
Retained earnings	725,102	574,980
Treasury stock, at cost: 7,463 and 10,326 shares, respectively	(165,266)	(228,618)
Accumulated other comprehensive loss	(16,061)	(3,831)
Total stockholders' equity	2,058,161	1,844,166
Total liabilities and stockholders' equity	\$ 3,005,336	\$ 2,938,854

(1) Synopsys' second quarter ended on the Saturday nearest April 30. For presentation purposes, the Unaudited Consolidated Balance Sheets refer to a calendar month end.

SYNOPSYS, INC.
Unaudited Consolidated Statements of Cash Flows (1)
(in thousands)

	Six Months Ended April 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$172,335	\$100,717
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	50,219	49,728
Stock compensation	30,704	28,803
Allowance for doubtful accounts	(742)	2,723
Write-down of long-term investments	-	2,960
Gain on sale of investments	(2,420)	(324)
Deferred income taxes	(38,549)	7,612
In-process research and development	-	600
Net changes in operating assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	(20,626)	(46,707)
Prepaid and other current assets	11,373	(3,047)
Other long-term assets	(3,997)	(617)
Accounts payable and other liabilities	(68,672)	(105,639)
Accrued income taxes	(48,157)	(5,959)
Deferred revenue	(45,235)	(88,065)
Net cash provided by (used in) operating activities	36,233	(57,215)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of short-term investments	188,650	123,041
Purchases of short-term investments	(131,748)	(119,227)
Purchases of property and equipment	(13,793)	(14,734)
Cash paid for acquisitions, net of cash acquired	(130,872)	(27,333)

Capitalization of software development costs	(1,415)	(1,485)
Net cash used in investing activities	<u>(89,178)</u>	<u>(39,738)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital leases	(1,346)	(984)
Issuances of common stock	73,210	26,652
Purchases of treasury stock	(50,257)	-
Net cash provided by financing activities	<u>21,607</u>	<u>25,668</u>
Effect of exchange rate changes on cash and cash equivalents	(844)	52
Net change in cash and cash equivalents	<u>(32,182)</u>	<u>(71,233)</u>
Cash and cash equivalents, beginning of period	701,613	577,632
Cash and cash equivalents, end of period	<u>\$669,431</u>	<u>\$506,399</u>

(1) Synopsys' second quarter ended on the Saturday nearest April 30. For presentation purposes, the Unaudited Consolidated Statements of Cash Flows refer to a calendar month end.

INVESTOR CONTACT:

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

EDITORIAL CONTACT:

Yvette Huygen
Synopsys, Inc.
650-584-4547
yvetteh@synopsys.com

SOURCE Synopsys, Inc.
