



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 19, 2015.

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, which includes our digital and custom IC design products, our verification products, and our field-programmable gate array (FPGA) design products; IP/Systems/Software Integrity (SI), which includes our DesignWare[®] IP portfolio, our system-level design tools, and our software quality and security testing solutions; Manufacturing Solutions; and Professional Services and Other.

Core EDA. Includes digital and custom IC design products, verification products and FPGA design products.

Digital and Custom IC Design. 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 our IC Compiler[™] I physical design solution and our IC Compiler[™] II complete place-and-route system, Design Compiler[®] logic synthesis product, Galaxy Custom Designer[®] and Laker[®] Layout custom design solutions, CustomSim[™] tool for analog/mixed-signal verification, PrimeTime[®] timing analysis products, StarRC[™] product for extraction, and IC Validator tool for physical verification.

Verification. Our Verification Continuum[™] Platform enables earlier software bring-up and shorter times-to-market for advanced SoCs and is built from our industry-leading and fastest verification technologies. The principal products included in the Verification Continuum platform are our Verification Compiler[™] solution, which is a complete portfolio of integrated, next-generation verification technologies that include advanced debug (Verdi[®] solution), simulation (VCS[®] comprehensive RTL verification technology), new static and formal verification technology, planning and coverage technology; our ZeBu[®] emulation systems, which use high-performance hardware to emulate SoC designs; and our other principal individual verification solutions, which include CustomSim[™] FastSPICE and FineSim[®] SPICE/FastSPICE circuit simulation and analysis products, HSPICE[®] circuit simulator, and CustomExplorer[™] Ultra mixed-signal regression and analysis environment. Our Verification Continuum Platform also includes virtual prototyping and FPGA-based prototyping solutions, which are system-level solutions that are included in our IP/Systems/SI group rather than Core EDA.

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/Systems/Software Integrity. 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 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, MIPI 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[™] software, which enables early and rapid exploration of SoC architectural tradeoffs, our next-generation Virtualizer[™] virtual prototyping tool, and our HAPS[®] 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 the design of optical systems and photonic devices. Our Software Integrity platform includes software quality, testing and security solutions to help software developers reduce the risk of errors and security defects in their code before it is released.

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[™] Technology-CAD (TCAD) device and process simulation products, the Proteus[™] optical proximity correction (OPC) and lithography rule check (LRC) products, the CATS[®] mask data preparation product, and the Yield Explorer[®] and Odyssey/Yield Manager 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)	Q313	Q413	FY2013	Q114	Q214	Q314	Q414	FY2014	Q115	Q215	Q315
Core EDA	298.5	318.3	1,229.6	308.9	323.5	320.0	326.8	1,279.1	317.4	337.9	348.2
IP/Systems/SI*	123.4	119.1	485.8	108.6	137.1	143.3	153.1	542.1	163.3	156.4	140.9
Manufacturing	42.3	49.3	179.9	45.8	41.9	43.2	44.4	175.3	45.0	44.9	47.0
Services & Other	18.7	18.2	66.9	15.7	15.3	15.3	14.7	60.9	16.4	18.1	19.8
Total	482.9	504.9	1,962.2	479.0	517.7	521.8	539.0	2,057.5	542.0	557.2	555.8

	Q313	Q413	FY2013	Q114	Q214	Q314	Q414	FY2014	Q115	Q215	Q315
Core EDA	62%	63%	63%	64%	62%	61%	61%	62%	59%	61%	63%
IP/Systems/SI*	26%	24%	25%	23%	26%	27%	28%	26%	30%	28%	25%
Manufacturing	9%	10%	9%	10%	8%	8%	8%	9%	8%	8%	8%
Services & Other	4%	4%	3%	3%	3%	3%	3%	3%	3%	3%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

* SI = Software Integrity

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)	Q313	Q413	FY2013	Q114	Q214	Q314	Q414	FY2014	Q115	Q215	Q315
North America	241.6	241.5	974.1	237.2	247.8	272.5	280.7	1,038.3	281.3	289.8	280.3
Europe	68.6	75.3	273.0	66.7	71.1	65.9	69.3	272.9	71.9	75.0	80.3
Japan	64.9	63.6	264.1	64.3	58.4	61.5	54.4	238.6	60.9	53.2	51.0
Asia Pacific	107.9	124.5	450.9	110.8	140.4	121.9	134.7	507.7	128.0	139.2	144.2
Total	482.9	504.9	1,962.2	479.0	517.7	521.8	539.0	2,057.5	542.0	557.2	555.8

	Q313	Q413	FY2013	Q114	Q214	Q314	Q414	FY2014	Q115	Q215	Q315
North America	50%	48%	50%	50%	48%	52%	52%	50%	52%	52%	50%
Europe	14%	15%	14%	14%	14%	13%	13%	13%	13%	13%	14%
Japan	13%	13%	14%	13%	11%	12%	10%	12%	11%	10%	9%
Asia Pacific	22%	25%	23%	23%	27%	23%	25%	25%	24%	25%	26%
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

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 and 100% of the maintenance 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 and 100% of maintenance 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 and 100% of maintenance 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 and 100% of maintenance 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)

	Q313	Q413	FY2013	Q114	Q214	Q314	Q414	FY2014	Q115	Q215	Q315
Avg renewable license duration (yrs) ¹	~2.9	~3	>3.5	~2.6	~2.8	~3.1	~2.8	~2.9	~2.4	~2.5	~2.5
Backlog ²			\$3.1 bn					\$3.5 bn			
- Portion of projected revenue to come from backlog ³			~75% of '14 rev					~80% of '15 rev			
Revenue Mix (in millions) ⁴											
- Time-Based License	387.1	412.9	1,599.5	400.1	424.2	431.2	443.6	1,699.1	431.0	447.8	445.8
- Upfront	40.0	36.5	132.0	34.0	36.3	31.6	33.9	135.8	46.5	44.3	48.9
- Maintenance and Service ⁵	55.9	55.5	230.7	44.8	57.2	59.0	61.5	222.6	64.5	65.0	61.1
Revenue Mix (% of total rev) ⁴											
- Time-Based License	80%	82%	82%	84%	82%	83%	82%	83%	80%	80%	80%
- Upfront	8%	7%	7%	7%	7%	6%	6%	7%	9%	8%	9%
- Maintenance and Service ⁵	12%	11%	12%	9%	11%	11%	11%	11%	12%	12%	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 \$3.5 billion on October 31, 2014, representing a 13% increase from backlog of approximately \$3.1 billion on October 31, 2013. This increase resulted primarily from the renewal in fiscal 2014 of large multi-year contracts, business growth, and to a lesser extent, acquisitions. 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)	Q313	Q413	FY2013	Q114	Q214	Q314	Q414	FY2014	Q115	Q215	Q315
Cash, Cash Equivalents & Short-term Investments	\$892	\$1,022	\$1,022	\$893	\$822	\$903	\$986	\$986	\$917	\$1,005	\$1,123
- % Held in U.S.	43%	46%	46%	32%	18%	12%	16%	16%	13%	15%	31%
Cash Flow from Operating Activities ^{1,2}	\$263	\$191	\$497	(\$74)	\$112	\$340	\$173	\$551	(\$87)	\$155	\$275
Non-GAAP Operating Margin ³	22.5%	21.7%	24.0%	22.7%	24.0%	23.9%	21.6%	23.0%	25.7%	24.7%	22.4%
DSO	53	46		47	57	42	55		48	55	50
Employee Headcount	~8,400	~8,570	~8,570	~8,690	~9,100	9,225	~9,440	~9,440	~9,300	~9,450	~9,835
Share Repurchases ¹											
- Number of Shares (in millions) ⁴	1.0	2.0	4.0	1.4	0.6	0	1.0	3.1	3.3	0.0	0.7
- Gross Share Repurchases	(\$35)	(\$75)	(\$145)	(\$55)	(\$25)	\$0	(\$40)	(\$120)	(\$180)	\$0	\$0
- Net Share Repurchases ⁵	(\$8)	(\$56)	(\$43)	(\$27)	(\$19)	\$6	(\$28)	(\$69)	(\$164)	\$17	\$21

- (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 2014, average annual operating cash flow was approximately \$511 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.
- (4) During Q115, we entered into an accelerated share repurchase (ASR) agreement for \$180 million. Under this agreement, we received 3.3 million shares in Q115 and the balance of 678,000 shares in Q315 when the ASR was completed.
- (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 2014 and 2013, cash received from our ESPP was \$52.7 million and \$48.1 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 19, 2015 available at www.sec.gov for the reasons why Synopsis 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. In addition to the adjustments described in the Current Report on Form 8-K, the non-GAAP financial measures provided in this Supplement also exclude changes in the fair value of our non-qualified deferred compensation plans since such changes typically do not require current cash settlement and because they are not used by us in assessing the profitability of our business operations.

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

	Three Months Ended July 31, 2015		
	GAAP	Adjustments (1)	Non-GAAP
Cost of revenue:			
License	\$ 77,516	\$ (2,585)	\$ 74,931
Maintenance and service	25,251	(570)	24,681
Amortization of intangible assets	26,704	(26,704)	-
Operating expenses:			
Research and development	\$ 197,999	\$ (13,077)	\$ 184,922
Sales and marketing	116,988	(5,635)	111,353
General and administrative	43,925	(8,284)	35,641
Amortization of intangible assets	6,188	(6,188)	-
Restructuring charges	(248)	248	-
Operating income	\$ 61,482	\$ 62,795	\$ 124,277
Other income (expense), net	\$ 3,711	\$ (1,815)	\$ 1,896
Provision (benefit) for income taxes	\$ 9,806	\$ 16,689	\$ 26,495
Net income	\$ 55,387	\$ 44,291	\$ 99,678
Net income per share (Diluted)	\$ 0.35	\$ 0.28	\$ 0.63

Shares used in computing per share amounts:

Diluted	158,584	158,584
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- (1) The adjustments to the various line items resulted from excluding the following from non-GAAP measures: stock compensation of \$23.9 million, amortization of intangible assets of \$32.9 million, acquisition-related costs of \$4.4 million, restructuring charges of \$0.2 million, changes in the fair value of the non-qualified deferred compensation plan of \$1.8 million, tax adjustments of \$6.4 million, and legal and tax matters of \$10.3 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, 2015:

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

	<u>Three Months Ended</u> <u>July 31, 2015</u>
GAAP operating margin	11.1%
Amortization of intangible assets	5.9%
Stock compensation	4.3%
Acquisition-related costs	0.8%
Restructuring charges	0.0%
Legal & tax matters	0.0%
Change in value of non-qualified deferred compensation	0.3%
Non-GAAP operating margin	<u>22.4%</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 2015 earnings release available on Synopsys’s website at www.synopsys.com/Company/InvestorRelations/Pages/FinancialNews.aspx and our Current Report on Form 8-K filed with the SEC on August 19, 2015.

Effectiveness of Information

The information contained in this Supplement represents Synopsys’ expectations and beliefs as of August 19, 2015, the date of this Supplement only. Although this Supplement will remain available on Synopsys’ website through the date of the fourth quarter fiscal 2015 earnings call in December 2015, 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 2015 or comment to analysts or investors on, or otherwise update, the information contained in this Supplement.