

Synopsys, Inc.
Third Quarter Fiscal Year 2008 Financial Disclosure Supplement
August 20, 2008

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, 2008.

This Supplement contains forward-looking statements relating to expected future revenue from current aggregate 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 our ability to deliver the products or services ordered, our customers' willingness to accept services delivered, our customers' willingness or ability to make committed payments, changes in technology, our ability to effectively integrate the business and technologies from newly acquired companies and realize expected synergies, inability to recognize revenue from backlog when expected, general economic conditions and other risks as

detailed from time to time in our SEC filings, including those described in the “Risk Factors” section in our most recent Quarterly Report on Form 10-Q. In addition, this Supplement contains non-GAAP financial measures as defined by the Securities and Exchange Commission 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 and Systems; Manufacturing; and Professional Services & Other.

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

Galaxy. Our Galaxy Design Platform provides our customers a single, integrated IC design solution which incorporates common libraries and consistent timing, delay calculation and constraints throughout the design process. The principal products included in the Galaxy platform are the IC Compiler physical design solution, Design Compiler[®] logic synthesis product, NanoTime and PrimeTime[®]/PrimeTime[®] SI timing analysis products, Star RXCT[™] extraction solution, Hercules[™] physical verification product family, and PrimeYield tool suite for yield enhancement.

Discovery. Our Discovery Verification Platform combines our simulation and verification products and design-for-verification methodologies, and provides a consistent control environment to 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, Vera[®] testbench generator, Formality[®] formal verification sign-off solution, NanoSim[®] FastSPICE circuit simulation and analysis product, HSPICE[®] circuit simulator, and our Discovery AMS mixed-signal verification solution.

FPGA Design. Our FPGA design products include Synplify and the portion of Identify, Identify Pro, Synplify Pro, and Synplify Premier used for FPGA design.

Intellectual Property and Systems. Our IP solutions include our DesignWare[®] Foundation Library of basic chip elements, VCS Verification Library of popular chip function models and DesignWare Cores, pre-designed and pre-verified digital and mixed-signal design blocks

that implement many of the most important industry standards, including USB (1.1, 2.0 and On-the-Go), PCI (PCI, PCI-X and PCI-Express), Serial ATA, Ethernet, AMBA 2.0, AMBA 3 and OCP. Our System solutions include our Innovator virtual platform, System Studio system-level design solution, HAPS (High-performance ASIC Prototyping System), Certify, Synplify DSP and the portion of Identify, Identify Pro, Synplify Pro, and Synplify Premier used for ASIC rapid prototyping.

Manufacturing. Our Manufacturing products and technologies address the mask-making and yield enhancement of very small geometry ICs and include our TCAD device modeling products, Proteus™/InPhase optical proximity correction products, phase-shift masking technologies, SiVL® layout verification product, and CATS® mask data preparation product.

Professional Services & Other. Our Professional Services group provides consulting services, including design methodology assistance, specialized systems design services, turnkey design and training.

The following table summarizes the revenue attributable to these groups as a percentage of total revenue for the last nine quarters. 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)	Q306	Q406	FY2006	Q107	Q207	Q307	Q407	FY2007	Q108	Q208	Q308
Core EDA	215.1	210.0	425.1	229.4	219.4	225.7	232.5	907.1	237.8	244.5	258.5
IP & Systems	22.2	26.0	48.2	23.4	25.0	25.0	24.4	97.8	25.2	23.8	29.8
Manufacturing	28.7	33.7	62.4	34.1	32.9	38.5	42.3	147.8	37.4	38.5	38.8
Services & Other	11.3	13.7	25.0	13.3	15.7	14.8	16.0	59.8	15.1	17.8	17.0
Total	277.2	283.4	560.6	300.2	292.9	304.1	315.2	1,212.5	315.5	324.6	344.1
	Q306	Q406	FY2006	Q107	Q207	Q307	Q407	FY2007	Q108	Q208	Q308
Core EDA	78%	74%	76%	76%	75%	74%	74%	75%	75%	75%	75%
IP & Systems	8%	9%	9%	8%	9%	8%	8%	8%	8%	7%	9%
Manufacturing	10%	12%	11%	11%	11%	13%	13%	12%	12%	12%	11%
Services & Other	4%	5%	4%	4%	5%	5%	5%	5%	5%	6%	5%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: Amounts included in the table above may not foot due to rounding. Product revenue data for multi-region, 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)	Q306	Q406	FY2006	Q107	Q207	Q307	Q407	FY2007	Q108	Q208	Q308
North America	146.7	148.6	295.3	155.2	154.8	158.4	167.4	635.9	165.4	165.3	170.5
Europe	46.5	44.7	91.2	48.2	45.1	47.7	48.0	189.0	49.3	48.8	47.9
Japan	45.1	48.3	93.3	50.6	46.0	48.6	48.7	193.9	52.5	60.1	74.0
Asia Pacific	38.9	41.8	80.7	46.2	46.9	49.5	51.1	193.7	48.3	50.5	51.7
Total	277.2	283.4	560.6	300.2	292.9	304.1	315.2	1,212.5	315.5	324.6	344.1

	Q306	Q406	FY2006	Q107	Q207	Q307	Q407	FY2007	Q108	Q208	Q308
North America	53%	52%	53%	52%	53%	52%	53%	52%	52%	51%	50%
Europe	17%	16%	16%	16%	15%	16%	15%	16%	16%	15%	14%
Japan	16%	17%	17%	17%	16%	16%	15%	16%	17%	19%	22%
Asia Pacific	14%	15%	14%	15%	16%	16%	16%	16%	15%	16%	15%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

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 Types: Our time-based licenses are licenses on which we recognize revenue over time.

Technology Subscription Licenses (TSLs):

We typically recognize revenue from TSL licenses (which include bundled maintenance) ratably over the term of the license period. However, where we offer extended payment terms (i.e., where a substantial portion of the arrangement fee is due more than one year from shipment), we recognize revenue from TSLs in an amount equal to the lesser of the ratable portion of the entire fee or customer installment payments as they become due and payable.

Term Licenses with

Extended Payment Terms:

For term licenses where less than a substantial portion 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 on an annual basis. Maintenance revenue is recognized ratably over the maintenance term and is included in the maintenance and service line of 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. We recognize the perpetual license fee as customer installment payments become due and payable in the event less than a substantial portion of the perpetual license fee is due within one year of shipment. Maintenance is purchased separately on an annual basis. Maintenance revenue is recognized ratably over the maintenance term and is included in the maintenance and service line of our statement of operations.

Upfront License Types:

Our upfront licenses are licenses on which we recognize the license revenue upon shipment of software.

Perpetual Licenses:

Perpetual licenses continue for as long as the customer renews maintenance, plus an additional twenty years. We recognize the perpetual license fee in full upon shipment of the software if payment terms require the customer to pay a substantial portion 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. Maintenance revenue is recognized ratably over the maintenance term and is included in the maintenance and service line of our statement of operations.

Upfront Term Licenses:

Upfront term licenses, like term licenses with extended payment terms, are for a finite term. We recognize term license fees in full upon shipment of the software if payment terms require the customer to pay a substantial portion of the term license fee within one year from shipment and all other revenue recognition criteria are met. Maintenance is purchased separately on an annual basis. Maintenance revenue is

recognized ratably over the maintenance term and is included in the maintenance and service line of 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.

Table 4 – Revenue, Backlog, and Contract Duration (Unaudited)

	Q306	Q406	FY2006	Q107	Q207	Q307	Q407	FY2007	Q108	Q208	Q308
Avg renewable license duration (yrs) ¹	2.9	3.1	3.0	2.9	2.6	>4	~3	~3.5	~3	~3	~3
Aggregate backlog ² - Turns to annual revenue in subsequent fiscal year ³			\$2.0 bn >80% of '07 rev					\$2.5 bn >80% of '08 rev			
Revenue Mix (in millions) ⁴											
- TBL	224.8	229.6	874.9	251.6	243.1	251.4	257.9	1,004.0	267.9	278.2	289.3
- Upfront	14.4	14.3	63.1	13.5	14.6	19.0	20.4	67.5	12.5	12.2	20.6
- Service ⁵	38.0	39.5	157.6	35.1	35.2	33.7	36.9	140.9	35.1	34.1	34.3
Revenue Mix (% of total rev) ⁴											
- TBL	81%	81%	80%	84%	83%	83%	82%	83%	85%	86%	84%
- Upfront	5%	5%	6%	4%	5%	6%	6%	6%	4%	4%	6%
- Service ⁵	14%	14%	14%	12%	12%	11%	12%	12%	11%	11%	10%

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

(2) Aggregate backlog is composed of deferred revenue, operational backlog and financial backlog as of the end of the applicable fiscal year. Deferred revenue represents that portion of orders for software products, license maintenance and other services which have been delivered and billed to the customer but on which the revenue has not yet been earned. Operational backlog consists of orders for software products and maintenance that have not been shipped and orders for consulting services that have not been performed and accepted. Financial backlog consists of future installments not yet due and payable under existing time-based licenses and maintenance contracts. In the case of a TSL, financial backlog includes the full amount of the committed non-cancelable order, less any amount of revenue that has been recognized on such TSL. The increase in aggregate backlog from fiscal year end 2006 to fiscal year end 2007 results primarily from an increase in the weighted average length of our contracts caused by the extended length of a large customer agreement.

(3) Amount of projected subsequent annual revenue expected to come from aggregate 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 – Reconciliations of Non-GAAP Financial Measures to GAAP

Synopsys' management evaluates and makes decisions about its 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(R) and changes 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: 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, 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.

**Table 5a – Supplemental GAAP to Non-GAAP Information
(Unaudited, in thousands, except per share amounts)**

Supplemental GAAP to Non-GAAP information

(in thousands, except per share amounts)

	Three Months Ended July 31, 2008		
	GAAP	Adjustments (1)	Non-GAAP
Cost of revenue:			
License	\$ 44,654	\$ (2,089)	\$ 42,565
Maintenance and service	16,110	(784)	15,326
Amortization of intangible assets	6,262	(6,262)	-
Operating expenses:			
Research and development	\$ 104,394	\$ (7,203)	\$ 97,191
Sales and marketing	86,816	(4,103)	82,713
General and administrative	26,512	(2,841)	23,671
In-process research and development	4,800	(4,800)	-
Amortization of intangible assets	4,548	(4,548)	-
Operating income	\$ 50,032	\$ 32,630	\$ 82,662
Other income, net	\$ 2,947	\$ 301	\$ 3,248
Provision for income taxes (2)	\$ (4,770)	\$ 26,176	\$ 21,406
Net income	\$ 57,749	\$ 6,755	\$ 64,504
Net income per share (Diluted)	\$ 0.39	\$ 0.05	\$ 0.44

Shares used in computing per share amounts:

Diluted	147,486	147,486
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(1) Adjustments consist of share-based compensation and related tax effect under FAS 123(R), changes in fair value of non-qualified deferred compensation plan obligation and to the extent incurred amortization of intangible assets, in-process research and development charges, integration and other significant items, which in the opinion of management are extraordinary. For the quarter ended July 31, 2008, total share-based compensation of \$17.3 million as follows: cost of revenue \$2.9 million; research & development \$7.3 million; sales & marketing \$4.2 million; general & administrative \$2.9 million.

(2) Adjustments include a one-time tax benefit from IRS settlement of \$17.3M.

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, 2008:

Table 5b – Non-GAAP Operating Margin Reconciliation (Unaudited)

Non-GAAP Operating Margin Reconciliation

	<u>Three Months Ended</u> <u>July 31, 2008</u>
GAAP operating margin	14.5%
Amortization of intangible assets	3.1%
Share-based compensation	5.0%
In-process research and development	1.4%
Change in value of non-qualified deferred compensation	0.0%
Non-GAAP operating margin	<u>24.0%</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 2008 earnings release available on the Company's website at www.synopsys.com/corporate/invest/.

Effectiveness of Information

The information contained in this financial supplement represents Synopsys' expectations and beliefs as of August 20, 2008, the date of this supplement only. Although this supplement will remain available on Synopsys' website through the date of the fourth quarter fiscal 2008 earnings call in December 2008, 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 2008 or comment to analysts or investors on, or otherwise update, the information contained in this supplement.