



To enhance the level of disclosure we provide and help investors gain better insight into our business, we are providing investors the following financial information:

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### Cautionary Note

The information provided herein should be reviewed in conjunction with our earnings results as disclosed on August 20, 2014.

This Supplement contains forward-looking statements relating to expected future revenue from current revenue backlog. These statements 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 risks related to changes in demand for Synopsys' products due to fluctuations in demand for our customers' products, our ability to realize the potential financial or strategic benefits of the acquisitions we complete and the difficulties in the integration of the products and operations of acquired companies or assets into our products and operations, the continued uncertainty in the global economy and the semiconductor and electronics industries, willingness or ability of our customers to pay license fees as scheduled or to accept services delivered, cancellation or renegotiation of orders, consolidation among our customers, our inability to recognize revenue from backlog when expected, variability in the timing of revenue recognition due to factors such as payment terms and the timing and value of contract renewals and professional services projects, our ability to deliver the products or services ordered, and other risks

as detailed from time to time in our filings with the Securities and Exchange Commission (SEC), including those described in the “Risk Factors” section of our most recent Quarterly Report on Form 10-Q. In addition, this Supplement contains non-GAAP financial measures as defined by the SEC in Regulation G. Reconciliations of the non-GAAP financial measures to their comparable GAAP measures are included herein.

## **Table 1 – Revenue Information by Product Groups**

For management reporting purposes, we organize our products and services into four groups: Core EDA (Electronic Design Automation), which includes the Galaxy™ Design Platform, the Discovery™ Verification Platform and the FPGA (Field Programmable Gate Array) design products; Intellectual Property (IP) and Software Solutions; Manufacturing Solutions; and Professional Services and Other.

Core EDA. Includes Galaxy Design Platform, Discovery Verification Platform and FPGA design products.

*Galaxy.* Our Galaxy Design Platform provides our customers with a single, integrated IC design solution that includes industry leading individual products and incorporates common libraries and consistent timing, delay calculation and constraints throughout the design process. The platform helps reduce design times, decrease integration costs and minimize the risks inherent in advanced, complex IC designs. The principal products included in the Galaxy platform are the IC Compiler™ and IC Compiler II™ physical design solutions, Design Compiler® logic synthesis product, Galaxy Custom Designer® physical design solution for analog/mixed-signal designs, PrimeTime® timing analysis products, StarRC™ product for extraction, and IC Validator tool for physical verification.

*Discovery.* Our Discovery Verification Platform is a comprehensive, integrated portfolio of functional, analog/mixed-signal, formal and low-power verification products. The platform includes our simulation and verification products and design-for-verification methodologies, and provides a consistent control environment to help significantly improve the speed, breadth and accuracy of our customers’ verification efforts. The principal products included in the Discovery platform are the VCS® comprehensive RTL verification solution, CustomSim™ FastSPICE and FineSim® SPICE/FastSPICE circuit simulation and analysis products, HSPICE® circuit simulator, CustomExplorer™ Ultra mixed-signal regression and analysis environment, Formality® formal verification sign-off solution, Verdi® debug solution, Verification Compiler™ solution and ZeBu® emulation systems.

*FPGA Design.* FPGAs are complex chips that can be customized or programmed to perform a specific function after they are manufactured. The principal products included in FPGA Design are Synplify Pro® and Premier implementation and Identify® debug software tools.

Intellectual Property and Software Solutions. Our broad IP portfolio provides customers with high-quality, silicon-proven digital, PHY, analog, verification and memory IP for SoC designs to reduce their design risk and time-to-market. Our IP solutions include the DesignWare<sup>®</sup> Library of infrastructure IP, VCS Verification Library of popular chip function models, and DesignWare Cores, which are pre-designed and pre-verified digital logic and mixed-signal blocks that implement important industry standards, including USB, PCI Express, DDR, Ethernet, SATA and HDMI. Our analog IP solutions include analog-to-digital converters, digital-to-analog converters, audio codecs, video analog front ends and touch screen controllers. Our memory IP solutions include embedded memory, including SRAMs and non-volatile memory, logic libraries, embedded test and repair IP and configurable processor cores. We also offer IP subsystems for audio and sensor functionality that combine IP blocks and software into an integrated, pre-verified solution. Our system-level solutions enable customers to, among other things, accelerate verification and embedded software development. These solutions include our Platform Architect<sup>™</sup> software, which enables early and rapid exploration of SoC architectural tradeoffs, Virtualizer<sup>™</sup>, our next-generation virtual prototyping tool, and our HAPS<sup>®</sup> FPGA-based prototyping systems that integrate high performance hardware and software tools with real-world interfaces to enable faster hardware-software integration and full system validation. We also offer specialized system-level solutions, such as products that focus on interactions with optical components in the system. Our software development solutions enable customers to, among other things, improve software quality that can help reduce the risk of software failures and security breaches.

Manufacturing Solutions. Our Manufacturing Solutions products and technologies address the mask-making and yield enhancement of very small-geometry ICs, as well as high-level modeling of physical effects within the ICs and include the Sentaurus<sup>™</sup> Technology-CAD (TCAD) device and process simulation products, Proteus<sup>™</sup> optical proximity correction (OPC) and lithography rule check (LRC) products, CATS<sup>®</sup> mask data preparation product, and Yield Explorer<sup>®</sup> and Odyssey Yield Management solutions.

Professional Services and Other. Our Professional Services group provides a broad range of consulting and design services that address all phases of the SoC development process, including design methodology adoption, specialized systems design services, and turnkey design and training, along with our LynxDesign System, a production-ready chip implementation environment that helps customers improve their productivity and optimally deploy Synopsys tools and methodologies.

The following table summarizes the revenue attributable to these groups as a percentage of total revenue for the last nine quarters and two fiscal years. We include revenue from companies or products we have acquired during the periods covered from the acquisition date through the end of the relevant periods.

**Table 1 – Revenue by Product Groups (Unaudited)**

(in millions)	Q312	Q412	FY2012	Q113	Q213	Q313	Q413	FY2013	Q114	Q214	Q314
Core EDA	273.9	276.1	1,096.7	300.5	312.3	298.5	318.3	1,229.6	308.9	323.5	320.0
IP & Software Solutions	116.0	125.7	440.8	117.9	125.4	123.4	119.1	485.8	108.6	137.1	143.3
Manufacturing	42.4	41.7	173.4	44.3	44.0	42.3	49.3	179.9	45.8	41.9	43.2
Services & Other	11.4	10.7	45.1	12.4	17.6	18.7	18.2	66.9	15.7	15.3	15.3
<b>Total</b>	<b>443.7</b>	<b>454.2</b>	<b>1,756.0</b>	<b>475.1</b>	<b>499.3</b>	<b>482.9</b>	<b>504.9</b>	<b>1,962.2</b>	<b>479.0</b>	<b>517.7</b>	<b>521.8</b>

	Q312	Q412	FY2012	Q113	Q213	Q313	Q413	FY2013	Q114	Q214	Q314
Core EDA	62%	61%	62%	63%	63%	62%	63%	63%	64%	62%	61%
IP & Software Solutions	26%	28%	25%	25%	25%	26%	24%	25%	23%	26%	27%
Manufacturing	10%	9%	10%	9%	9%	9%	10%	9%	10%	8%	8%
Services & Other	3%	2%	3%	3%	4%	4%	4%	3%	3%	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Amounts included in the table above may not foot due to rounding. Product revenue data for multi-product transactions is determined using management methodologies and allocations and is therefore subject to certain assumptions. In addition, we allocate maintenance revenue to the products to which those maintenance services relate.

**Table 2 – Revenue by Geographic Region (Unaudited)**

(in millions)	Q312	Q412	FY2012	Q113	Q213	Q313	Q413	FY2013	Q114	Q214	Q314
North America	222.8	224.5	866.1	244.8	246.3	241.6	241.5	974.1	237.2	247.8	272.5
Europe	58.1	54.8	225.8	63.4	65.7	68.6	75.3	273.0	66.7	71.1	65.9
Japan	71.1	69.3	289.4	69.6	66.0	64.9	63.6	264.1	64.3	58.4	61.5
Asia Pacific	91.8	105.6	374.7	97.3	121.3	107.9	124.5	450.9	110.8	140.4	121.9
<b>Total</b>	<b>443.7</b>	<b>454.2</b>	<b>1,756.0</b>	<b>475.1</b>	<b>499.3</b>	<b>482.9</b>	<b>504.9</b>	<b>1,962.2</b>	<b>479.0</b>	<b>517.7</b>	<b>521.8</b>

	Q312	Q412	FY2012	Q113	Q213	Q313	Q413	FY2013	Q114	Q214	Q314
North America	50%	49%	49%	52%	49%	50%	48%	50%	50%	48%	52%
Europe	13%	12%	13%	13%	13%	14%	15%	14%	14%	14%	13%
Japan	16%	15%	16%	15%	13%	13%	13%	14%	13%	11%	12%
Asia Pacific	21%	23%	21%	20%	24%	22%	25%	23%	23%	27%	23%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Amounts included in the table above may not foot due to rounding. Geographic revenue data for multi-region, multi-product transactions is determined using management methodologies and allocations and is therefore subject to certain assumptions.

### Table 3 – Summary of License Types

#### Time-Based License

**Revenue:** Revenue that is recognized as “time-based license revenue” in our statement of operations comes from the following types of license arrangements:

Technology Subscription  
Licenses (TSLs):

TSLs are licenses bundled with maintenance for a finite term. We typically recognize revenue from TSL fees ratably over the term of the license period, or as customer installments become due and payable, whichever is later.

Term Licenses with

Extended Payment Terms: Term licenses are for a finite term. For term licenses in which less than 75% of the term license fee is due within one year from shipment, we recognize revenue as customer installment payments become due and payable. Maintenance is purchased separately for the first year and may be renewed annually for the balance of the license term. Revenue from maintenance fees is recognized ratably over the maintenance period to the extent cash has been received and is reported as “maintenance and service revenue” in our statement of operations.

Perpetual Licenses with

Extended Payment Terms: Perpetual licenses continue for as long as the customer renews maintenance, plus an additional twenty years. For perpetual licenses in which less than 75% of the perpetual license fee is payable within one year from shipment, we recognize revenue as customer installment payments become due and payable. Maintenance is purchased separately on an annual basis. Revenue from maintenance fees is recognized ratably over the maintenance period to the extent cash has been received and is reported as “maintenance and service revenue” in our statement of operations.

**Upfront Revenue:** Revenue that is recognized as “upfront revenue” in our statement of operations comes from the following types of license arrangements:

Perpetual Licenses:

Perpetual licenses continue for as long as the customer renews maintenance, plus an additional twenty years. We recognize revenue from perpetual licenses in full upon shipment of the software if payment terms require the customer to pay at least 75% of the perpetual license fee within one year from shipment and all other revenue recognition criteria are met. Maintenance is purchased separately on an annual basis. Revenue from maintenance fees is recognized ratably over the maintenance period to the extent cash has been received and is reported as “maintenance and service revenue” in our statement of operations.

Upfront Term Licenses:

Term licenses are for a finite term. We recognize revenue from term licenses in full upon shipment of the software (“upfront”) if payment terms require the customer to pay at least 75% of the term license fee within one year from shipment and all other revenue recognition criteria are met. Maintenance is purchased separately for the first year and may be renewed annually for the balance of the license term. Revenue

from maintenance fees is recognized ratably over the maintenance period to the extent cash has been received and is reported as “maintenance and service revenue” in our statement of operations.

**Renewable Licenses:**

We sometimes refer to TSLs and term licenses (including both upfront term licenses and term licenses with extended payment terms), either individually or collectively, as “renewable licenses” because the customer must purchase an extension or a new license in order to continue using the software after the specified term of the contract expires.

**Hardware Sales:**

We recognize revenue from hardware sales in full upon shipment if all other revenue recognition criteria are met. Hardware sales have not been material to our total revenue and, therefore, revenue attributable to these hardware sales is reported as “upfront license revenue” in the consolidated statements of operations. We infrequently enter into multiple-element arrangements that contain both software and non-software deliverables such as hardware. Revenue allocated to the hardware is recognized upon delivery if all other revenue recognition criteria are met. Revenue allocated to the software is recognized according to the methods described above depending on the software license type (TSL, term license or perpetual license).

**Table 4 – Revenue and Contract Duration (Unaudited)**

	Q312	Q412	FY2012	Q113	Q213	Q313	Q413	FY2013	Q114	Q214	Q314
Avg renewable license duration (yrs) <sup>1</sup>	~2.5	~2.8	~2.7	~2.4	>4	~2.9	~3	>3.5	~2.6	~2.8	~3.1
Backlog <sup>2</sup>			\$2.7 bn					\$3.1 bn			
- Portion of projected revenue to come from backlog <sup>3</sup>			~80% of '13 rev					~75% of '14 rev			
Revenue Mix (in millions) <sup>4</sup>											
- Time-Based License	362.8	367.0	1,449.3	386.0	413.5	387.1	412.9	1,599.5	400.1	424.2	431.2
- Upfront	25.4	28.9	105.1	30.8	24.8	40.0	36.5	132.0	34.0	36.3	31.6
- Maintenance and Service <sup>5</sup>	55.5	58.3	201.6	58.4	61.0	55.9	55.5	230.7	44.8	57.2	59.0
Revenue Mix (% of total rev) <sup>4</sup>											
- Time-Based License	82%	81%	83%	81%	83%	80%	82%	82%	84%	82%	83%
- Upfront	6%	6%	6%	6%	5%	8%	7%	7%	7%	7%	6%
- Maintenance and Service <sup>5</sup>	13%	13%	11%	12%	12%	12%	11%	12%	9%	11%	11%

(1) Average renewable license duration represents the weighted average duration of the license arrangements closed in the period reported.

(2) Synopsys' backlog was approximately \$3.1 billion on October 31, 2013, representing a 13% increase from backlog of approximately \$2.7 billion on October 31, 2012. This increase resulted primarily from the renewal in fiscal 2013 of large multi-year contracts. Backlog represents committed orders that are expected to be recognized as revenue during the following three years. Backlog may not be a reliable predictor of our future sales as business conditions may change and technologies may evolve, and customers may seek to renegotiate their arrangements or default on their payment obligations. For this and other reasons, we may not be able to recognize expected revenue from backlog when anticipated.

(3) Amount of projected subsequent fiscal year revenue expected to come from backlog as of the end of the applicable fiscal year.

(4) Amounts may not foot due to rounding.

(5) Includes maintenance on term and perpetual licenses.

**Table 5 – Additional Financial and Operational Metrics (Unaudited)**

(\$ in millions)	Q312	Q412	FY2012	Q113	Q213	Q313	Q413	FY2013	Q114	Q214	Q314
Cash & Equivalents	\$964	\$700	\$700	\$550	\$681	\$892	\$1,022	\$1,022	\$893	\$822	\$903
- % Held in U.S.	22%	28%	28%	27%	39%	43%	46%	46%	32%	18%	12%
Cash Flow from Operating Activities <sup>1,2</sup>	\$296	\$103	\$486	(\$91)	\$134	\$263	\$191	\$497	(\$74)	\$112	\$340
Non-GAAP Operating Margin <sup>3</sup>	24.5%	21.3%	23.6%	25.2%	26.8%	22.5%	21.7%	24.0%	22.7%	24.0%	23.9%
DSO	43	59		52	46	53	46		47	57	42
Employee Headcount	~7,525	8,135	8,135	8,165	8,195	~8,400	~8,570	~8,570	~8,690	~9,100	9,225
Share Repurchases <sup>1</sup>											
- Number of Shares (in millions) <sup>4</sup>	0	0	2.5	0	1.0	1.0	2.0	4.0	1.4	0.6	0
- Gross Share Repurchases	\$0	\$0	(\$40)	\$0	(\$35)	(\$35)	(\$75)	(\$145)	(\$55)	(\$25)	\$0
- Net Share Repurchases <sup>5</sup>	\$25	\$28	\$111	\$20	\$1	(\$8)	(\$56)	(\$43)	(\$27)	(\$19)	\$6

- (1) Amounts may not foot due to rounding.
- (2) Will typically track earnings before interest, taxes, depreciation and amortization (EBITDA) over time (less cash taxes). As operating cash flow is inherently lumpy, we believe it is important to look at multi-year averages. For the 3-year period ended in fiscal 2013, average annual operating cash flow was approximately \$474 million.
- (3) Should be read in conjunction with the company's SEC filings and the reconciliations of the non-GAAP financial measures to their comparable GAAP measures found in this Supplement, as well as those available on the Synopsys website at [www.synopsys.com](http://www.synopsys.com).
- (4) The number of shares purchased in 2012 does not match the dollars spent in 2012 because during Q411, we entered into an accelerated share repurchase (ASR) agreement for \$75 million. Under this agreement, we received 1.7 million shares in Q411 and received the balance of 1.1 million shares in Q112 when the ASR was completed. In Q112 we entered into an additional ASR agreement for \$40 million, received 744,000 shares in Q112 and received the balance of approximately 624,000 shares in Q212.
- (5) Net share repurchases represent gross share repurchases plus cash generated from options exercised during each reported period, excluding cash paid for shares purchased under our employee stock purchase plan (ESPP). In fiscal 2013 and 2012, cash generated from our ESPP was \$48.2 million and \$42.6 million, respectively.



## Table 6 – Reconciliations of Non-GAAP Financial Measures to GAAP

Please see our Current Report on Form 8-K filed with the SEC on August 20, 2014 available at [www.sec.gov](http://www.sec.gov) for the reasons why Synopsys believes that the presentation of non-GAAP financial measures provides useful information to our shareholders regarding our financial condition and results of operations and the purposes for which management uses such non-GAAP financial measures.

### Table 6a – Supplemental GAAP to Non-GAAP Information, Three Months (Unaudited, in thousands, except per share amounts)

	Three Months Ended July 31, 2014		
	GAAP	Adjustments (1)	Non-GAAP
Cost of revenue:			
License	\$ 68,573	\$ (2,441)	\$ 66,132
Maintenance and service	20,685	(726)	19,959
Amortization of intangible assets	26,272	(26,272)	-
Operating expenses:			
Research and development	\$ 182,809	\$ (11,968)	\$ 170,841
Sales and marketing	112,271	(5,247)	107,024
General and administrative	37,438	(4,122)	33,316
Amortization of intangible assets	6,537	(6,537)	-
Operating income	\$ 67,227	\$ 57,313	\$ 124,540
Other income (expense), net	\$ 3,544	\$ (3,069)	\$ 475
Provision (benefit) for income taxes including tax settlements	\$ 5,115	\$ 16,749	\$ 21,864
Net income	\$ 65,656	\$ 37,495	\$ 103,151
Net income per share (Diluted)	\$ 0.42	\$ 0.23	\$ 0.65

Shares used in computing per share amounts:

Diluted	157,622	157,622
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- (1) The adjustments to the various line items resulted from excluding the following from non-GAAP measures: stock compensation of \$21.4 million, amortization of intangible assets of \$32.8 million, changes in the fair value of the non-qualified deferred compensation plan of \$3.1 million, tax adjustments of \$13.8 million, tax and other settlements of \$3.0 million.

## Non-GAAP Basis Operating Margin Reconciliation

Non-GAAP operating margin represents, for a given period, total non-GAAP operating income as a percentage of revenue for such period. The following table reconciles operating margin on a GAAP basis to operating margin on a non-GAAP basis for the three months ended July 31, 2014:

**Table 6b – Non-GAAP Operating Margin Reconciliation (Unaudited)**

	<u>Three Months Ended</u> <u>July 31, 2014</u>
GAAP operating margin	12.9%
Amortization of intangible assets	6.3%
Stock compensation	4.1%
Acquisition-related costs	0.0%
Other settlements	0.0%
Change in value of non-qualified deferred compensation	0.6%
Non-GAAP operating margin	<u>23.9%</u>

Certain other non-GAAP data used by management, as well as the reconciliation of such data to its most directly comparable GAAP measures, is contained in the third quarter fiscal year 2014 earnings release available on Synopsys's website at [www.synopsys.com/Company/InvestorRelations/Pages/FinancialNews.aspx](http://www.synopsys.com/Company/InvestorRelations/Pages/FinancialNews.aspx) and our Current Report on Form 8-K filed with the SEC on August 20, 2014.

## Effectiveness of Information

The information contained in this Supplement represents Synopsys' expectations and beliefs as of August 20, 2014, the date of this Supplement only. Although this Supplement will remain available on Synopsys' website through the date of the fourth quarter fiscal 2014 earnings call in December 2014, its continued availability through such date does not mean that Synopsys is reaffirming or confirming its continued validity. Synopsys does not currently intend to, and assumes no obligation to, report on its progress during the fourth quarter of fiscal 2014 or comment to analysts or investors on, or otherwise update, the information contained in this Supplement.