

APPLIED INDUSTRIAL TECHNOLOGIES INC
Form DEF 14A
September 02, 2005

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11c or Section 240.14a-12

APPLIED INDUSTRIAL TECHNOLOGIES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

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(4) Date Filed:

APPLIED INDUSTRIAL TECHNOLOGIES, INC.

ONE APPLIED PLAZA

CLEVELAND, OHIO 44115

(216) 426-4000

www.applied.com

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholder:

We are pleased to invite you to the 2005 annual meeting of the shareholders of Applied Industrial Technologies, Inc. The meeting will be held at our headquarters, One Applied Plaza, East 36th Street and Euclid Avenue, Cleveland, Ohio, on Wednesday, October 12, 2005, at 10:00 a.m., Eastern Time, for the purposes of:

1. Electing four directors for a term of three years;
2. Voting on a proposal to amend the Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock, without par value, from 50,000,000 to 80,000,000; and,
3. Voting on a proposal to ratify the appointment of independent auditors for the fiscal year ending June 30, 2006.

If you were a shareholder of record at the close of business on August 19, 2005, you are entitled to vote at the meeting. The transfer books will not be closed. A list of the shareholders as of the record date will be available for examination at the meeting.

The business of the meeting and other information are described in the attached proxy statement. After the meeting, we will report on our operations and other matters of current interest.

By order of the Board of Directors.

FRED D. BAUER

Vice President-General Counsel

& Secretary

September 2, 2005

Your vote is important! Whether or not you expect to attend the meeting, please promptly vote by telephone, via the Internet, or by executing and returning the enclosed proxy card in the postage-paid envelope provided. Voting early will help avoid additional solicitation costs.

PROXY STATEMENT

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INTRODUCTION

In this statement, we, our, us, and Applied all refer to Applied Industrial Technologies, Inc.

What is the proxy statement's purpose?

The proxy statement relates to our 2005 annual meeting of shareholders to be held on Wednesday, October 12, 2005, at 10:00 a.m., Eastern Time, at our headquarters, and any adjournment of that meeting. The proxy statement summarizes information you need to know to vote at the meeting. We are sending the proxy statement to you because Applied's Board of Directors is soliciting your proxy to vote your shares at the meeting. The proxy statement and the accompanying proxy card are being mailed to shareholders on or about September 2, 2005.

On what matters are shareholders voting?

1. The election of four directors.
2. A proposal to amend the Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock.
3. A proposal to ratify the Audit Committee's appointment of Deloitte & Touche LLP as Applied's independent auditors for the fiscal year ending June 30, 2006.

Who may vote and what constitutes a quorum at the meeting?

Only shareholders of record at the close of business on August 19, 2005, may vote at the meeting. As of that date, there were 30,107,112 outstanding shares of Applied common stock, without par value. The holders of a majority of those shares will constitute a quorum to hold the meeting. A quorum is necessary for valid action to be taken at the meeting.

How many votes do I have?

Each share is entitled to one vote.

How do I vote?

Whether or not you expect to attend the meeting, **we urge you to vote**. You may vote by telephone, via the Internet, or by mailing your signed proxy card in the envelope provided. The card indicates the number of shares that you own. Instructions for each voting method are also indicated on the card. Your Internet or telephone vote authorizes the proxies named on the proxy card to vote your shares in the same manner as if you signed and returned your proxy card by mail.

Votes submitted by telephone or via the Internet for shares held in Applied's Retirement Savings Plan or Supplemental Defined Contribution Plan must be received by Sunday, October 9, 2005; votes by telephone or via the Internet for other shares must be received by Tuesday, October 11, 2005.

If you plan to attend the meeting and vote in person, a ballot will be available when you arrive. If, however, your shares are held in the name of your broker, bank, or other nominee, you must bring a valid proxy from that party.

Votes are tabulated by the inspector of election, Computershare Investor Services LLC.

What if I don't indicate my voting choices?

If Applied receives your proxy in time to permit its use at the meeting, your shares will be voted according to your indicated instructions. If you have not indicated otherwise, your shares will be voted as Applied's Board of Directors recommends on the three matters mentioned above. In addition, the proxies will vote your shares according to their judgment on other matters that may be brought before the meeting.

What effect do abstentions and broker non-votes have?

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If you indicate that you abstain on Item 2 or 3, you will be counted as present at the meeting for purposes of determining whether there is a quorum, and you will be counted as voting (but not for or against) that item. Because a majority of the outstanding shares is required for approval of Item 2, and a majority of the shares present and entitled to vote is required for approval of Item 3, an abstention on either item will have the effect of a vote against the proposal.

Brokers holding shares for beneficial owners must vote the shares according to the instructions they receive from the owners. If instructions are not received, then brokers may vote the shares at their discretion, except if New York Stock Exchange rules preclude brokers from exercising voting discretion relative to a specific type of proposal. In such a case, the broker may not vote on the proposal absent instructions – this is called a broker non-vote. Broker non-votes are counted as present for the purpose of determining whether there is a quorum, but are not counted as voting, and so will have the effect of a vote against a proposal for which a majority of the outstanding shares, or of the shares present at the meeting, is required for approval.

Brokers will have discretionary authority to vote on Items 1, 2, and 3, so there will be no broker non-votes on those items.

May I revoke my proxy?

You may revoke your proxy at any time before it is voted at the meeting by notifying Applied's Secretary in writing, voting at a later time by telephone or via the Internet, returning a later-dated proxy card, or voting in person at the meeting. Your presence at the meeting will not by itself revoke the proxy.

Who pays the costs of soliciting proxies?

Applied will pay the cost of soliciting proxies. We will also pay the standard charges and expenses of brokers, or other nominees and fiduciaries, for forwarding these materials to and obtaining proxies from registered shareholders and beneficial owners for whose accounts they hold shares. Directors, officers, and other Applied employees, acting on our behalf, may also solicit proxies, and Morrow & Co. has been retained, at an estimated fee of \$7,000 plus expenses, to aid in soliciting proxies from brokers and institutional holders. In addition to using the mail, proxies may be solicited personally, and by telephone, facsimile, and electronic means.

Does the stock information in this proxy statement reflect the recent stock split?

Yes. All stock, stock-based award, and stock-based performance information has been adjusted to reflect the three-for-two split in our common stock effective December 17, 2004.

ITEM 1 ELECTION OF DIRECTORS

Our Board of Directors is divided into three classes. At the annual meeting, directors of Class III are to be elected for a term of three years expiring in 2008 or until their successors have been duly elected and qualified. The properly nominated candidates receiving the greatest number of votes will be elected. The persons serving as directors of Class I for a term expiring in 2006 and as directors of Class II for a term expiring in 2007 will continue in office.

The Corporate Governance Committee has recommended, and the Board has approved, the nomination of four persons for election as directors at the annual meeting. The nominees are L. Thomas Hiltz, John F. Meier, David L. Pugh, and Peter C. Wallace. Messrs. Hiltz and Pugh are incumbents who were elected as directors at the 2002 annual meeting of shareholders. William E. Butler and Russell R. Gifford, whose terms expire in October, are retiring from the Board.

The proxies named in the accompanying proxy card intend to vote for the four nominees unless authority is withheld. If any nominee becomes unavailable to serve as a director, the proxies reserve discretion to vote for any other person or persons that may be nominated at the meeting and/or to vote to reduce the number of directors. We are not aware of any existing circumstance that would cause a nominee to be unavailable to serve.

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Information concerning the nominees and the directors continuing in office is shown below. Unless otherwise stated, the nominees and directors have held the positions indicated for the last five years.

Nominees for Election as Directors for a Term Expiring in 2008

L. Thomas Hiltz

Director since 1981, member of Corporate Governance Committee

Business Experience: Mr. Hiltz, age 59, is an attorney in Covington, Kentucky and is one of five trustees of the H.C.S. Foundation, a charitable trust which has sole voting and dispositive power with respect to 491,000 shares (as of June 30, 2005) of Applied common stock.

John F. Meier

Business Experience: Mr. Meier, age 57, is Chairman and Chief Executive Officer of Libbey Inc. , a leading supplier of tableware products in the U.S. and Canada, in addition to supplying to other key international markets.

Other Directorships: Cooper Tire & Rubber Company, Libbey Inc.

David L. Pugh

Director since 2000, member of Executive Committee

Business Experience: Mr. Pugh, age 56, is Applied's Chairman (since October 2000) and Chief Executive Officer (since January 2000). He was Applied's President from 1999 to October 2000.

Other Directorship: JLG Industries, Inc.

Peter C. Wallace

Business Experience: Mr. Wallace, age 51, has been President and Chief Executive Officer, and a director, of Robbins & Myers, Inc. since July 2004. Robbins & Myers is a leading designer, manufacturer, and marketer of highly engineered, application-critical equipment and systems for the pharmaceutical, energy, and industrial markets worldwide. From October 2001 to July 2004, Mr. Wallace was President and Chief Executive Officer of IMI Norgren Group, a manufacturer of sophisticated motion and fluid control systems for original equipment manufacturers. From 1998 to October 2001, he was President and Group Chief Executive of Rexnord Corporation, a manufacturer of power transmission and conveying components.

Other Directorship: Robbins & Myers, Inc.

Persons Serving as Directors for a Term Expiring in 2006

Thomas A. Commes

Director since 1999, member of Audit and Executive Committees

Business Experience: Until his retirement in 1999, Mr. Commes, age 63, was President and Chief Operating Officer, and a director, of The Sherwin-Williams Company, a manufacturer, distributor, and retailer of paints and painting supplies. His career included service as that company's Chief Financial Officer.

Other Directorships: Agilysys, Inc., U-Store-It Trust

Peter A. Dorsman

Director since 2002, member of Executive Organization & Compensation Committee

Business Experience: Mr. Dorsman, age 50, was Executive Vice President & Chief Operating Officer (from 2000 to June 2004) of The Standard Register Company, a leading provider of information solutions for financial services, healthcare, manufacturing, and other markets worldwide.

J. Michael Moore

Director since 1997, member of Audit Committee

Business Experience: Mr. Moore, age 62, is President of Oak Grove Consulting Group, Inc. He was Chairman and Chief Executive Officer of Invetech Company, a distributor of bearings, mechanical and electrical drive system products, industrial rubber products, and specialty maintenance and repair products, prior to its acquisition by Applied in 1997.

Dr. Jerry Sue Thornton

Director since 1994, member of Corporate Governance Committee

Business Experience: Dr. Thornton, age 58, is President of Cuyahoga Community College, the largest multi-campus community college in Ohio, serving 25,600 college students and 18,000 workforce training customers annually with 70 career and technical programs.

Other Directorships: American Greetings Corporation, National City Corporation, RPM, Inc.

Persons Serving as Directors for a Term Expiring in 2007

William G. Bares

Director since 1986, member of Executive and Executive Organization & Compensation Committees

Business Experience: Mr. Bares, age 64, was Chairman of The Lubrizol Corporation until his retirement from that post in December 2004. He was also Lubrizol's Chief Executive Officer until April 2004 and President until January 2003. Lubrizol is a premier specialty chemical company focused on providing innovative technology to global transportation, industrial, and consumer markets.

Other Directorship: KeyCorp

Edith Kelly-Green

Director since 2002, member of Audit Committee

Business Experience: Until her retirement in October 2003, Ms. Kelly-Green, age 52, was Vice President and Chief Sourcing Officer of FedEx Express, the world's largest express transportation company and a subsidiary of FedEx Corporation.

Stephen E. Yates

Director since 2001, member of Executive Organization & Compensation Committee

Business Experience: Mr. Yates, age 57, joined KeyCorp, one of the nation's largest bank-based financial services companies, as Executive Vice President and Chief Information Officer in September 2004. He had been President of USAA Information Technology Company until May 2004.

ITEM 2 AMENDMENT OF AMENDED AND RESTATED ARTICLES OF INCORPORATION TO INCREASE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

Article FOURTH of Applied's Amended and Restated Articles of Incorporation currently fixes the authorized number of shares of Applied common stock at 50,000,000 and the authorized number of shares of preferred stock at 2,500,000. For the reasons discussed below, the Board of Directors has approved, and recommends for shareholder approval, an amendment to increase the number of authorized shares of common stock by 30,000,000 (the Additional Shares) to 80,000,000. No change is being proposed in the authorized number of shares of preferred stock.

Of the 50,000,000 currently authorized shares of common stock, at August 19, 2005 there were 36,142,918 shares issued (12,047,300 of these were issued as a result of the three-for-two stock split effected in December 2004), of which approximately 30,107,112 shares were outstanding and 6,035,806 shares were held in Applied's treasury. This left approximately 13,857,082 authorized but unissued shares available for future use.

The amendment would increase the number of authorized but unissued shares to approximately 43,857,082. While Applied does not have any commitment or understanding at this time for the issuance of the Additional Shares, the Board believes it is desirable to have them available for possible stock splits or other stock distributions, acquisitions, financings, employee benefit plans or other purposes not currently foreseeable. The amendment would allow the Board to authorize the issuance of the Additional Shares without further shareholder approval, unless required for a particular transaction by applicable law, regulation, or the rules of any stock exchange on which Applied's securities are listed.

The authorization of the Additional Shares would not, by itself, have any effect on the rights of Applied shareholders. The issuance of the Additional Shares for corporate purposes other than a stock split could have, among other things, a dilutive effect on earnings per share and on the equity and voting power of shareholders at the time of the issuance. In addition, the increase in authorized shares could render more difficult under some circumstances or discourage an attempt to obtain control of Applied, whether through a tender offer or otherwise, by, for example, allowing the issuance of shares that would dilute the share ownership of a person attempting to obtain control. This proposal is not, however, being made in response to any effort of which Applied is aware to accumulate shares or obtain control of Applied.

The amendment requires the affirmative vote of the holders of a majority of the outstanding shares of common stock. If the amendment were approved, Article FOURTH would be amended to read as follows:

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is Eighty Million (80,000,000) shares of Common Stock, without par value, and Two Million Five Hundred Thousand (2,500,000) shares of Preferred Stock, without par value.

The Board of Directors recommends that the shareholders vote FOR the amendment.

ITEM 3 RATIFICATION OF AUDITORS

The Audit Committee, subject to shareholder ratification, has appointed Deloitte & Touche LLP to serve as independent auditors in fiscal 2006. Applied has been advised by Deloitte & Touche that no partner of the firm has had any direct financial interest or any material indirect financial interest in Applied or its subsidiaries or any connection during the past three years with Applied or its subsidiaries in the capacity of promoter, underwriter, voting trustee, director, officer, or employee.

Aggregate fees billed to Applied for fiscal 2005 and 2004 by Deloitte & Touche, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates, were as follow:

	<u>Fiscal 2005</u>	<u>Fiscal 2004</u>
Audit Fees	\$ 820,200	\$ 509,000
Audit-Related Fees	85,400	137,300
Tax Fees	201,600	341,600
All Other Fees	0	0

Audit-Related Fees in 2005 were for benefit plan audits (\$22,500), acquisition due diligence (\$49,700), and miscellaneous accounting research projects and reports (\$13,200), and in 2004 were for reviews in connection with Applied's internal controls project (\$94,600), acquisition due diligence (\$23,200), and miscellaneous accounting research projects and reports (\$19,500).

Tax Fees in 2005 were for tax compliance and return preparation (\$74,300) and consulting (\$127,200) and in 2004 were for tax compliance and return preparation (\$68,600) and consulting (\$273,000).

The Audit Committee pre-approves the audit and non-audit services performed by the independent auditors to assure that the provision of the services does not impair the auditors' independence. If a service to be provided by the independent auditors has not received general pre-approval, it requires specific pre-approval by the committee. In addition, any proposed services exceeding pre-approved cost levels require additional committee pre-approval. The committee has delegated pre-approval authority to its chairman, provided that the pre-approval is to be reviewed with the committee at its next regular meeting. The committee also reviews, generally on a quarterly basis, reports summarizing the services provided by the independent auditors.

Unless otherwise indicated, the accompanying proxy will be voted in favor of ratifying the appointment of Deloitte & Touche. The affirmative vote of a majority of the shares represented at the annual meeting is sufficient to constitute ratification. If Deloitte & Touche withdraws or otherwise becomes unavailable for reasons not presently known, the persons named as proxies will vote for other independent auditors, as they deem appropriate.

One or more representatives of Deloitte & Touche are expected to be present at the meeting. They will have the opportunity to make a statement and will be available to respond to appropriate questions.

CORPORATE GOVERNANCE

Corporate Governance Documents

Applied's Internet address is www.applied.com. The following corporate governance-related documents are available free of charge at the investor relations area of the website:

Our Code of Business Ethics;

Our Board of Directors Governance Principles and Practices; and,

Charters for the Audit, Corporate Governance, and Executive Organization & Compensation Committees of our Board of Directors

These documents are also available in print to any shareholder who sends a written request to our Vice President-Chief Financial Officer & Treasurer at One Applied Plaza, Cleveland, Ohio 44115.

Director Independence

Under the corporate governance listing standards of the New York Stock Exchange, a majority of the members of Applied's Board of Directors must satisfy the NYSE criteria for independence. In addition to having to satisfy stated minimum requirements, no director qualifies under the standards unless the Board affirmatively determines that the director has no material relationship with Applied. In assessing the materiality of a relationship, the Board has not adopted categorical standards beyond the NYSE criteria, but rather broadly considers all relevant facts and circumstances. The Board has determined that all of the directors and nominees, other than Mr. Pugh, are independent under the NYSE standards.

Director Attendance at Meetings

During fiscal 2005, the Board of Directors had five meetings. Each director attended at least 75% of the total number of meetings of the Board and all committees on which he or she served.

Applied expects its directors to attend the annual meeting of shareholders, just as they are expected to attend Board meetings. All but one of the directors attended last year's annual meeting.

Meetings of Non-Management Directors

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Applied's non-management directors regularly meet in executive sessions without management. The chairs of the Corporate Governance Committee and the Executive Organization & Compensation Committee alternate as presiding director of the sessions.

Committees

Among the Board's committees are the Audit, Corporate Governance, and Executive Organization & Compensation Committees. Each is composed solely of directors who are independent, as defined in the NYSE listing standards. The following is a brief description of each committee. More complete descriptions of the committees' functions are contained in their charters, which are posted at the investor relations area of Applied's website. The Board also has a standing Executive Committee.

The **Audit Committee** assists the Board in fulfilling its oversight responsibility with respect to the integrity of Applied's accounting, auditing, and reporting processes. The committee appoints, determines the compensation of, and oversees the work of the independent auditor, reviews the independence of the auditor, and approves all permissible non-audit engagements to be undertaken by the auditor. The committee also reviews, with Applied's management and the auditor, annual and quarterly financial statements, the scope of the independent and internal audit programs, the results of the audits, and the adequacy of Applied's internal controls. Ms. Kelly-Green and Messrs. Commes (chair), Gifford, and Moore serve on the committee. The Board has determined that each of the members is independent for purposes of Section 10A of the Securities Exchange Act of 1934 and that at least one of the members, Mr. Commes, is an audit committee financial expert, as defined in item 401(h) of Securities and Exchange Commission Regulation S-K. The committee met four times during fiscal 2005.

The **Corporate Governance Committee** assists the Board in Applied's governance by reviewing and evaluating potential director nominees, Board and chief executive officer performance, Board governance matters, director compensation, compliance with laws, public policy matters, and other issues. Dr. Thornton (chair) and Messrs. Butler and Hiltz serve on the committee. The committee met four times during fiscal 2005.

The **Executive Organization & Compensation Committee** monitors and oversees the management succession planning and leadership development processes, nominates candidates for the slate of officers to be elected by the Board, and reviews, evaluates, and approves the executive officers' compensation and benefits. The committee also administers the 1997 Long-Term Performance Plan, including the annual Management Incentive Plan. Messrs. Bares (chair), Dorsman, and Yates serve on the committee. The committee met three times during fiscal 2005.

Communications with the Board

Shareholders may communicate with any member of the Board of Directors by writing to that individual c/o Applied's Secretary at One Applied Plaza, Cleveland, Ohio 44115. In addition, shareholders may contact the non-management directors or key Board committees by e-mail, anonymously if so desired, through a form established in the investor relations area of Applied's website at www.applied.com. Applied's Secretary, on the directors' behalf, may review, sort, and summarize communications to the directors.

Director Nominations

In identifying and evaluating director candidates, the Corporate Governance Committee first considers the company's developing needs and the desired characteristics of a new director, as determined from time to time by the committee. The committee then considers a candidate's business, strategic and financial skills, independence, integrity, and time availability, as well as overall experience in the context of the Board's needs. The committee has in the past engaged a professional search firm (to which it paid a fee) to assist in identifying and evaluating potential nominees, and may do so again in the future; Messrs. Meier and Wallace, nominees for election at the annual meeting, were themselves identified through such a search.

The committee will consider qualified candidates for director nominees recommended by our shareholders. Shareholders can submit candidate recommendations by writing to Applied's Secretary at One Applied Plaza, Cleveland, Ohio 44115. The letter must be submitted in a timely manner and include appropriate detail regarding the identity of the shareholder and the business, professional, and educational background and independence of the candidate. The committee does not intend to evaluate candidates proposed by shareholders differently than it evaluates other candidates.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is composed solely of independent directors, as determined by the Board according to applicable laws and rules of the Securities and Exchange Commission and the New York Stock Exchange, and operates under a written charter. The charter is posted at the investor relations area of Applied's website at www.applied.com.

In performing its responsibilities relating to the audit of Applied's consolidated financial statements for fiscal 2005, the committee reviewed and discussed the audited financial statements with management and Applied's independent auditors, Deloitte & Touche. The committee also discussed with the independent auditors the matters required to be discussed by PCAOB interim Auditing Standard AU380, Communication with Audit Committees.

The independent auditors provided the letter and written disclosures required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. The committee discussed with Deloitte & Touche their independence and also considered whether their provision of non-audit services to Applied is compatible with maintaining their independence.

Based on the reviews and discussions described above, the committee recommended to the Board of Directors that the audited financial statements be included in Applied's fiscal 2005 annual report on Form 10-K for filing with the SEC.

AUDIT COMMITTEE

Thomas A. Commes, Chairman

Russell R. Gifford

Edith Kelly-Green

J. Michael Moore

COMPENSATION OF DIRECTORS

Mr. Pugh, Applied's Chairman & Chief Executive Officer, does not receive additional compensation for service as a director. Non-employee directors receive a quarterly retainer of \$6,250, a fee of \$1,500 for the first Board or committee meeting attended per day, and \$500 for each additional meeting attended on the same day, up to a maximum of \$2,500 per day. Directors may be similarly compensated if they attend other meetings or telephone conferences at the Chairman's request. In addition, Applied pays directors \$500 for any action taken by unanimous written consent or via telephone conference of less than 30 minutes. Directors who serve as committee chairs receive an additional quarterly retainer of \$750, except that the Audit Committee chair instead receives an additional quarterly retainer of \$1,250. Directors are also reimbursed for their travel expenses for attending meetings.

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All non-employee directors are eligible to participate in the Deferred Compensation Plan for Non-Employee Directors described below. If participants elect to have their deferred director compensation deemed to be invested in Applied common stock, they receive an additional amount equal to 25% of the compensation so invested.

The Executive Organization & Compensation Committee annually considers grants of stock-based awards to the non-employee directors. The awards improve the competitiveness of our director compensation program and assist in recruiting and retaining directors. In fiscal 2005, each non-employee director was awarded 4,000 stock options with an exercise price equal to the market price for Applied common stock on the grant date. The options are exercisable immediately and expire on the tenth anniversary of the grant date.

The compensation received by directors is reviewed from time to time by the Corporate Governance Committee. If the committee believes that a change is necessary to make the level of compensation competitive relative to the size and nature of our business, then the committee will present its recommendation to the Board. Approval of the change requires the affirmative vote of a majority of the directors. The directors also participate in our travel accident plan and may elect to participate in our contributory health insurance plan.

DEFERRED COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS

The purposes of our Deferred Compensation Plan for Non-Employee Directors are to allow non-employee directors to defer the receipt of compensation payable for director services and to promote loyalty to Applied through increased investment in Applied common stock.

Pursuant to the plan, and subject to the provisions of section 409A of the Internal Revenue Code, a non-employee director may elect to defer payment of his or her future compensation for services as a director. Deferred fees are deemed invested, at a director's option, in a money market fund and/or Applied common stock. At the end of the quarter in which directors' compensation would otherwise become due and payable, Applied transfers the amount deferred, in either cash or treasury shares (depending on which option the director chooses), to a grantor trust.

If a director elects to have his or her compensation invested in Applied common stock, then Applied contributes an additional amount equal to 25% of the amount so invested. The matching provision will expire in October 2013. Applied has contributed a total of 12,773 matching shares to directors' accounts in the most recent three fiscal years.

Distribution of a director's account commences as designated by the director in his or her election on a date not more than 30 days after (a) the director's termination due to resignation, retirement, death, or otherwise, or (b) the director's attainment of the age (not younger than 55) specified in his or her election form.

Seven directors currently defer all of their retainer and meeting fees and elect to have those fees invested in Applied common stock pursuant to the plan's provisions.

BENEFICIAL OWNERSHIP OF CERTAIN APPLIED SHAREHOLDERS AND MANAGEMENT

The following table shows the beneficial ownership of Applied common stock, as of June 30, 2005, by: (a) each person known by us to own beneficially more than 5% of Applied's outstanding shares; (b) all directors and nominees; (c) each executive officer named in the Summary Compensation Table on page 14; and (d) all directors, nominees, and executive officers as a group.

Name of Beneficial Owner	Common Shares	
	Beneficially Owned on June 30, 2005(1)	Percent of Class(2)
Barclays Global Investors, NA 45 Fremont Street San Francisco, California 94105	4,214,333(3)	14.0%
Applied Industrial Technologies, Inc. Retirement Savings Plan c/o Ameriprise Trust Company AXP Financial Center Minneapolis, Minnesota 55474	2,943,384(4)	9.8
Dimensional Fund Advisors Inc. 1299 Ocean Avenue Santa Monica, California 90401	2,405,988(5)	8.0
William G. Bares	96,026(6)	
Fred D. Bauer	81,834	
William E. Butler	28,037	
Thomas A. Commes	62,216	
Peter A. Dorsman	22,936	
Mark O. Eisele	76,580	
Russell R. Gifford	62,170(7)	
L. Thomas Hiltz	597,179(8)	2.0
Edith Kelly-Green	23,096	
John F. Meier	0	
J. Michael Moore	100,858(9)	
David L. Pugh	1,114,702	3.6
Bill L. Purser	416,914	1.4
Jeffrey A. Ramras	71,394	
Dr. Jerry Sue Thornton	54,323	
Peter C. Wallace	0	
Stephen E. Yates	31,645	
All directors, nominees, and executive officers as a group (21 individuals)	3,077,619(10)	9.7

(1) Beneficial ownership is determined in accordance with SEC rules. Beneficial ownership may be disclaimed by the holders. Except as otherwise indicated, the beneficial owner has sole voting and dispositive power over the shares. The directors' and named executive officers' totals include shares that could be acquired within 60 days after June 30, 2005, by exercising stock options and stock appreciation rights as follows: Mr. Bauer 61,954; Mr. Dorsman 16,000; Mr. Eisele 28,988; Ms. Kelly-Green 16,000; Mr. Pugh 934,335; Mr. Purser 375,363; Mr. Ramras 30,236; Mr. Yates 19,000; and the other directors 25,000 per director.

(2) Percent of class is not indicated if less than 1%.

(3) Barclays Global Investors, NA, reported its share ownership, including shares beneficially owned by affiliated entities, in a Form 13F filed with the SEC on August 15, 2005, indicating it has sole voting power for 4,068,688 shares, no voting power for 145,645 shares, and sole dispositive power for 0 shares.

(4) The Applied Industrial Technologies, Inc. Retirement Savings Plan holds these shares for the benefit of plan participants. The plan's trustee holds the shares in custody. The plan's participants and the trustee possess shared voting power with respect to the shares. Participants may vote all shares allocated to their accounts and act as named fiduciaries with respect to unallocated shares. If no voting direction is received from participants or if legally required, the trustee has authority to vote the allocated and unallocated shares.

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- (5) Dimensional Fund Advisors Inc. reported its share ownership in a Form 13F filed with the SEC on July 21, 2005, indicating it has sole voting power for 2,360,238 shares and no voting power for 45,750 shares.
- (6) Includes 3,375 shares owned by Mr. Bares' wife, who has sole voting and dispositive power.
- (7) Includes 1,514 shares owned by Mr. Gifford's wife, who has sole voting and dispositive power.

- (8) Includes 491,000 shares held by the H.C.S. Foundation, a charitable trust of which Mr. Hiltz is one of five trustees, with sole voting and dispositive power. Pursuant to a Schedule 13D filed by the H.C.S. Foundation dated December 20, 1989, the trustees, including Mr. Hiltz, disclaimed beneficial ownership of those shares.
- (9) Includes 60,921 shares held by an irrevocable family trust of which Mr. Moore disclaims beneficial ownership.
- (10) Includes 1,747,083 shares that could be acquired within 60 days after June 30, 2005, by exercising stock options and stock appreciation rights. In determining the percentage of share ownership, these stock option and SAR shares are added to both the denominator and the numerator. Also includes 54,170 shares held by Applied's Retirement Savings Plan for the benefit of executive officers; these shares are included as well in the figure shown for the plan's holdings.

EXECUTIVE COMPENSATION

Summary Compensation

The following table summarizes compensation earned during the past three fiscal years ended June 30, 2005, 2004, and 2003, by Applied's Chief Executive Officer and the four other most highly compensated executive officers based on salary and bonus (annual incentive) earned during the fiscal year ended June 30, 2005.

Name and Principal Position	Year	Long-Term Compensation						
		Annual Compensation			Awards		Payouts	
		Salary	Bonus (1)	Other Annual Compensation (2)	Restricted Stock Award(s) (3)	Securities Underlying Options/SARs	Long-Term Incentive Payouts (4)	All Other Compensation (5)
David L. Pugh Chairman & Chief Executive Officer	2005	\$ 772,000	\$ 1,235,200	\$ 1,782	\$ 0	96,000	\$ 1,003,333	\$ 17,443
	2004	728,000	1,184,000	0	552,970	170,670	300,000	81,177
	2003	700,000	1,110,000	411	0	300,000	0	61,366
Bill L. Purser President & Chief Operating Officer	2005	441,000	573,300	1,312	0	37,950	365,500	18,128
	2004	416,000	528,000	0	207,935	64,002	127,500	10,959
	2003	400,000	528,000	0	0	112,500	0	5,932
Mark O. Eisele Vice President Chief Financial Officer & Treasurer	2005	306,000	306,000	0	0	25,650	78,833	19,311
	2004	223,300	244,000	0	68,550	13,653	17,500	14,107
	2003	165,000	122,400	0	0	9,000	0	4,945
Jeffrey A. Ramras Vice President Marketing and Supply Chain	2005	250,000	250,000	5,506	0	16,050	78,833	16,581
	2004	228,000	250,000	1,066	68,550	11,947	20,000	24,730
	2003	197,119	146,822	2,125	0	15,000	0	5,068

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Management

Fred D. Bauer	2005	238,000	250,000	1,243	0	16,050	172,000	18,325
Vice President	2004	216,000	250,000	0	68,550	34,134	20,000	12,720
General Counsel	2003	180,000	172,800	0	0	60,000	0	5,110
& Secretary								

- (1) Amounts in this column are earnings under the annual Management Incentive Plan, described in the Executive Organization & Compensation Committee report on page 20.
- (2) The amounts in this column for fiscal 2005 for Messrs. Pugh, Purser, and Bauer reflect gross-up payments to cover income taxes in connection with the reimbursement of expenses for financial planning and tax services. All other amounts in this column reflect gross-up payments in connection with business travel.
- (3) At June 30, 2005, the persons listed above held the following number of unvested shares of restricted stock, valued at \$32.29 per share, the closing market price on that date: Mr. Pugh, 27,225 shares, \$879,095; Mr. Purser, 10,237 shares, \$330,553; Mr. Ramras, 3,375 shares, \$108,979; Mr. Eisele, 3,375 shares, \$108,979; and Mr. Bauer, 3,375 shares, \$108,979. The shares vest 25% on each of the first through fourth anniversaries of the grant date. Dividends are paid on restricted stock at the same rate paid to all shareholders.
- (4) Amounts in this column for 2005 are payouts under the performance grants for the 2003-2005 period. The performance grant program is described in the Executive Organization & Compensation Committee report on page 21.

(5) Amounts in this column for fiscal 2005 include contributions made by Applied and credited to the officers' accounts in Applied's Retirement Savings Plan.

Option/SAR Grants in Last Fiscal Year

The following table shows information concerning grants of stock-settled stock appreciation rights in fiscal 2005 under the 1997 Long-Term Performance Plan by the Executive Organization & Compensation Committee to the officers named in the Summary Compensation Table.

Name	Individual Grants(1)				
	Number of Securities	% of Total Options/SARs	Exercise Price	Expiration Date	Grant Date Present Value (2)
	Underlying Options/SARs	Granted to Employees in Fiscal Year	(per share)	Date	
David L. Pugh	96,000	32.0%	\$ 19.36	8/6/14	\$ 625,200
Bill L. Purser	37,950	12.6	19.36	8/6/14	247,149
Mark O. Eisele	25,650	8.5	19.36	8/6/14	167,046
Jeffrey A. Ramras	16,050	5.3	19.36	8/6/14	104,526
Fred D. Bauer	16,050	5.3	19.36	8/6/14	104,526

(1) The exercise price is the market price of Applied common stock on the date the SARs were granted. The SARs vest 25% on each of the first through fourth anniversaries of the grant date, subject to continuous employment with Applied.

(2) The grant date present values were estimated using the Black-Scholes option pricing model. The model assumes expected volatility of 31.5% for Applied's common stock, a risk-free rate of return of 3.8%, a dividend yield of 2.0%, and an instrument life of 8.1 years. Adjustments are made for risk of forfeiture using a 5.3% turnover rate.

Aggregated Option/SAR Exercises and Fiscal Year-End Option/SAR Values

The following table shows information concerning exercises of stock options and stock-settled stock appreciation rights in fiscal 2005 by the officers named in the Summary Compensation Table, and the values of in-the-money options and SARs held by those individuals on June 30, 2005.

Name	Shares		Number of Securities	
	Exercise(1)	Realized(2)	Options/SARs at Fiscal Year End(3)	Value of Unexercised In-the-Money Options/SARs at Fiscal Year End(3)

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			<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
David L. Pugh	0	\$ 0	736,417	430,253	\$ 15,235,397	\$ 7,987,154
Bill L. Purser	0	0	297,375	166,577	6,109,247	3,087,372
Mark O. Eisele	31,250	523,091	14,663	42,640	297,958	661,305
Jeffrey A. Ramras	26,000	429,330	17,237	34,761	355,890	579,676
Fred D. Bauer	35,438	553,579	32,533	73,526	679,510	1,365,397

- (1) The figures shown are the numbers of shares covered by the exercised options and SARs.
- (2) The values shown are the differences between the per-share stock option or SAR exercise prices and the fair market value of Applied common stock on the exercise dates, multiplied by the number of shares covered by the exercised options or SARs.
- (3) The exercisability of officer stock options and SARs is accelerated upon the officer's retirement, death, or permanent and total disability, or upon a change in control of Applied.

Long-Term Incentive Plans Awards in Last Fiscal Year

In fiscal 2005, the Executive Organization & Compensation Committee awarded performance grants to the executive officers under the 1997 Long-Term Performance Plan. A target payout opportunity (in dollars) was established for each officer. The officer can receive a payout at the end of the three-year performance period based on Applied's level of achievement on goals set for the period. The goals established for the 2005 performance grants are based on sales growth, return on sales, and total shareholder return. Payouts, if any, will be made in a combination of Applied common stock and cash, as determined by the committee at the end of the period. If a change in control of Applied occurs, the payout is calculated by prorating the target opportunity based on the number of fiscal quarters elapsed in the performance period.

The following table shows the performance grants awarded in fiscal 2005 to the officers named in the Summary Compensation Table. Failure to achieve threshold performance relative to the goals would result in no payout.

Name	Performance or	Estimated Future Payouts Under		
	Other Period	Non-Stock Price-Based Plans		
	Until Maturation	Threshold	Target	Maximum
	or Payout			
David L. Pugh	7/1/04 - 6/30/07	\$ 200,000	\$ 600,000	\$ 1,200,000
Bill L. Purser	7/1/04 - 6/30/07	79,167	237,500	475,000
Mark O. Eisele	7/1/04 - 6/30/07	53,333	160,000	320,000
Jeffrey A. Ramras	7/1/04 - 6/30/07	33,333	100,000	200,000
Fred D. Bauer	7/1/04 - 6/30/07	33,333	100,000	200,000

Equity Compensation Plan Information

Applied's shareholders have approved the following equity compensation plans: the 1997 Long-Term Performance Plan, the Deferred Compensation Plan, and the Deferred Compensation Plan for Non-Employee Directors. All of these plans are currently in effect.

The following table shows information regarding the number of shares of Applied common stock that may be issued pursuant to equity compensation plans or arrangements of Applied as of June 30, 2005.

Plan Category	Number of	Weighted-	Number of
	Securities to be	Average	Securities Remaining
	Issued Upon	Exercise	Available for Future
	Exercise of	Price of	Issuance Under
	Outstanding	Outstanding	Equity
	Options,	Options,	Compensation Plans

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	<u>Warrants and Rights</u>	<u>Warrants and Rights</u>	<u>_____</u>
Equity compensation plans approved by security holders	2,868,279	\$ 13.02	*
Equity compensation plans not approved by security holders	0		0
Total	2,868,279	\$ 13.02	*

* The aggregate number of shares that may be awarded under the 1997 Long-Term Performance Plan in each fiscal year is (i) two percent (2%) of the total outstanding shares of Applied common stock as of the first day of the year, plus (ii) the number of shares available for grant under the plan in previous years that were not the subject of awards granted in those years. The number of shares issuable under the Deferred Compensation Plan for Non-Employee Directors and the Deferred Compensation Plan depends on the dollar amount of participant contributions deemed invested in Applied common stock. See [Deferred Compensation Plan for Non-Employee Directors](#) and [Deferred Compensation Plan](#) on pages 12 and 17, respectively, for more information about Applied's contributions to those plans.

Estimated Retirement Benefits

Under Supplemental Executive Retirement Benefits Plan

Applied's Supplemental Executive Retirement Benefits Plan (the "SERP") provides retirement benefits to executive officers named as participants by the Board or its Executive Organization & Compensation Committee. The company does not maintain a qualified defined benefit plan for employees generally.

The following table shows estimated annual benefits payable on retirement at age 65 to SERP participants.

Remuneration(4)	Years of Service(1)(2)(3)			
	5	10	15	20
\$ 300,000	\$ 33,750	\$ 67,500	\$ 101,250	\$ 135,000
600,000	67,500	135,000	202,500	270,000
900,000	101,250	202,500	303,750	405,000
1,200,000	135,000	270,000	405,000	540,000
1,500,000	168,750	337,500	506,250	675,000
1,800,000	202,500	405,000	607,500	810,000
2,100,000	236,250	472,500	708,750	945,000
2,400,000	270,000	540,000	810,000	1,080,000

- (1) The estimated benefits are calculated based on the officer electing to receive benefits in a single life annuity form. Other forms of payment, including a single sum payment, are also available. Except as indicated below, SERP benefits are not subject to deductions for Social Security or other offset amounts.
- (2) The named executive officers have been credited with the following years of service with Applied for purposes of the SERP: Messrs. Purser and Ramras, more than 20; Messrs. Bauer and Eisele, more than 10; and Mr. Pugh, more than five. Plan benefits are fully accrued after 20 years of service.
- (3) The figures in the table reflect an annual benefit of 45 percent of annual total cash compensation. If, however, Mr. Pugh is credited with at least 10 years of service under the SERP, his benefit will be based on 60 percent of annual total cash compensation. Under these circumstances, his benefit would be reduced by the benefit payable to him at age 65 in a single life form under all former employer plans and then reduced further by 50 percent of his primary Social Security benefit. Benefits are reduced ratably to the extent a participant is not credited with at least 20 years of service, provided, however, this reduction will not apply to Mr. Pugh if he is credited with at least 10 years of service.
- (4) The amounts in this column represent, and benefits are based on, average annual total cash compensation for the highest three of the most recent 10 calendar years.

Deferred Compensation Plan

The Deferred Compensation Plan (the "Plan") permits key executives to defer a portion or all of the awards payable under an incentive plan or performance grant program. The Plan's purpose is to promote increased efforts by executives on behalf of Applied through increased investment in Applied common stock.

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The Plan gives each annual incentive plan participant the opportunity to defer payment of his or her cash award. Any participant who elects to make a deferral may have the amounts deemed invested in Applied common stock and/or in a money market fund. If a participant elects to have an amount equal to at least 50% of an award invested in common stock, then Applied contributes an additional amount equal to 10% of the amount so invested. Similarly, recipients of performance grants may defer payment of stock and cash awards. To the extent the recipient defers a cash award and invests it in Applied common stock, Applied contributes an additional amount equal to 10% of the amount so invested. The matching provision will expire in October 2013. Applied has contributed a total of 8,373 matching shares of common stock to Plan accounts in the most recent three fiscal years.

These deferral and investment opportunities and the incentive for investing in Applied common stock, like those available to directors under the Deferred Compensation Plan for Non-Employee Directors, are part of an overall effort to align management with the interests of Applied's shareholders.

Distributions of deferrals are made in a lump sum or in installments over a period not in excess of ten years, as specified in the participant's deferral election form. Other than dates specified in the deferral election forms, a withdrawal is permitted, while employed, only due to a severe financial and unexpected hardship as permitted under section 409A of the Internal Revenue Code.

Among the officers named in the Summary Compensation Table on page 14, Mr. Purser elected to defer portions of his 2005 Management Incentive Plan award and performance grant payout into the Deferred Compensation Plan.

Change in Control Agreements and Other Related Arrangements

Applied has change in control agreements with its executive officers. The agreements obligate Applied to provide severance benefits to any executive officer whose employment is terminated either by the officer for good reason or by Applied without cause (each as defined in the agreements) if the termination occurs within three years after a change in control, as defined in the agreements. The officer, in turn, is obligated not to compete with Applied for one year following the termination. The principal benefits to be provided under the agreements to the executive officers are as follows:

A lump sum severance payment equal to three times annual base salary plus incentive pay (each as calculated pursuant to the agreements), reduced proportionately if the officer reaches age 65 within three years after termination;

A cash payment, instead of exercising any stock options held by the officer on the date of termination, equal to the difference between the exercise price and the higher of (i) the mean of the high and low trading prices on the New York Stock Exchange on the date of termination, and (ii) the highest price paid for Applied common stock in connection with the change in control;

Continued participation in Applied's employee benefit plans, programs, and arrangements, or equivalent benefits for three years after termination at the levels in effect immediately before termination; and

Outplacement services.

An escrow account has been established to secure payment of the benefits. Applied has deposited treasury shares of Applied common stock in the escrow valued at a percentage of the amounts that would be payable to the officers under the agreements. Additional deposits may be made in future years. No officer may make a claim on the escrow assets unless Applied is in default under the agreement. All earnings on escrow assets are payable to Applied. The agreements also provide that if any covered executive is required to pay a parachute excise tax, Applied will make an additional payment to the executive in an amount sufficient (after payment of taxes on the additional payment) to pay the excise tax.

The agreements are intended to reinforce and encourage the continued attention and dedication of Applied's officers to their assigned duties without distraction in the face of the potentially disturbing circumstances arising from the possibility of a change in control. The agreements may make it more expensive to accomplish a change in control and could under certain circumstances adversely affect the shareholders' ability to benefit from a change in control. The Board of Directors approved the agreements, however, because it believes that the continued attention and dedication of the officers to

their duties under adverse circumstances are ultimately in the best interests of Applied and its shareholders, and can under some circumstances result in a higher price being paid to shareholders in connection with a change in control.

In addition to the benefits provided by the agreements, the 1997 Long-Term Performance Plan provides the following benefits to executive officers if a change in control occurs: (a) all stock options and stock appreciation rights outstanding will become fully exercisable; (b) all restrictions and conditions of stock awards will be deemed satisfied; and (c) all cash awards (including payments made under a Management Incentive Plan) will be deemed to have been fully earned.

Also, under the Supplemental Executive Retirement Benefits Plan, if a participant is terminated following a change in control or is receiving, or is eligible to receive, a retirement benefit at the time of the change in control, the participant is entitled to receive the actuarial equivalent of the participant's retirement benefit in a lump sum. In addition, upon a change in control, actively employed participants will be credited with up to 10 additional years of service and age for benefit calculation purposes, equal to half of the difference between the participant's age and age 65.

EXECUTIVE ORGANIZATION & COMPENSATION COMMITTEE REPORT

ON EXECUTIVE COMPENSATION

Overview

The Executive Organization & Compensation Committee, consisting entirely of independent directors, establishes policies relative to, and then sets, Applied's executive officer compensation and benefits. The committee's charter is available in the investor relations area of Applied's website at www.applied.com.

The purposes of the executive officer compensation program are to attract and retain qualified executives and to provide appropriate incentives, both monetary and stock-based, to achieve Applied's strategies and to enhance shareholder value over the long term. The major elements of the program are annual base salary and awards under the 1997 Long-Term Performance Plan.

An independent, global compensation and benefits consulting firm advises the committee with respect to executive compensation and trends in the marketplace. The consultant is hired by, and reports directly to, the committee and does not provide services to Applied outside of its role as adviser to the committee.

Annual Base Salary

In setting base salaries and target incentive values, the committee uses a competitive pay analysis compiled by the consultant. The analysis shows the market median base salary, target incentive value, and target total cash compensation for each officer position. The consultant derives these figures from proprietary surveys of companies in comparable industries, with data adjusted to reflect comparable company size. The analysis also compares performance data for Applied, the surveyed companies, and the companies identified in the performance graph on page 22.

In addition to considering the consultant's analysis when setting base salaries, the committee reviews individual performance and levels of experience and responsibility in the position. The committee also takes into consideration Mr. Pugh's recommendations regarding the other officers

compensation. In general, the committee's objective is to pay experienced officers (at least three years in the position) who are meeting performance expectations a base salary near the market median for the position. Naturally, an officer's salary may be set higher or lower to reflect individual performance and skills, long-term potential, internal equity, and the importance of the position within Applied's organizational structure.

Long-Term Performance Plan

The committee has adopted Applied's annual and long-term cash and equity award programs pursuant to the Long-Term Performance Plan, which the shareholders most recently reapproved in 2002. The plan is designed to foster and promote Applied's long-term growth and performance by (i) strengthening Applied's ability to develop and retain outstanding executives, (ii) motivating superior performance by means of long-term performance-related incentives, and (iii) enabling key management employees and outside directors to participate in Applied's long-term growth and financial success. The plan expires in October 2012.

(a) Management Incentive Plan

The annual Management Incentive Plan, adopted under the Long-Term Performance Plan, is Applied's program for rewarding executive officers for achieving fiscal year goals. In general, the committee seeks to provide an annual incentive program that permits executives the opportunity to achieve substantially above the market median total cash compensation for outstanding performance.

At the beginning of each fiscal year, the committee reviews and discusses proposed performance goals and then sets plan goals for the year. The size of the incentive payments depends on the level of performance achieved relative to the goals. In fiscal 2005, the committee set goals based on earnings per share objectives. If the company did not achieve the threshold level of earnings per share, then no incentive payments would be made to the officers.

The committee sets a target incentive payment for each officer based on a formula, the components of which are the officer's base salary and a responsibility percentage. The committee assigns a responsibility percentage to each officer after considering the independent consultant's market analysis and recommendations by Mr. Pugh.

In fiscal 2005, payments could range from 0% to 200% (for outstanding achievement) of the target incentive, depending on the company's performance in relation to the earnings per share goals. Earnings per share (diluted) for the year were \$1.80, which exceeded the highest achievement goal set by the committee (and were 68% above the previous year), and the officers earned incentives at 200% of target levels. Accordingly, total cash compensation was substantially above market median levels, as was overall performance.

(b) Stock-Based and Other Long-Term Awards

The committee makes long-term incentive awards because of their value in motivating officers, aligning their interests with shareholders, and ensuring Applied remains competitive in the marketplace for executive talent. The Long-Term Performance Plan limits the number of shares available for stock-based awards to 2% of Applied's shares outstanding on the first day of the fiscal year, plus shares not awarded, if any, carried forward from prior years.

The committee determines individual awards based on the independent consultant's market analysis and Mr. Pugh's input, considering survey medians for target long-term incentives and levels of officer responsibility and performance. In fiscal 2005, the committee delivered the targeted long-term

award value approximately 50% in stock-settled stock appreciation rights and 50% in performance grants, as described below:

- (1) **Stock Appreciation Rights.** The committee awarded non-qualified stock-settled stock appreciation rights (SARs) to the officers. The exercise price is the market price of Applied common stock on the grant date. The SARs vest 25% on each of the first through fourth anniversaries of the grant date, subject to continuous employment with Applied, and expire on the tenth anniversary. In addition, an officer's unvested SARs vest upon retirement.
- (2) **Performance Grants.** The committee makes annual awards of three-year performance grants to the officers. A target dollar payout is established for each officer at the beginning of each three-year performance period. The actual payout at the end of the period is calculated relative to the target level based on Applied's achievement of objective performance goals over that period. For each grant, the committee has set goals based on sales growth, return on sales, and total shareholder return. Payouts, if any, are made in cash, Applied common stock, or a combination thereof, as determined by the committee at the end of the performance period.

Chief Executive Officer

Mr. Pugh has served as Chairman of the Board of Directors and Chief Executive Officer since 2000.

The committee's general policies and practices described above for setting officer compensation apply to Mr. Pugh's compensation as well. In addition to the independent consultant's analysis, the committee, using its subjective judgment, considered such factors as Mr. Pugh's experience, leadership, and contributions to Applied, as well as the company's business and financial performance relative to its peers. The committee also considered the results of the Board's annual evaluation of Mr. Pugh. No particular weighting was given to any one factor.

Effective July 1, 2004, the committee set Mr. Pugh's base salary at \$772,000 compared with a market median base salary of \$715,000. His target annual incentive award for fiscal 2005 was \$617,600, but because the company's earnings per share performance substantially exceeded the 200% goal set at the beginning of the year, Mr. Pugh's actual incentive award was \$1,235,200. The committee also made long-term awards to Mr. Pugh with an aggregate target value in the range of the market median for his position.

Benefits

Benefits provided to the executive officers are those generally provided to Applied's other associates with variations consistent with executive benefits in the competitive marketplace.

Federal Income Tax Deductibility

The Internal Revenue Code limits the amount of compensation a publicly held corporation may deduct as a business expense for federal income tax purposes. That limit, which applies to the chief executive officer and the four other most highly compensated executive officers, is \$1 million per individual per year, subject to certain exceptions. One of the exceptions is for compensation that is performance-based.

Applied intends that Management Incentive Plan awards, income from the exercise of stock options and stock appreciation rights, and payouts of performance grants qualify as performance-based compensation. In general, the committee seeks to preserve the deductibility of compensation paid to Applied's executive officers, but without compromising the committee's flexibility in designing an effective and competitive compensation program.

EXECUTIVE ORGANIZATION &

COMPENSATION COMMITTEE

William G. Bares, Chairman

Peter A. Dorsman

Stephen E. Yates

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN
OF APPLIED, S&P 500 INDEX, AND PEER COMPANY GROUP**

The graph below compares the five-year cumulative total return from investing \$100 on June 30, 2000 in each of Applied common stock, the Standard and Poor's 500 Index, and a group of eight peer companies selected on a line-of-business basis: Airgas, Inc., Genuine Parts Company, W.W. Grainger, Inc., Kaman Corporation, Lawson Products, Inc., MSC Industrial Direct Co., Inc., The Timken Company, and WESCO International, Inc.

Cumulative total return assumes that all dividends are reinvested when received. The returns of the companies in the peer group are weighted based on the companies' relative stock market capitalization.

	2000	2001	2002	2003	2004	2005
Applied	100.00	112.88	119.28	132.69	193.26	316.11
S&P 500	100.00	84.18	68.05	66.99	78.43	81.90
Peer Group	100.00	133.67	158.82	148.00	206.39	215.16

Source: Value Line, Inc.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Applied's executive officers and directors, and persons who beneficially own more than 10% of Applied common stock, must file initial reports of ownership and reports of changes in ownership with the SEC and the New York Stock Exchange. Copies of the reports must be furnished to Applied.

Based solely on a review of copies of forms furnished to us and written representations from Applied's executive officers and directors, we believe that during fiscal 2005 all filing requirements were complied with on a timely basis.

SHAREHOLDER PROPOSALS FOR 2006 ANNUAL MEETING

Proposals by shareholders for inclusion in our 2006 annual meeting proxy statement must be received by Applied's Secretary at One Applied Plaza, Cleveland, Ohio 44115, no later than May 5, 2006. Under Ohio law, only proposals included in the notice of meeting may be raised at a meeting of shareholders. If you wish to nominate a candidate for director or bring other business from the floor of the 2006 annual meeting, you must notify the Secretary in writing by August 25, 2006.

OTHER MATTERS

The Board of Directors does not know of any other matters to be presented at the meeting. If any other matters requiring a shareholder vote arise, including the question of adjourning the meeting, the persons named on the accompanying proxy card will vote your shares according to their judgment in the interests of Applied.

By order of the Board of Directors.

FRED D. BAUER

Vice President-General Counsel

& Secretary

Dated: September 2, 2005

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Annual Meeting Proxy Card

a sale of all
or
substantially
all of the
consolidated
assets of
Synopsys
and its
subsidiaries,

a sale of at least 90% of the outstanding securities of Synopsys,

a merger, consolidation or similar transaction in which Synopsys is not the surviving corporation, or

a merger, consolidation or similar transaction in which Synopsys is the surviving corporation, but shares of Synopsys outstanding common stock are converted into other property by virtue of the corporate transaction.

The 2006 Employee Plan provides, at the discretion of our Board of Directors, that the holder of an outstanding equity award that would otherwise terminate if not exercised prior to the corporate transaction may surrender such equity award in exchange for a payment equal to the excess of the value of the property that the holder would have received upon exercise of the equity award immediately prior to the corporate transaction, over the exercise price otherwise payable in connection with the equity award.

The acceleration of an equity award in the event of an acquisition or similar corporate event may be viewed as an anti-takeover provision, which may have the effect of discouraging a proposal to acquire or otherwise obtain control of Synopsys.

Duration, Termination and Amendment

Our Board of Directors may suspend or terminate the 2006 Employee Plan without stockholder approval or ratification at any time. The 2006 Employee Plan will expire on April 1, 2026, unless terminated sooner by our Board. Our Board may amend or modify the 2006 Employee Plan at any time, subject to any required stockholder approval. To the extent required by applicable law or regulation, stockholder approval will be required for any amendment that:

materially increases the number of shares available for issuance under the 2006 Employee Plan,

materially expands the class of individuals eligible to receive awards under the 2006 Employee Plan,

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materially increases the benefits accruing to the participants under the 2006 Employee Plan or materially reduces the price at which shares of common stock may be issued or purchased under the 2006 Employee Plan,

materially extends the term of the 2006 Employee Plan, or

expands the types of awards available for issuance under the 2006 Employee Plan.

Our Board of Directors also may submit to stockholders any other amendment to the 2006 Employee Plan, including amendments intended to satisfy the requirements of Section 162(m) of the Code regarding the exclusion of performance-based compensation from the limitation on the deductibility of compensation paid to certain employees.

U.S. Federal Income Tax Information

The following is a summary of the principal United States federal income taxation consequences to participants and Synopsys with respect to participation in the 2006 Employee Plan. This summary is not intended to be exhaustive, and does not discuss the income tax laws of any city, state or foreign jurisdiction in which a participant may reside.

Incentive Stock Options. Incentive stock options granted under the 2006 Employee Plan are intended to qualify for the favorable federal income tax treatment accorded incentive stock options under the Code. There generally are no federal ordinary income tax consequences to the participant or Synopsys by reason of the grant or exercise of an incentive stock option. However, the exercise of an incentive stock option may increase the participant's alternative minimum tax liability, if any.

The excess, if any, of the fair market value of the incentive stock option shares on the date of exercise over the exercise price is an adjustment to income for purposes of the alternative minimum tax. Alternative minimum taxable income is determined by adjusting regular taxable income for certain items, increasing that income by certain tax preference items and items of adjustment and reducing this amount by the applicable exemption amount.

If a participant holds stock acquired through exercise of an incentive stock option for more than two years from the date on which the stock option was granted and more than one year after the date the stock option was exercised for those shares, any gain or loss on a disposition of those shares (referred to in this Proxy Statement as a qualifying disposition) will be a long-term capital gain or loss. Upon such a qualifying disposition, Synopsys will not be entitled to any income tax deduction.

Generally, if the participant disposes of the stock before the expiration of either of those holding periods (referred to in this Proxy Statement as a disqualifying disposition), then at the time of disposition the participant will realize taxable ordinary income equal to the lesser of (a) the excess of the stock's fair market value on the date of exercise over the exercise price, or (b) the participant's actual gain, if any, on the purchase and sale. The participant's additional gain or any loss upon the disqualifying disposition will be a capital gain or loss, which will be long-term or short-term depending on whether the stock was held for more than one year after exercise.

To the extent the participant recognizes ordinary income by reason of a disqualifying disposition, generally Synopsys will be entitled (subject to the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to a corresponding income tax deduction in the tax year in which the disqualifying disposition occurs.

Non-Statutory Stock Options. No taxable income is recognized by a participant upon the grant of a non-statutory stock option. Upon exercise of a non-statutory stock option, the participant will recognize ordinary income equal to the excess, if any, of the fair market value of the purchased shares on the exercise date over the exercise price paid for those shares. Generally, Synopsys will be entitled (subject to the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to an income tax deduction in the tax year in which such ordinary income is recognized by the participant. Synopsys will be required to satisfy certain tax withholding requirements applicable to such income.

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Upon disposition of the stock, the participant will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon acquisition of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one year after exercise.

Restricted Stock Awards. Upon receipt of a restricted stock award, the participant will recognize ordinary income equal to the excess, if any, of the fair market value of the shares on the date of issuance over the purchase price, if any, paid for those shares. Synopsys will be entitled (subject to the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to a corresponding income tax deduction in the year in which such ordinary income is recognized by the participant.

However, if the shares issued upon the grant of a restricted stock award are unvested and subject to repurchase by Synopsys in the event of the participant's termination of service prior to vesting in those shares, the participant will not recognize any taxable income at the time of issuance, but will have to report as ordinary income, as and when Synopsys' repurchase right lapses, an amount equal to the excess of (a) the fair market value of the shares on the date the repurchase right lapses, over (b) the purchase price, if any, paid for the shares. The participant may, however, elect under Section 83(b) of the Code to include as ordinary income in the year of issuance an amount equal to the excess of (a) the fair market value of the shares on the date of issuance, over (b) the purchase price, if any, paid for such shares. If the Section 83(b) election is made, the participant will not recognize any additional income as and when the repurchase right lapses. The participant and Synopsys will be required to satisfy certain tax withholding requirements applicable to such income. Synopsys will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the participant. In general, the deduction will be allowed for the taxable year in which such ordinary income is recognized by the participant.

Upon disposition of the stock acquired upon the receipt of a restricted stock award, the participant will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon issuance (or vesting) of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one year.

Restricted Stock Unit Awards. No taxable income is recognized upon receipt of a restricted stock unit award. The participant will generally recognize ordinary income in the year in which the shares subject to that unit are actually vested and issued to the participant in an amount equal to the fair market value of the shares on the date of issuance. The participant and Synopsys will be required to satisfy certain tax withholding requirements applicable to such income. Synopsys will be entitled (subject to the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to an income tax deduction equal to the amount of ordinary income recognized by the participant at the time the shares are issued. In general, the deduction will be allowed for the taxable year in which such ordinary income is recognized by the participant.

Stock Appreciation Rights. No taxable income is realized upon the receipt of a stock appreciation right. Upon exercise of the stock appreciation right, the fair market value of the shares (or cash in lieu of shares) received is recognized as ordinary income to the participant in the year of such exercise. Generally, with respect to employees, Synopsys is required to withhold from the payment made on exercise of the stock appreciation right or from regular wages or supplemental wage payments an amount based on the ordinary income recognized. Generally, Synopsys will be entitled (subject to the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to an income tax deduction in the year in which such ordinary income is recognized by the participant.

Potential Limitation on Deductions. Section 162(m) of the Code denies a deduction to any publicly held corporation for compensation paid to certain covered employees in a taxable year to the extent that compensation to each covered

employee exceeds \$1,000,000. It is possible that compensation attributable to awards, when combined with all other types of compensation received by a covered employee from Synopsys, may cause this limitation to be exceeded in any particular year. However, certain kinds of compensation, including qualified performance-based compensation , are disregarded for purposes of the deduction limitation.

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We are asking our stockholders to approve an amendment of our Employee Stock Purchase Plan (referred to in this Proposal 3 as the Purchase Plan) primarily to increase the number of shares available for issuance under the Purchase Plan by 5,000,000, representing approximately 3.3% of our shares of common stock outstanding as of January 4, 2016. We adopted the Purchase Plan so we could offer employees of Synopsys and eligible affiliates the opportunity to purchase Synopsys common stock at a discounted price as an incentive for continued employment and to help align their interests with those of our stockholders. We are proposing an increase in the number of shares available for issuance under the Purchase Plan to help us to continue providing this benefit to new and current employees.

Our Board of Directors approved this amendment in December 2015, subject to stockholder approval. If approved by our stockholders, the amendment to our Purchase Plan will become effective upon stockholder approval.

Approval of the amendment to our Purchase Plan requires the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting, and voting on this Proposal 3, to vote For this Proposal 3. Abstentions will not be counted as either votes cast For or Against this Proposal 3.

Our Board of Directors Recommends that You Vote FOR the Approval of an Amendment to Our Employee Stock Purchase Plan

Purpose and Background

The Purchase Plan is designed to provide our eligible employees and those of our designated subsidiaries and affiliates with the opportunity to purchase shares of our common stock on periodic purchase dates through accumulated payroll deductions. The Purchase Plan is designed to allow U.S.-based employees to make such purchases in a manner that receives favorable tax treatment under Section 423 of the Code (referred to in this Proxy Statement as Section 423). Our Board of Directors, or its delegate, may approve offerings under the Purchase Plan that are not intended to qualify for such favorable tax treatment under Section 423, including, without limitation, offerings in which eligible employees who are not subject to U.S. tax laws may participate.

Our management believes that maintaining a competitive employee stock purchase plan is an important element in recruiting, motivating and retaining our employees. The Purchase Plan is designed to more closely align the interests of our employees with those of our stockholders by encouraging employees to invest in our common stock, and to help our employees share in our success through the appreciation in value of such purchased stock. The Purchase Plan together with our equity plans are important employee retention and recruitment vehicles. As of the close of enrollment for our most recent semi-annual purchase period under the Purchase Plan, August 31, 2015, there were 6,261 employees participating in the Purchase Plan, representing approximately 76.8% of our employees who are eligible to participate in the Purchase Plan.

As of January 4, 2016, an aggregate of 5,266,768 shares of common stock remained available for future issuance under the Purchase Plan. Our Board of Directors has, subject to stockholder approval of this Proposal 3, increased the aggregate number of shares of our common stock issuable under the Purchase Plan by 5,000,000 shares. The number of employees eligible to participate in the Purchase Plan has increased by approximately 1,900 people since the last time our stockholders approved an increase in the number of shares issuable under the plan. Our Board of Directors believes the proposed share increase is in the best interests of Synopsys and its stockholders and will help us continue to provide our employees with the opportunity to acquire an ownership interest in Synopsys through their participation

in the Purchase Plan.

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Description of the Employee Stock Purchase Plan, as Amended

The material terms and provisions of the Purchase Plan, as amended, are summarized below. This summary, however, does not purport to be a complete description of the Purchase Plan. The following summary of the Purchase Plan is qualified in its entirety by reference to the complete text of the Purchase Plan, a copy of which is included as an appendix to this Proxy Statement. Any stockholder that wishes to obtain a paper copy of the plan document may do so by written request to: Corporate Secretary, Synopsys, Inc., 690 East Middlefield Road, Mountain View, California 94043.

As further described in this Proposal 3, the Purchase Plan has been amended to provide for:

an increase in the Purchase Plan's share reserve, and

certain clarifying amendments to eliminate potential ambiguities.

Administration

Our Board of Directors, or its delegate, has the power, subject to the terms of the Purchase Plan, to set the provisions of each offering of purchase rights, and to determine whether employees of any of our subsidiary companies or other affiliates will be eligible to participate in an offering. Our Board of Directors may delegate such authority in accordance with applicable law. References in this Proposal 3 to our Board of Directors refer to the Board or its delegate, as applicable. The Compensation Committee of our Board of Directors has been delegated authority to approve the terms of offerings under the Purchase Plan and to otherwise administer the Purchase Plan. As plan administrator, the Compensation Committee has full authority to adopt rules and procedures for the Purchase Plan and to interpret its provisions. The day-to-day administrative functions of the Purchase Plan have been delegated to our Shareholder Services Department.

Share Reserve

The total number of shares of common stock currently reserved for issuance over the term of the Purchase Plan is 40,700,000. As of January 4, 2016, an aggregate of 35,433,232 shares of common stock have been issued to employees under the Purchase Plan, and 5,266,768 shares of common stock remained available for future issuance. Assuming that this Proposal 3 is approved by the stockholders, the total number of shares of common stock reserved for issuance under the Purchase Plan will be increased to 45,700,000 shares. The shares of common stock issuable under the Purchase Plan may be made available from authorized but unissued shares of common stock or from shares of common stock we reacquire, including shares of common stock repurchased on the open market. If any right to purchase shares of common stock terminates for any reason without having been exercised, the shares of common stock not purchased under such right will again become available for issuance under the Purchase Plan.

In the event any change is made to our outstanding common stock (whether by reason of any stock dividend, stock split, combination of shares, or other change affecting the outstanding common stock as a class without our receipt of consideration), our Board of Directors will make appropriate adjustments to (1) the maximum number and class of securities issuable under the Purchase Plan, (2) the maximum share purchase limitations in effect under any offering, and (3) the number and class of securities and the purchase price per share in effect under each outstanding purchase right. Such adjustments are intended to preclude any dilution or enlargement of rights and benefits under the Purchase Plan.

Eligibility

Only our employees and employees of our designated affiliates are eligible to participate in the Purchase Plan. Our Board of Directors will determine the particular eligibility requirements for participation in an offering. For offerings that are intended to qualify under Section 423, our Board of Directors is not permitted to exclude employees who generally work more than twenty (20) hours per week or more than five (5) months per calendar year. For offerings that are not intended to qualify under Section 423, our Board of Directors has the ability to determine that it is necessary or desirable to exclude certain employees by location from participation in our international offerings in order to reflect or comply with local laws or conditions. As of the close of enrollment for our most recent semi-annual purchase period under the Purchase Plan, August 31, 2015, Synopsys had 8,158 employees who were eligible to participate in the Purchase Plan.

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Offerings

Shares of common stock are offered under the Purchase Plan through a series of offerings with a duration determined by our Board of Directors, provided that in no event may an offering have a duration that exceeds 27 months. Each offering consists of one or more purchase periods, with purchase dates determined by our Board of Directors prior to the commencement of that offering. Consistent with historical practice, our current offerings consist of a series of overlapping offering periods, each with a duration of twenty-four (24) months. Offerings begin on the first business day of March and on the first business day of September each year. Accordingly, two separate offerings begin in each calendar year.

Our Board of Directors may provide that if the fair market value per share of our common stock on the first day of a subsequent purchase period within a particular offering is less than or equal to the fair market value per share of our common stock on the start date of that offering, then the offering will terminate immediately and the participants will automatically be enrolled in a new offering that begins on the first day of such purchase period.

When an eligible employee elects to participate in an offering, he or she is electing to exercise a purchase right to acquire shares of common stock on each purchase date within the offering. On the purchase date, all payroll deductions and any other permitted contributions collected from the participant are automatically applied to the purchase of common stock, subject to certain limitations. Consistent with historical practice, current purchase periods are semi-annual and run from the first business day in March to the last business day in August each year and from the first business day in September each year to the last business day in February in the immediately succeeding year. Accordingly, shares of common stock are purchased on the last business day in February and August each year with the payroll deductions collected from the participants for the purchase period ending with each such semi-annual purchase date.

Purchase Price

The purchase price of the shares of common stock purchased on behalf of each participant on each purchase date is 85% of the lower of (1) the fair market value per share on the start date of the offering in which the participant is enrolled or (2) the fair market value per share on the applicable purchase date of such offering. The fair market value per share on any particular date under the Purchase Plan is generally the closing price per share on such date reported on the NASDAQ Global Select Market. As of January 4, 2016, the fair market value determined on such basis was \$44.92 per share.

Payroll Deductions and Stock Purchases

Each participant authorizes periodic payroll deductions of a percentage of his or her earnings, as defined in the offering, to be applied to the acquisition of shares of common stock on the purchase dates. Accordingly, on each purchase date, the accumulated payroll deductions of each participant are automatically applied to the purchase of whole shares of common stock at the purchase price in effect for the participant for that purchase date. The maximum percentage of earnings that the participant may have deducted and contributed toward the purchase of shares during an offering will be established by our Board of Directors and set forth in the offering document, but in no event may it exceed 15% of the participant's earnings attributable to payroll periods applicable to the offering as established by our Board of Directors. Consistent with historical practice, the current offerings authorize a maximum contribution of up to the lesser of (a) 10% of a participant's earnings or (b) \$7,500 per purchase period.

Other Limitations

The Purchase Plan imposes certain limitations upon a participant's rights to acquire shares of common stock for offerings that are intended to qualify under Section 423, including the following:

Purchase rights granted to a participant may not permit such individual to purchase more than \$25,000 worth of shares of common stock (valued at the time each purchase right is granted) for each calendar year in which those purchase rights are outstanding.

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Purchase rights may not be granted to any individual if such individual would, immediately after the grant, own or hold outstanding options or other rights to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the stock of us or any of our affiliates. Consistent with our historical practice, the current offerings also impose the following limitations:

The maximum number of shares that may be purchased by any participant on any purchase date is 4,000 shares.

The maximum payroll deduction that may be applied toward the purchase of shares on any purchase date is USD \$7,500 per participant.

The maximum number of shares of common stock purchasable in total by all participants on any one purchase date is 2,000,000.

Termination of Employment

Generally, purchase rights granted pursuant to any offering under the Purchase Plan terminate immediately upon cessation of employment for any reason, including death, and we will refund all accumulated payroll deductions to the terminated employee or his or her beneficiary, as applicable, without interest (unless otherwise required by applicable law).

Stockholder Rights

No participant has any stockholder rights with respect to the shares of common stock covered by a purchase right under the Purchase Plan until the shares of common stock are actually purchased on the participant's behalf. Other than stock splits and other recapitalizations described above, no adjustment will be made for dividends, distributions or other rights for which the record date is prior to the date of such purchase.

Assignability

Purchase rights are not assignable or transferable by a participant other than by will or by the laws of descent and distribution following the participant's death, and during the participant's lifetime, the purchase rights may be exercised only by the participant.

Change in Ownership

In the event a change in ownership of Synopsys occurs, all outstanding purchase rights will automatically be exercised immediately prior to the effective date of such change in ownership. The purchase price in effect for each participant will be equal to 85% of the lower of (1) the fair market value per share on the start date of the offering in which the participant is enrolled at the time the change in ownership occurs or (2) the fair market value per share immediately prior to the effective date of such change in ownership.

A change in ownership will be deemed to occur in the event of (1) a sale, merger or other reorganization in which Synopsys is not the surviving corporation or (2) a reverse merger in which we are the surviving corporation, but in which more than 50% of our outstanding voting stock is transferred to holders different from those who held our stock

immediately prior to such transaction.

Share Proration

Should the total number of shares of common stock to be purchased pursuant to outstanding purchase rights on any particular date exceed either (1) the maximum number of shares of common stock purchasable in total by all participants on any one purchase date as in effect under an offering or offerings, or (2) the number of shares of common stock then available for issuance under the Purchase Plan, then our Board of Directors will make a pro rata allocation of the available shares of common stock in as nearly a uniform manner as practicable and equitable. In such an event, the plan administrator will refund the accumulated payroll deductions of each participant, to the extent in excess of the purchase price payable for the shares of common stock prorated to such individual.

Table of Contents**Amendment and Termination**

Our Board of Directors may amend, alter, suspend, discontinue, or terminate the Purchase Plan at any time, including amendments to outstanding purchase rights. However, our Board of Directors must seek stockholder approval of any plan amendment to the extent necessary to satisfy applicable laws or listing requirements. For example, under currently applicable laws and listing requirements our Board of Directors may not, without stockholder approval, amend our Purchase Plan to (1) increase the number of shares of common stock issuable under the Purchase Plan, (2) alter the purchase price formula so as to reduce the purchase price, or (3) materially increase the benefits accruing to participants or materially modify the requirements for eligibility to participate in the Purchase Plan.

Plan Benefits

Participation in the Purchase Plan is voluntary and each eligible employee makes his or her own decision whether and to what extent to participate in the Purchase Plan. In addition, our Board of Directors has not approved any grants of purchase rights that are conditioned on stockholder approval of the amendment to our Purchase Plan. Accordingly, we cannot currently determine the benefits or number of shares that will be received in the future by individual employees or groups of employees under the Purchase Plan. Our non-employee directors are not eligible to participate in the Purchase Plan.

The table below shows, as to the listed individuals and specified groups, the number of shares of common stock purchased under the Purchase Plan during fiscal 2015.

Name	Number of Shares of Common Stock Purchased(1)
Aart J. de Geus Co-Chief Executive Officer and Chairman of the Board of Directors	496
Chi-Foon Chan Co-Chief Executive Officer and President	496
Trac Pham Chief Financial Officer	496
Brian M. Beattie Executive Vice President, Business Operations and Chief Administrative Officer	496
Joseph W. Logan Executive Vice President, Worldwide Sales and Corporate Marketing	
John F. Runkel, Jr. General Counsel and Corporate Secretary	432
All executive officers as a group (6 persons)	2,416
All directors who are not executive officers as a group (8 persons)(2)	
All employees, excluding executive officers, as a group (10,278 persons as of Oct. 31, 2015)	1,709,800

(1) The aggregate numbers of shares of common stock purchased under the Purchase Plan, since its adoption through January 4, 2016, by Dr. de Geus, Dr. Chan, Mr. Pham, Mr. Beattie, Mr. Logan, Mr. Runkel, all

executive officers as a group, all directors who are not executive officers as a group, and all employees (excluding executive officers) as a group were 28,432; 28,432; 6,296; 7,502; none; 432; 71,094; none; and 35,362,138.

(2) Non-employee directors are not eligible to participate in the Purchase Plan.

U.S. Federal Tax Consequences

The following is a summary of the principal United States federal income taxation consequences to us and our employees with respect to participation in the component of the Purchase Plan intended to qualify as an employee stock purchase plan within the meaning of Section 423. This summary is not

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intended to be exhaustive and does not discuss the income tax laws of any foreign jurisdictions where a participant may reside or the taxation consequences with respect to participation in any component of the Purchase Plan not intended to meet the requirements of Section 423.

General. The Purchase Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423, so that purchase rights exercised under the Purchase Plan may qualify as qualified purchases under Section 423. Under such an arrangement, no taxable income will be recognized by a participant, and no deductions will be allowable to us, upon either the grant or the exercise of the purchase rights. Taxable income will not be recognized until there is a sale or other disposition of the shares of common stock acquired under the Purchase Plan or in the event the participant should die while still owning the purchased shares of common stock.

Disqualifying Disposition. If the participant sells or otherwise disposes of the purchased shares of common stock within two years after the start date of the offering period in which such shares were acquired or within one year after the actual purchase date of those shares, then the participant will recognize ordinary income equal to the amount by which the fair market value of the shares of common stock on the purchase date exceeded the purchase price paid for those shares, and Synopsys will be entitled to an income tax deduction, for the taxable year in which such disposition occurs, equal in amount to such excess. The participant will also recognize capital gain or loss to the extent the amount realized upon the sale or disposition of the shares of common stock differs from the sum of the aggregate purchase price paid for those shares of common stock and the ordinary income recognized upon their disposition.

Qualifying Disposition. If the participant sells or disposes of the purchased shares of common stock more than two years after the start date of the offering period in which the shares of common stock were acquired and more than one year after the actual purchase date of those shares, then the participant will recognize ordinary income in the year of sale or disposition equal to the lesser of (1) the amount by which the fair market value of the shares of common stock on the sale or disposition date exceeded the purchase price paid for those shares of common stock or (2) fifteen percent (15%) of the fair market value of the shares of common stock on the start date of that offering period. Any additional gain or loss upon the disposition will be taxed as a long-term capital gain or loss. We will not be entitled to an income tax deduction with respect to such disposition.

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We are requesting our stockholders to provide advisory approval of the compensation of our named executive officers as disclosed in the sections titled "Compensation Discussion and Analysis" and "Executive Compensation Tables" below. This non-binding advisory vote is commonly referred to as a "say-on-pay" vote.

Our Board of Directors Recommends that You Vote FOR the Compensation of Our Named Executive Officers As Disclosed in this Proxy Statement

Background

At last year's annual meeting, we provided our stockholders with the opportunity to cast an advisory vote regarding the compensation of our named executive officers as disclosed in the proxy statement for the 2015 Annual Meeting of Stockholders. At our 2015 Annual Meeting, our stockholders overwhelmingly approved the proposal, with approximately 96% of voted shares in favor of the proposal.

We hold a stockholder say-on-pay vote annually, as elected by our Board of Directors and consistent with a past advisory vote by our stockholders. Accordingly, this year we are again asking our stockholders to vote "For" the compensation of our named executive officers as disclosed in this Proxy Statement.

Our Compensation Committee, which is responsible for designing and administering our executive compensation program, has designed our executive compensation program to provide a competitive and internally equitable compensation and benefits package that reflects company performance, job complexity and the value provided, while also promoting long-term retention, motivation and alignment with the long-term interests of Synopsys' stockholders. Synopsys has maintained profitability and increased revenue in each of the last ten fiscal years, and we believe the compensation program for our named executive officers has been important in helping Synopsys achieve this consistent long-term financial performance.

We encourage you to carefully review the "Compensation Discussion and Analysis" section below for additional details on Synopsys' executive compensation, including Synopsys' compensation philosophy and objectives, as well as the processes our Compensation Committee used to determine the structure and amounts of the compensation of our named executive officers in fiscal 2015.

We are asking you to indicate your support for the compensation of our named executive officers as described in this Proxy Statement. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this Proxy Statement. Accordingly, we are asking you to vote, on an advisory basis, "For" the following resolution at the Annual Meeting:

RESOLVED, that the compensation paid to Synopsys, Inc.'s named executive officers, as disclosed pursuant to the Securities and Exchange Commission's compensation disclosure rules, including the "Compensation Discussion and Analysis" and "Executive Compensation Tables" sections of this Proxy Statement, is hereby approved.

This advisory resolution will be approved if the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting, and voting on this Proposal 4, vote "For" this Proposal 4. Abstentions will not be counted as either votes cast "For" or "Against" this Proposal 4.

While the results of this advisory vote are not binding, the Compensation Committee will consider the outcome of the vote in making future compensation decisions for named executive officers.

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This section explains how we compensate our named executive officers (NEOs).

Fiscal 2015 NEOs

Aart J. de Geus	Co-Chief Executive Officer and Chairman of the Board of Directors
Chi-Foon Chan	Co-Chief Executive Officer and President
Trac Pham	Chief Financial Officer
Brian M. Beattie	Executive Vice President, Business Operations and Chief Administrative Officer
Joseph W. Logan	Executive Vice President, Worldwide Sales and Corporate Marketing
John F. Runkel, Jr.	General Counsel and Corporate Secretary

Mr. Beattie was our Chief Financial Officer at the beginning of fiscal 2015 and was promoted to his current role on December 5, 2014. Mr. Pham was promoted from Vice President, Corporate Finance, to Chief Financial Officer on the same date.

Overview

We achieved strong financial results in fiscal 2015 while making good progress on the adoption of our new generation of chip design and verification software tools, expanding our intellectual property (IP) portfolio for the Internet of Things and advanced design nodes, and investing in, and growing, our software quality and security products. Our highlights included the following:

We increased our total revenue by 9% over fiscal 2014.

We generated approximately \$495 million in operating cash flow and increased our share repurchases to \$280 million in fiscal 2015.

We completed several acquisitions during the year, bolstering our electronic design automation (EDA) and software quality and security offerings.

Our operating income increased by 7% over the prior year, and as a result of a higher provision for income taxes primarily due to the integration of acquired technologies during fiscal 2015 and higher tax settlements in fiscal 2014, our net income declined.

We entered fiscal 2016 with a backlog of approximately \$3.6 billion, which represents committed orders that we expect to recognize as revenue over the next three years.

As a result of our strong financial performance, we achieved, on average, the performance goals we had set for the year. Our executive cash incentive plan funded at a higher level than in fiscal 2014 as a result, and due to increased cash incentive payments and, in certain cases, larger equity grants, total direct compensation for our NEOs rose over

last year.

In designing our executive compensation program, our goal is a competitive and internally equitable program that reflects company performance, job complexity, and the value provided, while also promoting long-term retention and motivation. In each of the last ten fiscal years, we have increased our revenue while remaining profitable. We believe our executive compensation policies have been important in helping us achieve this consistent long-term financial performance. To remain successful, we must continue to cultivate executive talent to lead our business and engage our global workforce.

We are led by Dr. de Geus, an EDA pioneer who co-founded Synopsys more than 29 years ago, and Dr. Chan, who has been with Synopsys for more than 25 years and has launched numerous key aspects of our business, including our intellectual property business and our expansion in Asia.

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We believe we continue to benefit from our Co-CEO structure. This structure enables both Dr. de Geus and Dr. Chan to speak with the authority of a CEO as they guide our product innovations across many fields and support our relationships with major customers. Both Dr. de Geus and Dr. Chan have deep knowledge of our products, customers, and industry while providing different strengths. Dr. Chan contributes expertise in the day-to-day operations of our business, while Dr. de Geus leads us in developing and communicating our long-term vision. We rely on the expertise of Dr. de Geus, Dr. Chan and all our NEOs to help us continue to build stockholder value.

Fiscal 2015 Compensation

The cornerstone of our compensation philosophy is *pay for performance*. We closely align the compensation paid to our NEOs with achievement of both near- and long-term financial goals. In fiscal 2015, we structured our compensation mix such that approximately 88% of the target compensation of Dr. de Geus and Dr. Chan, our Co-CEOs, was performance-based and approximately 79% of the target compensation of our other NEOs, as a group, was performance-based.

Our NEOs receive a salary, equity awards, and potentially earn a cash incentive payment under our Executive Incentive Plan (EIP), each determined by the Compensation Committee of our Board of Directors. The equity awards consist of stock options and performance-based restricted stock units (RSUs). The performance goals for our EIP and RSUs support our primary financial objectives of (i) achieving profitable revenue growth and (ii) creating a stable and predictable future revenue stream. Our EIP requires a minimum average achievement of 90% of our goals before any payment can be earned, a threshold we believe is above that of our peer companies.

We performed well against our fiscal 2015 goals:

Our average achievement of our EIP revenue, operating margin, and fiscal 2016 revenue backlog goals was 101.0%, yielding an initial payout factor of 104.2% under our EIP.

In addition to exceeding 100% of these goals on average, we further achieved 112.5% of our EIP fiscal 2017 revenue backlog goal. As a result, our EIP applied multipliers that increased plan funding to 171.9% of target levels.

We achieved 105.9% of the net income goal for our RSUs, and accordingly, all RSUs were earned and eligible to vest. Our NEOs do not receive additional shares for any overachievement of our RSU goal.

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Our EIP funded at a higher level than in fiscal 2014 as a result of our strong performance, and due to increased cash incentive payments and, in certain cases, larger equity grants, total direct compensation for our NEOs rose over last year:

NEO	Change in Total Compensation over Fiscal 2014(1)	Commentary
Aart J. de Geus	9.5%	Our Co-CEOs' actual earned compensation rose primarily due to increased cash incentive payments under our EIP, reflecting our improved performance against our plan goals in fiscal 2015. Nonetheless, our Co-CEOs' cash incentive targets have remained at the same level for seven of the last eight years.
Chi-Foon Chan	9.5%	Dr. Chan receives the same compensation as Dr. de Geus and, as with Dr. de Geus, his actual earned compensation increased mainly due to a higher EIP payment.
Trac Pham		Mr. Pham was appointed our Chief Financial Officer on December 5, 2014. The Compensation Committee set his compensation primarily based on his level of experience, our historical compensation for the role, and peer group compensation levels for his role.
Brian M. Beattie	18.0%	To reflect Mr. Beattie's promotion to Executive Vice President and Chief Administrative Officer, the Compensation Committee increased his salary by 10%, balanced by a slight reduction in his target cash incentive level. Mr. Beattie also received a promotional stock option grant that principally accounted for the increase in his total compensation over fiscal 2014.
Joseph W. Logan	16.0%	The Compensation Committee increased the target dollar value of Mr. Logan's annual equity grant to reflect his expanding role in guiding our performance, which has included taking on leadership of our corporate marketing organization. This increase, and a higher EIP payment, primarily accounted for the increase in his total compensation over fiscal 2014.
John F. Runkel, Jr.	22.0%	As fiscal 2015 was Mr. Runkel's first full year with the company, his salary and cash incentive payment were higher than last year's prorated amounts. The value of Mr. Runkel's equity grants was lower, however, as he received new-hire grants in fiscal 2014 that were larger than our typical annual equity grants, consistent with our historical approach for new hires.

(1) Based on total compensation for fiscal 2015 and 2014 reported in the Summary Compensation Table in the Executive Compensation Tables' section below.

Stockholders Say-on-Pay in 2015

In 2015, we held our fifth annual advisory stockholder vote on our executive compensation. Last year's proxy statement detailed our fiscal 2014 executive compensation as well as important compensation decisions for fiscal 2015, including fiscal 2015 NEO salaries, equity grants, and the metrics that would be used in determining achievement of performance-based compensation.

Approximately **96%** of voted shares approved our executive compensation as disclosed in last year's proxy statement. The Compensation Committee believed the vote demonstrated strong support for its decision to maintain a similar compensation philosophy and structure for fiscal 2015.

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Important Executive Compensation Policies and Governance Practices

Pay for Performance Fixed compensation for fiscal 2015 was only 12% of target total direct compensation for our Co-CEOs and 21% for our other NEOs as a group.

Commitment to a Balanced Mix of Performance Goals Our Executive Incentive Plan encourages our NEOs to achieve current fiscal year revenue and operating margin goals as well as revenue backlog goals for future years, which promote a predictable long-term revenue stream and help minimize incentives for risky short-term business practices.

Peer Group Data Our PRSUs require our NEOs to achieve a non-GAAP net income target for the current fiscal year to earn the full award, and encourage retention and long-term accountability through time-based vesting over the following three years. In setting fiscal 2015 total direct compensation for our NEOs, the Compensation Committee reviewed peer data, particularly the 50th to 75th percentiles of our peer group. Fiscal 2015 target direct compensation for each of our Co-CEOs was below the 25th percentile of our peers, however, reflecting our Co-CEOs' emphasis on internal pay equity and our Compensation Committee's sensitivity to budgetary concerns raised by a Co-CEO leadership structure.

Stock Ownership and Other NEO Requirements While the Compensation Committee views peer data as a useful guide to assess competitiveness, it is just one of several factors in Committee decisions, which also take into account an NEO's level of experience, contributions, wealth accumulation, and our compensation budget, among other factors.

Synopsys adopted Stock Ownership Guidelines in 2003, and all of our NEOs are in compliance with them as of January 4, 2016. At the end of fiscal 2015, Dr. de Geus held 667,524 shares of our common stock, valued (as of the end of fiscal 2015) at over 60 times his salary. Dr. Chan held 190,090 shares, valued (as of the end of fiscal 2015) at over 17 times his salary.

Reasonable Change of Control Provisions Our NEOs are prohibited from engaging in hedging transactions in Synopsys stock, holding Synopsys stock in a margin account, or pledging Synopsys stock as collateral for a loan.

Our NEO change of control agreements are double trigger. NEOs do not receive a payment simply due to a change of control and do not receive a payment if they continue to be employed in a similar role after the change of control.

The double trigger change of control salary continuation and cash incentive award payments potentially owed to our NEOs do not exceed two times their annual target cash compensation.

Our agreements do not provide for golden parachute excise tax gross ups. Instead, our agreements provide for the clawing back of compensation should excise taxes be triggered in certain situations.

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Risk Mitigation

The performance goals for our cash and equity incentive awards use a variety of performance metrics and focus on both near-term and long-term goals.

Our cash and equity incentive awards contain a range of performance levels and payouts to discourage risky actions to meet an all-or-nothing performance goal.

Our cash incentive awards and PRSUs are capped, and the Compensation Committee retains negative discretion to reduce our NEOs' cash incentive payments.

Since December 2008, we have maintained a clawback policy for the recovery of performance-based compensation (both cash and equity) in the event of a substantial financial restatement.

The Compensation Risk Assessment below describes our Compensation Committee's assessment that our company-wide compensation policies and practices are reasonable and encourage appropriate behaviors without creating risks that are reasonably likely to have a material adverse effect on us.

Compensation

Our Compensation Committee is composed solely of independent directors.

Governance

The Compensation Committee directly retains a compensation consultant the Committee has determined to be independent, using the factors set out in applicable SEC and NASDAQ rules.

The Compensation Committee regularly meets in executive sessions without management present.

Our Board of Directors elected to hold an annual advisory say-on-pay vote, and our Compensation Committee considers the outcome of the vote in making compensation decisions.

Our 2006 Employee Equity Incentive Plan forbids the repricing of equity awards without stockholder approval and contains a number of other features designed to

protect stockholder interests, as described in Proposal 2 above.

We aggressively manage our equity burn rate, limiting gross share usage to 2.4% in fiscal 2015.

Our Compensation Committee reviews tally sheets of executive compensation, which provide a holistic view of NEO compensation.

We do not provide a matching contribution or preferential interest rates in our deferred compensation plans.

We generally do not provide perquisites to our NEOs.

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Fiscal 2015 NEO Compensation Details

Our three core elements of NEO direct compensation are salary, a cash incentive payment opportunity and equity awards. Our NEOs are also compensated indirectly through our employee benefit plans.

The large majority of each NEO's target total direct compensation is performance-based that is, contingent upon the overall performance of our business or our stock price. The Compensation Committee uses a balanced mix of performance goal metrics with varying near- and long-term impact in our performance-based compensation.

Salary

Salaries compensate our NEOs for expected levels of day-to-day performance. Our Compensation Committee believes that salaries should be determined by each individual's role and responsibilities, our financial projections, peer data, our budget for the coming year, and historical salary levels.

All NEO salaries other than Mr. Beattie's remained the same in fiscal 2015. The Compensation Committee increased Mr. Beattie's salary by 10% to reflect his promotion to Executive Vice President and Chief Administrative Officer and the added responsibilities of his new office, which include oversight of our human resources, facilities, and corporate business development and strategy functions. In determining the salary for Mr. Pham, our new Chief Financial Officer, the Compensation Committee primarily considered his level of experience in relation to our historical compensation levels for the role.

Changes in Co-CEO Salaries

Other than an increase in fiscal 2013 to reflect Dr. Chan's promotion from Chief Operating Officer to Co-CEO, neither of our Co-CEOs has received a salary increase for the past eight years.

Table of Contents**Cash Incentive Payment**

We use annual cash incentive compensation to align NEO performance with near-term financial objectives and future revenue goals, which reward contributions that have a multi-year impact. These cash incentive payments can be paid to NEOs only if we achieve a significant level of our financial performance goals, which advance our long-term strategic plans and, ultimately, stockholder value. Our Compensation Committee grants cash incentive compensation opportunities under our 2006 Employee Equity Incentive Plan, as amended, which was most recently approved by our stockholders in April 2015. The Compensation Committee calculates whether cash incentive opportunities have been earned according to our Executive Incentive Plan 162(m) (EIP), which was approved by the Committee in January 2010. While our intention is that these cash incentive payments are exempt under Section 162(m) of the Code, we cannot guarantee deductibility and reserve the discretion to pay non-deductible amounts.

Executive Incentive Plan. Under the EIP, our Compensation Committee approves *cash incentive targets* for the fiscal year, our annual objective *performance goals*, and a *payout matrix* that determines how much of the target may be paid at each level of achievement of our performance goals. After the end of the fiscal year, the Compensation Committee applies an objective payment formula provided by the EIP to calculate the amount of potential cash incentive payments, but it retains discretion to reduce those payments below the amounts produced by the formula.

Cash Incentive Target. A cash incentive target is the amount of cash incentive compensation that an NEO could earn if we achieve our performance goals. Targets are expressed as a percentage of an NEO's salary. In reviewing targets, our Compensation Committee takes into consideration each individual's role and responsibilities, our financial projections, the budget for the coming year, peer data, and historical compensation levels.

For fiscal 2015, the Compensation Committee adjusted cash incentive targets for Mr. Beattie and Mr. Logan but kept target levels the same for our other NEOs. To reflect Mr. Beattie's promotion, the Compensation Committee increased his salary, as described above. At the same time, the Compensation Committee reduced his cash incentive target, which is expressed as a percentage of salary, in order to minimize the total increase, in dollar terms, compared to fiscal 2014. In all, Mr. Beattie's total target cash compensation increased by 5% for fiscal 2015.

The Compensation Committee increased Mr. Logan's cash incentive target from 145% to 150% to recognize his important role in attaining our performance goals. Mr. Pham's cash incentive target was set at 80%, based primarily on his level of experience in relation to our historical compensation levels for the role.

Changes in Co-CEO Cash Incentive Target Percentages

Other than adjustments in fiscal 2013 to make target levels for both Co-CEOs equal, reflecting Dr. Chan's promotion to Co-CEO, neither Co-CEO has received an increase in his cash incentive target for the past eight years.

Performance Goals. The EIP requires our Compensation Committee to set annual performance goals based on revenue, operating margin, and revenue backlog. We must reach a high level of achievement

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of these equally-weighted goals, which the EIP refers to as *Corporate Financial Goals*, before any cash incentive payment may be earned. In addition, under the EIP, the Compensation Committee sets a further revenue backlog goal called a *Revenue Predictability Goal* that, if fully achieved, can increase NEO cash incentive payments through a multiplier.

The EIP uses current fiscal year revenue and non-GAAP operating margin to focus our NEOs on revenue growth and cost control for the current fiscal year. The EIP goals based on two subsequent years of revenue backlog encourage our NEOs to address future revenue and revenue predictability, rewarding contributions that have a multi-year impact. We believe the exclusive use of corporate performance metrics, rather than a mix of corporate and individual metrics, fosters teamwork among our NEOs and reflects the importance of company-wide performance to stockholder value. Our Compensation Committee believes the consistent application of these measures, which have been used for eight straight fiscal years, allows our NEOs to focus on sustained performance rather than short-term accomplishments and has contributed to our consistent revenue growth and profitability.

The Compensation Committee sets goals based on the operating plan approved by our Board of Directors. For fiscal 2015, the Compensation Committee selected goals it believed to be challenging yet attainable in the absence of significant deterioration in macroeconomic or broader industry conditions.

Fiscal 2015 Corporate Financial Goals, Revenue Predictability Goal, and Goal Achievement

Corporate Financial Goals	Fiscal 2015 Target	Fiscal 2015 % Achieved
Fiscal 2015 revenue	\$ 2.210 billion	101.5%
Fiscal 2015 non-GAAP operating margin(1)	24.3%	96.3%
Fiscal 2016 revenue backlog(2)	\$ 1.765 billion	105.4%
Average Achievement		101.0%
Revenue Predictability Goal		
Fiscal 2017 revenue backlog(2)	*(3)	112.5%

- (1) Non-GAAP operating margin is GAAP operating margin adjusted to eliminate the effect of stock compensation, acquisition-related costs, amortization of intangible assets, certain unusual events and the income tax effect of pre-tax non-GAAP adjustments.
- (2) Revenue backlog for a particular year is the portion of committed orders not yet recognized as revenue but that we expect to be recognized in that particular year, measured as of the end of the current fiscal year.
- (3) We consider our second-year revenue backlog target to be confidential, and the disclosure of this target would cause us competitive harm. In general, the Compensation Committee sets revenue backlog targets that it believes to be challenging but attainable in the absence of significant deterioration in macroeconomic or broader industry conditions. Second-year revenue backlog targets were achieved in fiscal 2010 through fiscal 2015, but not in fiscal 2009.

Fiscal 2015 was a strong performance year for us, and although we failed to achieve our non-GAAP operating margin goal, primarily reflecting higher employee-related costs from organic growth and acquisitions in fiscal 2015, our

average achievement of our three Corporate Financial Goals was 101.0%. We also performed well against our Revenue Predictability Goal, achieving 112.5% of our target, which resulted in the application of a multiplier to potential NEO cash incentive payments, as described below.

Payout Matrix. Each year, our Compensation Committee approves a payout matrix that determines, within boundaries established by the EIP, what percentage of cash incentive targets can be paid out at each level of achievement of our Corporate Financial Goals. The EIP requires a minimum average achievement of 90% of our Corporate Financial Goals before our NEOs can earn any cash incentive payment. Furthermore, according to the EIP, the payout matrix may not award more than 67.5% of a target payment for that 90% achievement threshold.

The EIP is structured in this way to provide a limited payment opportunity when performance goals are narrowly missed. We believe this limits our exposure to excessive risk-taking that can arise with all or

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nothing performance conditions. We believe this minimum 90% achievement level holds our NEOs to a higher level of performance than peer practice. It is also 10% above the minimum achievement level for our broad-based employee incentive compensation plans, allowing employees to earn incentive pay before executives.

Overview of Fiscal 2015 Payout Matrix

Average Achievement of	Corporate Financial
Corporate Financial Goals	Payout Factor(1)
<90%	0%
90%	67.5%
100%	100%
103%	112.7%
³ 125%	150%

- (1) We round our average achievement to the nearest quarter percent and use straight-line interpolation to calculate the exact payout factor for achievement levels that fall in between levels specified in the matrix. For example, if we achieve our Corporate Financial Goals at an average of 101.75%, then the Corporate Financial Payout Factor is 107.39%.

For fiscal 2015, our Compensation Committee approved a payout matrix that allowed our NEOs to earn 100% of their cash incentive targets if we achieved an average of 100% of our Corporate Financial Goals, which was consistent with incentive compensation plans for our other employees.

EIP Payment Formula. After the end of our fiscal year, our Compensation Committee certifies whether performance goals were met and uses the following formula from the EIP to calculate potential cash incentive payments:

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Actual Fiscal 2015 Cash Incentive Payments. Actual cash incentive payments are only approved after our Compensation Committee has reviewed the potential cash incentive payment calculations under the objective EIP payment formula and considered other relevant information not incorporated into the formula, such as the impact of major acquisitions during the year, individual performance, and affordability.

The Compensation Committee is empowered to reduce potential cash incentive payments, regardless of whether any multiplier has been earned. The Compensation Committee may not increase potential payments, and in no event can an actual cash incentive payment exceed the lesser of \$2,000,000 or 200% of the NEO's cash incentive target. In December 2015, our Compensation Committee met with Dr. de Geus to discuss the fiscal 2015 performance of each of the other NEOs, calculate potential cash incentive payments, and determine the actual incentive payments. Based on our achievement of EIP performance goals, the calculation of cash incentive payments using the EIP's payment formula would have yielded awards of 171.9% of our NEOs' targets. However, to meet budgetary goals, the Compensation Committee reduced total EIP awards moderately below this level, by approximately 5% in the aggregate.

After careful consideration, the Compensation Committee approved the following fiscal 2015 cash incentive payments for Dr. de Geus, Dr. Chan, and our other NEOs:

NEO	Target Cash Incentive Payment	Actual Cash Incentive Payment
Aart J. de Geus	\$ 1,100,000	\$ 1,815,000
Chi-Foon Chan	1,100,000	1,815,000
Trac Pham	280,000	462,000
Brian M. Beattie	506,000	759,000
Joseph W. Logan	600,000	1,008,000
John F. Runkel, Jr.	245,000	404,300

Equity Awards

We believe that equity awards align the interests of our NEOs with the long-term interests of our stockholders by rewarding long-term value creation measured by our stock price and by providing retention incentives through multi-year vesting periods.

Our Compensation Committee grants the following equity awards to our NEOs under our 2006 Employee Plan:

Performance-based restricted stock units (PRSUs), which are eligible to vest only upon the achievement of pre-established performance criteria and are subject to time-based vesting thereafter. If earned, PRSUs increase or decrease in value directly with our stock price, further aligning NEO and stockholder interests.

Stock options with time-based vesting. Stock options encourage long-term performance as they are only valuable if our stock price increases over time, as the awards vest. Accordingly, the Compensation Committee considers stock options, as well as PRSUs, to be performance-based compensation.

The size of equity awards granted to each NEO is based on an estimated target dollar value. The Compensation Committee considers each NEO's role and responsibilities, historical compensation levels, and peer data in determining awards. The Compensation Committee does not have a specific formula that weights these factors. Our equity budget for the coming year is also a critical factor, as the Compensation Committee is mindful of potential stockholder dilution and internal pay equity between NEOs and our employees in general when approving grants.

Table of Contents**Fiscal 2015 Equity Grants**

NEO	Promotional			Grant Date
	Stock Options(1)	Stock Options	PRSU Shares(2)	Fair Value of Equity Awards
Aart J. de Geus	168,924		29,461	\$ 2,574,986
Chi-Foon Chan	168,924		29,461	2,574,986
Trac Pham	47,299		8,249	720,995
Brian M. Beattie	74,327	30,407(1)	12,963	1,371,501
Joseph W. Logan	94,598		16,498	1,441,990
John F. Runkel, Jr.	48,988		8,544	746,759

(1) Stock options vest in 6.25% increments every three months over a period of four years, as long as the NEO provides continuous service to us.

(2) As discussed further under PRSU Terms below, these PRSUs were subject to a non-GAAP net income performance goal of \$414.0 million for fiscal 2015.

Co-CEOs. The Compensation Committee approved an estimated target dollar value of \$2.5 million for the equity grants to each of our Co-CEOs, the same level as in fiscal 2014. The target dollar value was converted into a number of shares based on estimated conditions on the grant date, as described in Allocation below. The grant date fair value reported in the Summary Compensation Table in the Executive Compensation Tables section below reflects actual conditions on the grant date and was approximately 3% higher than the estimated target value.

Other NEOs. In recognition of his new role as Executive Vice President and Chief Administrative Officer, Mr. Beattie received a one-time promotional stock option grant, subject to the same four-year vesting schedule as the other stock options granted to our NEOs, as well as an increase of approximately 15%, by grant date fair value, in his annual equity grant. The Compensation Committee awarded Mr. Logan an increased equity grant over fiscal 2014, approximately 18% greater by grant date fair value, to recognize the increasing importance of his role in guiding our overall performance. Mr. Runkel received approximately 20% less, by grant date fair value, than in fiscal 2014 as he had received larger new-hire equity grants upon joining Synopsys in May 2014. The Compensation Committee determined the value of Mr. Pham's equity awards based on his level of experience, our historical compensation levels for his role, and our equity budget.

Allocation. After choosing the general target dollar value for each NEO's equity awards, the Compensation Committee sought to allocate the dollar value equally between stock options and PRSUs. The Compensation Committee believes this ratio is appropriate because it encourages our NEOs to focus both on near-term results, by requiring the achievement of a near-term performance condition for the PRSUs to vest, and on long-term value creation, since stock options and PRSUs reward sustained increases in our stock price, though only to the extent the employee vests in the award by remaining in service for four years. We also believe this mix effectively manages dilution from our equity compensation program, allowing us to grant fewer shares through PRSUs while delivering value comparable to stock options.

To determine the target number of PRSU shares to be granted for fiscal 2015, the Compensation Committee used our closing stock price on the grant date to calculate an award worth half of the target equity value. For stock options, the Compensation Committee used a Black-Scholes option-pricing model to estimate the fair value of a stock option share on the expected grant date and allocated the other half of the total target equity value to stock options. Because the stock option grants were based on estimates of conditions on the grant date, the actual grant date fair value of the options reported in the Summary Compensation Table below is different, and represents slightly more than half of total equity grant value, as it is based on our actual Black-Scholes stock option value on the effective grant date.

In determining PRSU grants, the Compensation Committee assumes that 100% of the PRSUs performance condition will be achieved. In addition to the possibility that the condition will not be met, the grant date value of any NEO equity award does not necessarily represent the actual value that may be realized upon vesting or exercise of such award.

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PRSU Terms. As in past years, the Compensation Committee selected a non-GAAP net income goal for our fiscal 2015 PRSUs because it is an important measure of our success that is distinct from other metrics used in our EIP, such as the revenue backlog goals focused on our future revenue streams. Non-GAAP net income is GAAP net income adjusted for stock compensation expense, acquisition-related costs, amortization of intangible assets, certain unusual events and the income tax effect of pre-tax non-GAAP adjustments. Our fiscal 2015 goal was non-GAAP net income of \$414.0 million.

Each PRSU grant is made at the maximum amount of shares that can be earned if we fully achieve our goal and will be reduced for actual performance below it. There is no increase in shares for overachievement. The actual number of shares that are earned and eligible to vest depends on the level of achievement of our goal, and achievement below 95% results in the cancellation of the entire award:

Percentage Achievement of PRSU Non-GAAP Net Income Performance Goal

- (1) If we achieve between 95% and 100% of our performance goal, then between 50% and 100% of the PRSU award is earned and eligible to vest. The exact amount of shares earned is calculated according to a matrix approved by the Compensation Committee.
- (2) 100% of the PRSU award is earned and eligible to vest if we achieve 100% or more of our performance goal. No additional shares are earned if we exceed our performance goal.

The Compensation Committee rewards performance levels between 95% and 100% to provide our NEOs with a partial award for substantially achieving our non-GAAP net income goal. The Compensation Committee believes this limits excessive risk-taking that can be encouraged by a single all or nothing performance condition.

All PRSUs remain subject to time-based vesting over four years. If the performance goal is achieved, only 25% of the earned PRSU shares vest at the end of the performance year. The remaining earned PRSU shares vest annually over the following three years, provided the NEO continues to remain employed by Synopsys, which encourages retention as well as long-term focus and accountability.

Fiscal 2015 PRSU Achievement. We achieved 105.9% of our fiscal 2015 non-GAAP net income performance goal of \$414.0 million, and accordingly, 25% of our NEOs' fiscal 2015 PRSUs vested on December 15, 2015. The remaining 75% of the shares are scheduled to vest in three equal annual installments beginning on December 8, 2016, as long as the NEO provides continuous services to us.

NEO	Maximum	Actual PRSU Shares
	PRSU Shares at Grant	Earned and Eligible for Vesting
Aart J. de Geus	29,461	29,461

Chi-Foon Chan	29,461	29,461
Trac Pham	8,249	8,249
Brian M. Beattie	12,963	12,963
Joseph W. Logan	16,498	16,498
John F. Runkel, Jr.	8,544	8,544

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Other Awards. The Compensation Committee retains discretion to grant new-hire, promotional or special recognition awards to NEOs on terms that vary from our annual grants. Except in the case of these special awards, the Compensation Committee generally does not grant restricted stock units unless they are subject to performance conditions. There were no new-hire, promotional or special recognition restricted stock unit awards for our NEOs in fiscal 2015.

Other Benefits

General Health, Welfare and Other Benefit Plans. Our NEOs are eligible to participate in a variety of employee benefit plans on the same terms as our other employees, including medical, dental and vision care plans, life and disability insurance, our tax-qualified 401(k) plan, and our Employee Stock Purchase Plan. We believe these benefits are consistent with benefits provided by our peer group and help us to attract and retain high quality executives.

In fiscal 2015, we changed our time-off policy for all U.S. employees. Under our new policy, exempt employees do not accrue paid time off and are not limited to or allotted a specific amount of paid time off. We froze such employees earned time off as of January 3, 2015, and the frozen amount is being paid to employees, including our NEOs, in two installments in July 2015 and March 2016 (or earlier on a termination of employment, if required by applicable law).

Perquisites and Other Benefits. No perquisites or other special executive benefits were given to our NEOs in fiscal 2015. In general, Synopsys and our Compensation Committee do not provide perquisites to our NEOs.

Deferred Compensation Plans. In 1996, the Compensation Committee established a deferred compensation program that allows our NEOs and other highly compensated individuals to save a portion of their compensation on a tax-deferred basis. We offer this program in order to remain competitive with a number of our peer companies and because the tax benefit it offers comes at a relatively low cost to us. The program is currently administered through two deferred compensation plans (one of which is grandfathered and closed to new participants). Under these plans, our NEOs and other highly compensated employees may elect to defer up to 50% of their salaries and up to 100% of their cash incentive compensation. Distributions from the deferred compensation plans are generally payable upon termination of employment and are made over 5 to 15 years or as a lump sum, at the option of the participant. We do not make any matching or discretionary contributions to the plans, there are no guarantees or minimum returns on investments, and undistributed amounts under the plans are subject to the claims of our creditors.

Severance and Change of Control Benefits

Executive Change of Control Severance Benefit Plan. For the benefit of certain key executives, we maintain an Executive Change of Control Severance Benefit Plan (Change of Control Plan), which was approved by our Board of Directors in March 2006 and amended in December 2008. Each of our NEOs is covered under the Change of Control Plan, except Drs. de Geus and Chan, whose benefits are described below. The Change of Control Plan provides for limited cash and equity benefits in the event an executive's employment is terminated in connection with a change of control of Synopsys. The Compensation Committee believes these incentives would help us retain our executives, and therefore maintain the stability of our business, during the potentially volatile period accompanying a change of control. The Compensation Committee believes the benefits are also comparable to benefits offered by our peer group, which helps us attract talented executives and maintain a consistent management team.

The Change of Control Plan only provides benefits if there is a **double trigger** : in addition to requiring a change of control of Synopsys, benefits are only provided if either (i) the eligible executive is involuntarily terminated without

cause during the 30 days before or 12 months after the change of control; or (ii) there is a constructive termination of the executive within 12 months after the change of control.

Change of control, involuntary termination without cause, and constructive termination are defined in the Change of Control Plan. We are not required to pay any tax gross-up amounts under the Change

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of Control Plan. To receive benefits, the executive must sign a release and severance agreement and, upon written request, enter into an 18-month non-competition agreement. Furthermore, benefits are subject to immediate termination, or recovery, under certain circumstances, such as an executive's breach of our proprietary information or confidentiality agreements, breach of our non-solicitation and non-compete agreements, or interference with our existing business relationships.

Our potential payment obligations under the Change of Control Plan are described in the subsection titled "Potential Payments upon Termination or Change of Control" in the "Executive Compensation Tables" section below.

Severance and Change of Control Arrangements for Dr. Aart de Geus and Dr. Chi-Foon Chan. Drs. de Geus and Chan are not covered by the Change of Control Plan described above but are eligible for severance and change of control benefits through their respective employment agreements, which were entered into in October 1997 and amended in March 2006 and June 2008. As with our other NEOs, we believe that the change of control benefits we offer are reasonable, consistent with benefits offered by our peer group, and would help retain the focused services of Drs. de Geus and Chan in the event of a change of control transaction. We further offer severance benefits to Drs. de Geus and Chan, which are only provided for an involuntary termination, because the benefits help us remain competitive for their services, are comparable to the benefits provided by our peer group to similarly situated executives, and are reasonable in amount.

The severance and change of control provisions are the same in each agreement. Change of control benefits require a **double trigger**: they are only provided for (i) an involuntary termination of employment without cause within 24 months following a change of control or (ii) a voluntary resignation of employment for good reason within 24 months following a change of control. Severance benefits are only payable for (a) an involuntary termination without cause or (b) a voluntary resignation for good reason.

The terms "change of control," "involuntary termination," "cause," and "good reason" are defined in the agreements. To receive benefits, Drs. de Geus and Chan must sign a waiver and release of claims. We are not required to pay any tax gross-up amounts under these agreements. These agreements also provide that a portion of the cash benefits payable in connection with an involuntary termination (apart from a change of control) will not be paid if Dr. de Geus or Dr. Chan, as applicable, engage in misconduct, including unauthorized disclosure of our trade secrets or confidential information or willful violations of our written policies, within six months of termination.

Our potential payment obligations under the employment agreements of Drs. de Geus and Chan are described in the subsection titled "Potential Payments upon Termination or Change of Control" in the "Executive Compensation Tables" section below.

Equity Plans. If we are acquired or involved in a similar corporate transaction, and the surviving company does not assume, replace or otherwise continue all of our outstanding equity awards, our equity incentive plans generally provide that such awards will fully vest. Corporate transactions under the plans generally include a sale or other disposition of 90% or more of our outstanding securities, a sale or other disposition of substantially all of our assets, a merger or consolidation in which we are not the surviving company, or a merger or consolidation in which we are the surviving company but our outstanding shares are converted into other property. We provide this benefit to all employees who hold equity awards under our plans to promote the stability and focused service of our workforce during a potentially uncertain time. Our Compensation Committee believes this benefit encourages our employees to work diligently towards the completion of a transaction that would potentially maximize stockholder value, even when our employees' own equity awards would not survive the transaction.

Fiscal 2016 NEO Target Compensation Decisions

The Compensation Committee did not make any major compensation policy or structure changes for fiscal 2016, based on the strongly positive results of our stockholders' 2015 say-on-pay vote as well as the Committee's belief that our compensation policy remains aligned with our corporate strategy. Our overall compensation philosophy remains consistent with our philosophy for fiscal 2015, continuing our

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emphasis on pay for performance. In addition, the Compensation Committee used the same metrics in setting performance goals under our EIP and for our PRSUs as in fiscal 2015. The Compensation Committee believes the goals are realistic but challenging.

At its meetings in December 2015, the Compensation Committee made several adjustments to individual NEO compensation levels for fiscal 2016:

Co-CEO Equity Grant Increases. The Compensation Committee increased the estimated target dollar value for each of our Co-CEOs' equity grants by approximately \$925,000, an increase of 36% over fiscal 2015. As in fiscal 2015, the total target dollar value was split approximately equally between PRSU and stock option grants. The Compensation Committee approved the increase in order to improve the competitiveness of our Co-CEOs' total target compensation. The Compensation Committee believed equity grants were the appropriate vehicle for restoring competitiveness, as they reward sustained, long-term increases in our stock price and have a longer time horizon than other forms of compensation due to vesting, appropriate for our Co-CEOs' critical role in long-term value creation. Even with the increased target value of their equity grants, total target compensation for each of our Co-CEOs remains below the 25th percentile of our peer group. No other changes were made to our Co-CEOs' compensation.

Increase in CFO Total Target Compensation. To reflect Mr. Pham's further development in his role and to improve the competitiveness of his total target compensation, which was below the 25th percentile of our peer group for fiscal 2015, the Compensation Committee increased Mr. Pham's total target compensation by approximately 21%. Mr. Pham's salary was increased by \$20,000, or 6% over fiscal 2015. Although his cash incentive target percentage remained at 80% of his salary, his cash incentive target increased by 6% as a result of his salary raise. The Compensation Committee increased the estimated target dollar value of his equity grants by approximately \$244,000, an increase of 34% over fiscal 2015, with the total value split approximately equally between PRSUs and stock options.

Other NEOs. Mr. Logan's total target compensation was raised by approximately 9.5%, recognizing his key contributions in an increasingly competitive sales environment. The Compensation Committee increased the estimated target total dollar value of his equity grants by approximately \$208,000, or 14%, split approximately equally between PRSUs and stock options. Mr. Logan's salary was also increased by \$10,000, or 3%, to \$410,000. Mr. Beattie's total target compensation declined by approximately 18%, primarily due to a decrease in the target total dollar value of his equity grants, reflecting internal pay equity considerations and the fact that Mr. Beattie had received a promotional stock option grant in fiscal 2015 that did not recur in fiscal 2016. No material changes were made to Mr. Runkel's target compensation for fiscal 2016.

For fiscal 2016, performance-based compensation is targeted at approximately 90% of total direct compensation for our Co-CEOs and at approximately 79% for our other NEOs, as a group.

Table of Contents**Compensation Governance and Our Compensation Philosophy**

We have designed our executive compensation program to attract, motivate and retain a team of highly qualified executives who will drive technological and business success. In order to motivate and reward our NEOs for work that improves our long-term business performance and increases stockholder value, we have set out the following objectives:

Pay for Performance	Competitiveness	Outperformance
Link NEO compensation to the success of our business objectives	Provide competitive compensation that attracts and retains top-performing NEOs	Motivate NEOs to achieve results that exceed our strategic plan targets
Stockholder Alignment	Balance	Internal Pay Equity
Align the interests of NEOs and stockholders through the managed use of long-term incentives	Set performance goals that reward an appropriate balance of near- and long-term results	Promote teamwork among NEOs by considering internal fairness in setting compensation levels

Pay for Performance

Underlying these objectives is our *pay-for-performance* philosophy. We believe that the large majority of each NEO's target total direct compensation should be performance-based—that is, contingent upon the overall performance of our business or our stock price. For fiscal 2015, 88% of the target total direct compensation of our highest-paid NEOs—Dr. de Geus and Dr. Chan—was performance-based, and 79% of target total direct compensation was performance-based for our other NEOs as a group. We believe this direct link between pay and performance is an effective way to motivate our NEOs to achieve key financial objectives and, ultimately, increase stockholder value.

Role of Compensation Committee

Our Compensation Committee is responsible for determining NEO compensation. The Compensation Committee, which is composed of three independent directors, meets regularly throughout the year to review and discuss, among other items, our compensation philosophy, changes in compensation governance and compliance rules and best practices, and the composition of our peer group for pay comparisons. In the first quarter of each fiscal year, the Compensation Committee reviews and approves:

The level of achievement of financial performance goals for the prior fiscal year;

Annual incentive compensation earned, if any, based on that prior fiscal year achievement;

Annual financial performance goals for the current fiscal year; and

The level and mix of NEO target compensation for the current fiscal year.

The Compensation Committee also conducts a biennial review of our non-employee director compensation, with the assistance of its compensation consultant, and makes recommendations to our Board. The Compensation Committee reviewed non-employee director compensation at the end of fiscal 2015 and recommended no changes to the annual cash retainer and equity grant for non-employee directors, despite determining that total compensation fell below the 50th percentile paid by our peer group companies listed below. The Compensation Committee did recommend increases in the additional cash compensation paid to members of the Audit Committee for fiscal 2016, as described in more detail under [Director Compensation](#) above.

Role of Compensation Committee Consultant

Our Compensation Committee directly retained the services of Radford, an Aon Hewitt company, as an independent compensation consultant for fiscal 2015. The Compensation Committee conducts an annual assessment of its consultant's performance and re-appoints its consultant each year. Radford has served as the Compensation Committee's consultant since September 2006. The Compensation Committee may replace Radford or hire additional consultants at any time. The Compensation

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Committee retains sole authority to appoint and compensate Radford and to oversee its work for the Committee. Synopsys pays the fees for the services provided by Radford to the Compensation Committee. In fiscal 2015, the services provided by Radford included:

Assisting in the selection of our peer group companies for fiscal 2016 (and with the determination of our fiscal 2015 peer group in fiscal 2014);

Providing and analyzing compensation survey data;

Helping the Compensation Committee interpret compensation data;

Advising on the reasonableness of our NEO compensation levels and programs;

Assisting in the review of non-employee director compensation, including analysis of benchmarking data;

Assisting in the review of the NEO compensation disclosure in this Proxy Statement;

Conducting a detailed review of our cash and equity compensation plans to provide an independent view of the risks associated with our compensation programs, including those for our NEOs; and

Attending each Compensation Committee meeting, including meeting with the Committee in private sessions, without management present.

In addition to the fees we paid Radford for services provided to our Compensation Committee, we also paid \$110,000 in fees to Radford during fiscal 2015 for access by our Human Resources department to Radford's general employee compensation benchmarking data. After considering the factors set forth in Rule 10C-1(b)(4) under the Exchange Act and NASDAQ Listing Rule 5605(d)(3)(D), including a review of the access fees described above and Radford's representations to the Compensation Committee regarding each factor, the Committee determined that Radford was independent.

Peer Group Comparisons

Our Compensation Committee reviews compensation data from a specific group of companies that are similar to us in scale and organizational complexity in considering the compensation of our NEOs. For fiscal 2015, the Compensation Committee selected the peer group companies listed below because they: (1) were business or labor market competitors in the software (excluding gaming and e-commerce) or fabless semiconductor industries; (2) generated annual revenues between approximately 0.5 and 2.5 times Synopsys' revenue (approximately \$1 billion to \$5 billion); (3) had a market capitalization between approximately 0.5 and 3 times Synopsys' market capitalization (approximately \$3 billion to \$17.5 billion); and (4) had approximately 2,000 to 13,000 employees. At the time of the selection in June

2014, Synopsys had total revenue for the previous twelve months of approximately \$1.97 billion, a market capitalization of approximately \$5.89 billion, and, as of the end of the previous fiscal year, 8,573 employees.

Fiscal 2015 Peer Group

Altera Corporation	Mentor Graphics Corporation
ANSYS, Inc.	Microchip Technology Inc.
Autodesk, Inc.	Nuance Communications, Inc.
Cadence Design Systems, Inc.	NVIDIA Corporation
Citrix Systems, Inc.	Parametric Technology Corporation
Informatica Corporation(1)	Red Hat, Inc.
Intuit Inc.	TIBCO Software Inc.(2)
KLA-Tencor Corporation	Trimble Navigation Ltd.
Linear Technology Corporation	Xilinx, Inc.
Marvell Technology Group Ltd.	

- (1) Informatica Corporation was acquired by a company controlled by the Canada Pension Plan Investment Board and investment funds advised by Permira Advisers LLC on August 6, 2015.

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- (2) TIBCO Software Inc. was acquired by Vista Equity Partners on December 5, 2014 but was included in benchmarking data analyzed by the Compensation Committee for fiscal 2015 compensation decisions at its December 2014 meetings.

The Compensation Committee uses peer group comparisons to measure the competitiveness of our compensation practices. Peer data is just one of the factors in the Compensation Committee's pay decisions, however, which also take into account individual performance, an NEO's level of experience and responsibilities, internal pay equity, long-term wealth accumulation, our compensation budget, historical compensation levels, and other considerations.

For fiscal 2015, the Compensation Committee referred to the 50th to 75th percentiles of our peers to compare target total direct compensation levels. This is a change from prior years, when the Compensation Committee used the 50th to 60th percentiles as a reference range. The Compensation Committee believes the broader range provides more meaningful differentials in pay levels that represent differences in the criticality and performance of each role across companies, is a more readily available data set for benchmarking, and better reflects the full range of competitive pay at our peer companies.

For specific compensation components, the Compensation Committee looked to salary ranges below the 25th percentile of our peer group as a guide for our Co-CEOs, and to the 25th to 50th percentile as a guide for our other NEOs, in order to continue to emphasize performance-based compensation in our NEOs compensation mix. While the Compensation Committee reviewed peer group data for other individual components of compensation for context, it did not use specific percentile ranges as a guideline for fiscal 2015.

Fiscal 2015 total target compensation for each of our Co-CEOs was below the 25th percentile of our peers. The Compensation Committee believes this level was appropriate as it reflects our Co-CEOs' emphasis on internal pay equity and helps to alleviate budgetary concerns raised by a Co-CEO structure. While the Compensation Committee increased the target dollar value of the equity grants to our Co-CEOs for fiscal 2016 to improve competitiveness, total target compensation for fiscal 2016 for each of our Co-CEOs remained below the 25th percentile of peers.

Role of Management

Our Compensation Committee discusses NEO performance assessments and compensation targets with Dr. de Geus and our Senior Vice President of Human Resources. To assess Co-CEO performance, the Compensation Committee oversees a comprehensive assessment process that includes feedback from our Board of Directors and members of senior management and is facilitated by our Senior Vice President of Human Resources. We also have an executive compensation team that provides background on company budgetary constraints and internal pay comparisons to help the Compensation Committee understand Radford's recommendations in those contexts. No NEO is present for Compensation Committee decisions related to his individual compensation.

Tally Sheets

Prior to approving target compensation levels for the upcoming fiscal year, our Compensation Committee reviews tally sheets for each NEO to review how each core element of compensation relates to other elements and to total pay. The tally sheets summarize target total direct compensation, as well as potential payments upon change of control or, if applicable, involuntary termination. The tally sheets also summarize historical compensation for our NEOs, allowing the Compensation Committee to review NEO wealth accumulation.

Annual Say-on-Pay Vote

Our stockholders have the opportunity to cast an annual advisory vote on our NEO compensation (say-on-pay vote) see Proposal 4 above. At each of the past five annual meetings, at least 96% of voted shares have approved our NEO compensation. Although the vote is non-binding, the Compensation Committee considers the results of the say-on-pay vote when making compensation decisions, allowing our stockholders to provide input on our compensation philosophy, policies and practices.

Table of Contents**Other Important Compensation Practices**

Stock Ownership Guidelines. Our Compensation Committee has maintained stock ownership guidelines since fiscal 2003 to further align the interests of our senior management with those of our stockholders. Under our current guidelines, individuals employed in certain specified positions are encouraged to achieve the recommended stock ownership level within four years. The stock ownership recommendations for our NEOs are: Dr. de Geus 50,000 shares; Dr. Chan 50,000 shares; Mr. Pham 10,000 shares; Mr. Beattie 10,000 shares; Mr. Logan 10,000 shares; and Mr. Runkel 10,000 shares.

As of January 4, 2016, each of our NEOs either held the recommended number of shares or had not yet served for four years. Our Co-CEOs each held at least three times their recommended number of shares.

Equity Grant Timing Policy. We generally grant equity awards to executives at the beginning of each fiscal year at a Compensation Committee meeting that is typically scheduled more than a year in advance. For stock option grants, the Compensation Committee sets the exercise price at the closing price of our common stock on the NASDAQ Global Select Market on the date of the meeting. We generally plan to hold the meeting within two weeks after the release of our financial results so that the option exercise price reflects a fully-informed market price. In the event the meeting falls before the release of our financial results, the Compensation Committee will generally approve the stock option grants prior to the release of our results but set the exercise price to be the market closing price on the second trading day following the release. In the case of new-hire, promotional, or special recognition equity grants for executives, the Compensation Committee typically grants such awards shortly after the hiring, promotion or special achievement occurs, unless it is during a closed company trading window, which includes periods immediately preceding the release of our financial results.

Burn Rate. Each fiscal year, the Compensation Committee approves an annual gross equity budget to closely manage our equity compensation share reserve and stockholder dilution. The Compensation Committee endeavors to achieve a gross burn rate that approximates the average rate for our peer group companies as well as for the software and services industry more generally, and to achieve burn rates that are within the limits published by independent shareholder advisory groups, such as Institutional Shareholder Services (referred to in this Proxy Statement as ISS).

Our gross burn rate for each of the last several years has been well within the guidelines recommended by ISS. For fiscal 2015, our gross share usage was 2.4%.

Tax Deductibility of NEO Compensation. Section 162(m) of the Code generally limits the amount of NEO compensation we may deduct for annual federal income tax purposes to \$1 million per NEO. However, compensation that qualifies as performance-based under Section 162(m) may be excluded from the \$1 million limit. Our EIP was designed to allow us to pay performance-based cash compensation, and our Compensation Committee may grant equity awards intended to qualify as performance-based compensation. Although our Compensation Committee considers the deductibility of the compensation it awards, it retains the flexibility to award compensation that is consistent with our objectives and philosophy even if it does not qualify for a tax deduction.

Clawback Policy. In December 2008, our Board of Directors adopted a Compensation Recovery Policy, which allows us to recover or clawback cash and equity compensation paid to covered employees under certain circumstances. Pursuant to the policy, we may require a covered employee to return all or a portion of any compensation paid or received after January 1, 2009, if: (1) the compensation was based on the achievement of financial results, and the results were the subject of a substantial restatement of our financial statements as filed with the Securities and

Exchange Commission; and (2) less compensation would have been earned by the employee based on the restated financial results. Our Board of Directors has the sole authority to enforce this policy, and it is limited by applicable law. Each of our NEOs is subject to our Compensation Recovery Policy.

No Hedging Transactions. Our insider trading policy prohibits our employees, including our NEOs, and directors from engaging in hedging transactions in our common stock.

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No Pledging. Our insider trading policy prohibits our employees, including our NEOs, and directors from holding our common stock in a margin account or pledging it as collateral for a loan.

Compensation Risk Assessment

Our Compensation Committee aims to establish company-wide compensation policies and practices that reward contributions to long-term stockholder value and do not promote unnecessary or excessive risk-taking. In furtherance of this objective, in late 2015, our Compensation Committee conducted an assessment of our compensation arrangements, including those for our NEOs. The assessment process included, among other things, a review of our (1) compensation philosophy, (2) compensation at peer group companies, (3) our compensation mix and (4) the terms and payments under our cash and equity incentive plans. As part of that review, our Compensation Committee asked Radford, its independent compensation consultant, to perform a detailed review of our cash and equity compensation plans in comparison to market practices.

The Compensation Committee considered the following, among other factors:

Our revenue model and our cash incentive plan encourage our employees to focus on creating a stable, predictable stream of revenue over multiple years, rather than focusing on current year revenue at the expense of succeeding years.

The Compensation Committee believes that the allocation of compensation among our core compensation elements effectively balances short-term performance and long-term performance.

Our cash and equity incentive awards focus on both near-term and long-term goals and, in the case of equity incentive awards, provide for compensation over a four-year period, to encourage our NEOs to remain focused on our performance beyond the immediate fiscal year.

The performance goals for our cash and equity incentive awards use a variety of performance metrics, which diversifies the risk associated with any one metric or aspect of performance.

Our cash and equity incentive awards contain a range of performance levels and payouts to discourage executives from taking risky actions to meet a single target with an all-or-nothing result of compensation or no compensation.

Our EIP caps cash incentive payments at a maximum award size. In addition, the Compensation Committee retains negative discretion to reduce our NEOs' incentive payments under the plan.

Our cash incentive payments and equity awards are subject to a clawback policy to recover compensation in the event of a substantial financial restatement.

Our executives are encouraged to hold a meaningful number of shares of our common stock under our stock ownership policy.

Based upon this assessment, our Compensation Committee believes that our company-wide compensation policies and practices are reasonable and encourage appropriate behaviors without creating risks that are reasonably likely to have a material adverse effect on us.

Conclusion

We remain strongly committed to our pay-for-performance philosophy. As a result of the compensation program described above, the majority of each NEO's compensation depends upon the achievement of our business goals. Our Compensation Committee gives careful consideration to each core element of direct compensation for each NEO. The Compensation Committee believes our NEO compensation program is effective in advancing our goals, reasonable in light of the programs of our peers, and responsible in encouraging our NEOs to work for crucial innovation, business growth and outstanding stockholder returns, without promoting unnecessary or excessive risks.

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The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with management. Based on the Compensation Committee's review of, and the discussions with management with respect to, the Compensation Discussion and Analysis, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement for filing with the Securities and Exchange Commission.

The foregoing report is provided by the following directors, who constitute the Compensation Committee:

COMPENSATION COMMITTEE

Chrysostomos L. Max Nikias, Chair

Bruce R. Chizen

Steven C. Walske

- * This report shall not constitute soliciting material, shall not be deemed filed with the Securities and Exchange Commission, and is not to be incorporated by reference into any of our other filings under the Securities Act of 1933, as amended (referred to in this Proxy Statement as the Securities Act), or the Exchange Act, except to the extent we specifically incorporate this report by reference therein.

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During fiscal 2015, the Compensation Committee consisted of Bruce R. Chizen, Chrysostomos L. Max Nikias and Steven C. Walske. Mr. Chizen served as the Chair of the Compensation Committee during fiscal 2015, with Dr. Nikias succeeding him as Chair beginning in December 2015. None of the members of the Compensation Committee is nor, during fiscal 2015, was an officer or employee of Synopsys, none of the members of the Compensation Committee was formerly an officer of Synopsys, and none of our executive officers serves or, during fiscal 2015, served as a member of a board of directors or compensation committee of any entity that has or, during fiscal 2015, had one or more executive officers serving as a member of our Board or Compensation Committee.

Table of Contents**Summary Compensation Table**

The following table shows compensation awarded to, paid to, or earned by each of our fiscal 2015 executive officers, who consist of Dr. de Geus and Dr. Chan, our Co-Chief Executive Officers; Mr. Pham, our current Chief Financial Officer, who was appointed on December 5, 2015; Mr. Beattie, our Executive Vice President, Business Operations and Chief Administrative Officer, who served as our Chief Financial Officer at the beginning of fiscal 2015 before his promotion to his current role on December 5, 2015; and Mr. Logan and Mr. Runkel, our two other executive officers (collectively, NEOs). The table shows compensation for services performed during fiscal 2015, fiscal 2014, and fiscal 2013.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(1)	Non-Equity Incentive	All Other Compensation (\$)		
						Plan Compensation (\$)(2)			
Dr. de Geus Co-Chief Executive Officer Chairman of the Board of Directors	2015	\$ 500,000	\$	\$ 1,250,030	\$ 1,324,955	\$ 1,815,000	\$ 29,154(4)	\$	4,911
	2014	500,000		1,328,643	1,159,823	1,500,000	2,500		4,491
	2013	500,000		1,725,854	1,189,504	1,500,000	2,500		4,911
Dr. Chan Co-Chief Executive Officer President	2015	\$ 500,000	\$	\$ 1,250,030	\$ 1,324,955	\$ 1,815,000	\$ 27,230(5)	\$	4,911
	2014	500,000		1,328,643	1,159,823	1,500,000	2,346		4,491
	2013	500,000		1,725,854	1,189,504	1,500,000	1,500		4,911
Mr. Pham Chief Financial Officer	2015	\$ 350,000	\$	\$ 350,005	\$ 370,990	\$ 462,000	\$ 15,500(6)	\$	1,541
Mr. Beattie Executive Vice President, Business Operations and Chief Administrative Officer	2015	\$ 440,000	\$	\$ 550,020	\$ 821,481	\$ 759,000	\$ 26,565(7)	\$	2,591
	2014	400,000		525,366	534,217	738,000	2,800		2,201
	2013	400,000		592,554	408,892	900,000	2,800		2,301
Mr. W. Logan Executive Vice President, Global Sales and Corporate Marketing	2015	\$ 400,000	\$	\$ 700,010	\$ 741,979	\$ 1,008,000	\$ 23,769(8)	\$	2,871
	2014	399,615		552,015	667,214	856,000	1,500		2,471
	2013	380,000	100,000(9)	647,600	446,064	1,033,000	1,500		2,601
Mr. Runkel, Jr. General Counsel and Corporate Secretary	2015	\$ 350,000	\$	\$ 362,522	\$ 384,237	\$ 404,300	\$ 7,743(10)	\$	1,501
	2014	154,808(11)		586,350	341,496	153,000	1,500		1,231

- (1) The amounts shown for stock awards and option awards represent the aggregate grant date fair value of such awards granted to our NEOs in fiscal 2015, fiscal 2014 and fiscal 2013 as computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, *Compensation Stock Compensation*. For each award, the grant date fair value is calculated using the closing price of our common stock on the grant date and, in the case of performance-based restricted stock unit awards, assuming 100% probability of achievement of performance conditions as of the grant date. These amounts do not represent the actual value that may be realized by the NEO upon vesting or exercise of such awards. For information on the assumptions used to calculate the value of the awards, refer to Note 10 to the consolidated financial statements contained in our 2015 Annual Report on Form 10-K.
- (2) Amounts consist of cash-based incentive compensation earned for the achievement of performance objectives approved by our Compensation Committee for fiscal 2015, 2014, or 2013, as applicable, under our Executive Incentive Plan 162(m) (EIP).
- (3) Amounts exclude non-qualified deferred compensation earnings because we do not regard the returns from the investment alternatives selected by the executive for such earnings to be above-market or preferential as they are consistent with the types of investment opportunities generally provided to our employees under our tax-qualified 401(k) plan and Synopsys does not supplement or guarantee the returns on amounts deferred.
- (4) Amount includes \$25,000 in accumulated earned time off paid in July 2015. In fiscal 2015, we changed our time-off policy for all U.S. employees. Under our new policy, exempt employees do not accrue paid time off and are not limited to or allotted a specific amount of paid time off. We froze such employees' earned time off as of January 3, 2015, and the frozen amount will be paid to employees, including our NEOs, in two installments in July 2015 and March 2016 (or earlier on a termination of employment, if required by applicable law). Amount also includes \$3,000 in matching contributions made by Synopsys under our tax-qualified 401(k) plan, which provides for broad-based U.S. employee participation, and \$1,154 in matching contributions made by Synopsys to Dr. de Geus' health savings account at the same rate as for our other employees who enroll in this health plan.

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- (5) Amount includes \$23,076 in accumulated earned time off paid in July 2015. See note (4) above for further detail on this payment. Amount also includes \$3,000 in matching contributions made by Synopsys under our tax-qualified 401(k) plan, which provides for broad-based U.S. employee participation, and \$1,154 in matching contributions made by Synopsys to Dr. Chan's health savings account at the same rate as for our other employees who enroll in this health plan.
- (6) Amount includes \$11,096 in accumulated earned time off paid in July 2015. See note (4) above for further detail on this payment. Amount also includes \$3,000 in matching contributions made by Synopsys under our tax-qualified 401(k) plan, which provides for broad-based U.S. employee participation, \$1,154 in matching contributions made by Synopsys to Mr. Pham's health savings account at the same rate as for our other employees who enroll in this health plan, and \$250 relating to matching charitable contributions made by The Synopsys Foundation on behalf of Mr. Pham as part of a broad-based charitable matching program available to all U.S. Synopsys employees.
- (7) Amount includes \$22,411 in accumulated earned time off paid in July 2015. See note (4) above for further detail on this payment. Amount also includes \$3,000 in matching contributions made by Synopsys under our tax-qualified 401(k) plan, which provides for broad-based U.S. employee participation, and \$1,154 in matching contributions made by Synopsys to Mr. Beattie's health savings account at the same rate as for our other employees who enroll in this health plan.
- (8) Amount includes \$20,769 in accumulated earned time off paid in July 2015. See note (4) above for further detail on this payment. Amount also includes \$3,000 in matching contributions made by Synopsys under our tax-qualified 401(k) plan, which provides for broad-based U.S. employee participation.
- (9) Amount consists of a promotional cash bonus awarded to Mr. Logan in December 2013 in recognition of his promotion from Senior Vice President to Executive Vice President, based upon his achievements during fiscal 2013.
- (10) Amount includes \$3,638 in accumulated earned time off paid in July 2015. See note (4) above for further detail on this payment. Amount also includes \$3,000 in matching contributions made by Synopsys under our tax-qualified 401(k) plan, which provides for broad-based U.S. employee participation, \$1,000 in matching contributions made by Synopsys to Mr. Runkel's health savings account at the same rate as for our other employees who enroll in this health plan, and \$105 relating to matching charitable contributions made by The Synopsys Foundation on behalf of Mr. Runkel as part of a broad-based charitable matching program available to all U.S. Synopsys employees.
- (11) Mr. Runkel was appointed General Counsel and Corporate Secretary of Synopsys, effective May 19, 2014. Mr. Runkel's annual salary for fiscal 2014 was set at \$350,000, though Mr. Runkel earned a prorated amount of such salary \$154,808 as a result of joining mid-year.

Table of Contents**Grants of Plan-Based Awards**

The following table sets forth certain information with respect to grants of plan-based awards in fiscal 2015 to our NEOs, including cash awards and equity awards. The equity awards granted to our NEOs in fiscal 2015 were granted under our 2006 Employee Equity Incentive Plan.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Securities Underlying Options(3)	All Other Option Awards: Number of Option Awards(4)	Exercise or Base Price of Option Awards(\$/Sh)(4)	Grant Date and Fair Value of Stock and Option Awards(5)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Mart J. Geus	12/12/2014	\$ 742,500	\$ 1,100,000	\$ 2,000,000							
	12/12/2014				14,730	29,461	29,461				\$ 1,250,030
	12/12/2014							168,924	\$ 42.43		\$ 1,324,955
Chi-Foon Chan	12/12/2014	\$ 742,500	\$ 1,100,000	\$ 2,000,000							
	12/12/2014				14,730	29,461	29,461				\$ 1,250,030
	12/12/2014							168,924	\$ 42.43		\$ 1,324,955
Francis M. Ham	12/12/2014	\$ 189,000	\$ 280,000	\$ 560,000							
	12/12/2014				4,124	8,249	8,249				\$ 350,005
	12/12/2014							47,299	\$ 42.43		\$ 370,990
Brian M. Keattie	12/12/2014	\$ 341,550	\$ 506,000	\$ 1,012,000							
	12/12/2014				6,481	12,963	12,963				\$ 550,020
	12/12/2014							104,734	\$ 42.43		\$ 821,481
Joseph W. Logan	12/12/2014	\$ 405,000	\$ 600,000	\$ 1,200,000							
	12/12/2014				8,249	16,498	16,498				\$ 700,010
	12/12/2014							94,598	\$ 42.43		\$ 741,979
John F. Dunkel, Jr.	12/12/2014	\$ 165,375	\$ 245,000	\$ 490,000							
	12/12/2014				4,272	8,544	8,544				\$ 362,522
	12/12/2014							48,988	\$ 42.43		\$ 384,237

(1)

Represents possible cash awards for fiscal 2015 under the EIP. Cash awards paid to NEOs under the EIP are dependent on the achievement of certain performance targets, as well as the level of achievement. The amounts listed under the **Threshold** column represent the cash awards payable to NEOs under the EIP at a 90% average achievement of the Corporate Financial Goals described in the **Compensation Discussion and Analysis** section above, under the subsection titled **Cash Incentive Payment**. Pursuant to the EIP, if the average achievement of the Corporate Financial Goals is below 90%, no cash awards are paid. The amounts listed under the **Target** column represent the cash awards payable in fiscal 2015 at a 100% average achievement of the Corporate Financial Goals. The amounts listed under the **Maximum** column represent the maximum cash awards payable, which for each NEO equals the lesser of \$2 million or 200% of the NEO's target variable cash incentive compensation. Actual cash awards paid to the NEOs for fiscal 2015 are reported in the **Summary Compensation Table** above under the **Non-Equity Incentive Plan Compensation** column.

- (2) Represents stock awards that are eligible to vest only upon achievement of pre-established performance goals. Such awards are granted as restricted stock units and are issued as an equivalent number of shares of our common stock following vesting. The vesting criterion for the target award was the achievement of \$414.0 million of non-GAAP net income for fiscal 2015, as further described in the **Compensation Discussion and Analysis** section above, under the subsection titled **Equity Awards**. The amounts listed under the **Target** and **Maximum** columns represent the stock awards eligible to vest if 100%, or more than 100%, respectively, of such non-GAAP net income target is achieved. The amounts listed under the **Threshold** column represent the stock awards eligible to vest if 95% of the non-GAAP net income target is achieved. If less than 95% of the non-GAAP net income target is achieved, no stock awards are eligible to vest. As the target vesting criterion was achieved at more than 100%, 25% of each respective maximum award vested on December 15, 2015, and the remaining 75% of each respective award is scheduled to vest in three equal annual installments beginning on December 8, 2016, so long as the NEO provides continuous services to us.
- (3) 6.25% of the shares subject to such non-statutory stock options vested on the three-month anniversary of the grant date, and vesting will continue as to 6.25% quarterly thereafter, so long as the NEO provides continuous services to us.
- (4) Represents the closing price of our common stock as reported on the NASDAQ Global Select Market on December 12, 2014, the effective date of grant of these awards.

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- (5) Represents the fair value of the stock and option awards on the grant date. These amounts do not represent the actual value that may be realized by the NEO upon vesting or exercise of such awards. For information on the assumptions used to calculate the fair value of the option awards, refer to Note 10 to the consolidated financial statements contained in our 2015 Annual Report on Form 10-K.

Table of Contents**Outstanding Equity Awards at Fiscal 2015 Year-End**

The following table summarizes the number of securities underlying outstanding equity awards for our NEOs as of October 31, 2015, the end of fiscal 2015:

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Grant Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)	Number of Shares or Units of Other Rights That Have Not Vested (#)	Unearned Incentive Plan Payout Value of Shares, Units or Rights That Have Not Vested (\$)(1)	Equity Awards: Market Value of Unearned Incentive Plan Payout Value of Shares, Units or Rights That Have Not Vested (\$)(1)
Aart J. de Geus	200,000		\$ 26.56	12/9/2017		\$		\$	
	187,500	12,500(2)	27.65	12/8/2018					
					16,675(3)	833,417			
	110,000	50,000(4)	32.38	12/12/2019					
					26,650(5)	1,331,967			
	68,294	87,806(6)	38.07	12/12/2020					
					26,175(7)	1,308,227			
	31,673	137,251(8)	42.43	12/12/2021					
							29,461(9)	1,472,461	
Chi-Foon Chan	26,250	8,750(2)	\$ 27.65	12/8/2018		\$		\$	
					11,675(3)	583,517			
	30,000	50,000(4)	32.38	12/12/2019					
					26,650(5)	1,331,967			
	29,269	87,806(6)	38.07	12/12/2020					
					26,175(7)	1,308,227			
	31,673	137,251(8)	42.43	12/12/2021					
							29,461(9)	1,472,461	
Trac Pham	1,407		\$ 28.63	2/18/2018		\$		\$	
	1,750		27.01	5/20/2018					
	1,094		23.39	8/19/2018					
					1,750(10)	87,465			
	1,812	1,088(11)	29.89	5/25/2019					
					1,250(12)	62,475			
					2,750(13)	137,445			

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	5/24/2013	2,187	3,063(14)	35.71	5/24/2020		
	5/23/2014	1,795	3,949(15)	39.09	5/23/2021		
	5/24/2014					4,316(16)	215,714
	12/12/2014	8,869	38,430(8)	42.43	12/12/2021		
	12/12/2014						8,249(9) 412,285
Brian M. Beattie	12/9/2010	15,000		\$ 26.56	12/9/2017		\$
	12/8/2011	51,562	3,438(2)	27.65	12/8/2018		
	12/8/2011					4,575(3)	228,659
	12/12/2012	37,812	17,188(4)	32.38	12/12/2019		
	12/12/2012					9,150(5)	457,317
	12/12/2013	31,456	40,444(6)	38.07	12/12/2020		
	12/12/2013					10,350(7)	517,293
	12/12/2014	19,637	85,097(8)	42.43	12/12/2021		
	12/12/2014						12,963(9) 647,891
Joseph W. Logan	12/8/2011	6,875	3,438(2)	\$ 27.65	12/8/2018		\$
	12/8/2011					4,575(3)	228,659
	12/12/2012	41,250	18,750(4)	32.38	12/12/2019		
	12/12/2012					10,000(5)	499,800
	12/12/2013	39,287	50,513(6)	38.07	12/12/2020		
	12/12/2013					10,875(7)	543,533
	12/12/2014	17,737	76,861(8)	42.43	12/12/2021		
	12/12/2014						16,498(9) 824,570
John F. Runkel, Jr.	5/23/2014	14,062	30,938(17)	\$ 39.09	5/23/2021		\$
	5/23/2014					10,000(18)	499,800
	12/12/2014	9,185	39,803(8)	42.43	12/12/2021		
	12/12/2014						8,544(9) 427,029

- (1) The market value of stock awards was determined by multiplying the number of unvested or unearned shares by the closing price of our common stock of \$49.98 on October 30, 2015, the last trading day of fiscal 2015, as reported on the NASDAQ Global Select Market.

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- (2) Option vests at a rate of 6.25% on the third monthly anniversary of the grant date and 6.25% per quarter thereafter, so long as the NEO provides continuous services to us. Accordingly, 6.25% of the underlying shares for these stock options became exercisable on March 8, 2012 and 6.25% became exercisable quarterly thereafter until fully vested subsequent to fiscal year end on December 8, 2015.
- (3) These stock awards are granted as restricted stock units and are converted into an equivalent number of shares of our common stock following vesting. Such stock awards were eligible to vest only upon achievement of pre-established performance goals, namely the achievement of \$279.9 million of non-GAAP net income for fiscal 2012. This goal was achieved and, accordingly, 25% of the target awards vested on December 8, 2012, December 8, 2013, and December 8, 2014, respectively, and the remaining 25% vested subsequent to fiscal year end on December 8, 2015.
- (4) Option vests at a rate of 6.25% on the third monthly anniversary of the grant date and 6.25% per quarter thereafter, so long as the NEO provides continuous services to us. Accordingly, 6.25% of the underlying shares for these stock options became exercisable on March 12, 2013 and 6.25% became and, so long as the NEO provides continuous services to us, will become, exercisable quarterly thereafter until fully vested on December 12, 2016.
- (5) These stock awards are granted as restricted stock units and are converted into an equivalent number of shares of our common stock following vesting. Such stock awards were eligible to vest only upon achievement of pre-established performance goals, namely the achievement of \$350.3 million of non-GAAP net income for fiscal 2013. This goal was achieved and, accordingly, 25% of the target awards vested on December 12, 2013, December 8, 2014, and subsequent to fiscal year end on December 8, 2015, respectively, and the remaining 25% are scheduled to vest on December 8, 2016, so long as the NEO provides continuous services to us.
- (6) Option vests at a rate of 6.25% on the third monthly anniversary of the grant date and 6.25% per quarter thereafter, so long as the NEO provides continuous services to us. Accordingly, 6.25% of the underlying shares for these stock options became exercisable on March 12, 2014 and 6.25% became and, so long as the NEO provides continuous services to us, will become, exercisable quarterly thereafter until fully vested on December 12, 2017.
- (7) These stock awards are granted as restricted stock units and are converted into an equivalent number of shares of our common stock following vesting. Such stock awards were eligible to vest only upon achievement of pre-established performance goals, namely the achievement of \$392.7 million of non-GAAP net income for fiscal 2014. This goal was achieved and, accordingly, 25% of the target awards vested on December 12, 2014 and subsequent to the fiscal year end on December 8, 2015, respectively, and the remaining 50% are scheduled to vest in two equal annual installments beginning on December 8, 2016, so long as the NEO provides continuous services to us.
- (8) Option vests at a rate of 6.25% on the third monthly anniversary of the grant date and 6.25% per quarter thereafter, so long as the NEO provides continuous services to us. Accordingly, 6.25% of the underlying shares

for these stock options became exercisable on March 12, 2015 and 6.25% became and, so long as the NEO provides continuous services to us, will become, exercisable quarterly thereafter until fully vested on December 12, 2018.

- (9) These stock awards are granted as restricted stock units and are converted into an equivalent number of shares of our common stock following vesting. Such stock awards were eligible to vest only upon achievement of pre-established performance goals, namely the achievement of \$414.0 million of non-GAAP net income for fiscal 2015 as further described in the Compensation Discussion and Analysis section above, under the subsection titled Equity Awards. This goal was achieved and, accordingly, 25% of the target awards vested subsequent to the fiscal year end on December 15, 2015, and the remaining 75% are scheduled to vest in three equal annual installments beginning on December 8, 2016, so long as the NEO provides continuous services to us.
- (10) This stock award is granted as restricted stock units and is converted into an equivalent number of shares of our common stock following vesting. This award vests in four equal annual installments beginning on June 15, 2013. Accordingly, 25% of this award vested on June 15, 2013, June 15, 2014, and June 15, 2015, respectively, and the remaining 25% are scheduled to vest on June 15, 2016, so long as Mr. Pham provides continuous services to us.
- (11) Option vests at a rate of 6.25% on the third monthly anniversary of the grant date and 6.25% per quarter thereafter, so long as Mr. Pham provides continuous services to us. Accordingly, 6.25% of the underlying shares for this stock option became exercisable on August 25, 2012 and 6.25% became and, so long as the NEO provides continuous services to us, will become, exercisable quarterly thereafter until fully vested on May 25, 2016.
- (12) This stock award is granted as restricted stock units and is converted into an equivalent number of shares of our common stock following vesting. This award vests in four equal annual installments beginning on December 8, 2013. Accordingly, 25% of this award vested on December 8, 2013, December 8, 2014, and subsequent to the fiscal year end on December 8, 2015, respectively, and the remaining 25% are scheduled to vest on December 8, 2016, so long as Mr. Pham provides continuous services to us.
- (13) This stock award is granted as restricted stock units and is converted into an equivalent number of shares of our common stock following vesting. This award vests in four equal annual installments beginning on June 15, 2014. Accordingly, 25% of this award vested on June 15, 2014 and June 15, 2015, respectively, and the remaining 50% are scheduled to vest in two equal annual installments beginning on June 15, 2016, so long as Mr. Pham provides continuous services to us.
- (14) Option vests at a rate of 6.25% on the third monthly anniversary of the grant date and 6.25% per quarter thereafter, so long as Mr. Pham provides continuous services to us. Accordingly, 6.25% of the underlying shares for this stock option

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became exercisable on August 24, 2013 and 6.25% became and, so long as the NEO provides continuous services to us, will become, exercisable quarterly thereafter until fully vested on May 24, 2017.

- (15) Option vests at a rate of 6.25% on the third monthly anniversary of the grant date and 6.25% per quarter thereafter, so long as Mr. Pham provides continuous services to us. Accordingly, 6.25% of the underlying shares for this stock option became exercisable on August 23, 2014 and 6.25% became and, so long as the NEO provides continuous services to us, will become, exercisable quarterly thereafter until fully vested on May 23, 2018.

- (16) This stock award is granted as restricted stock units and is converted into an equivalent number of shares of our common stock following vesting. This award vests in four equal annual installments beginning on June 15, 2015. Accordingly, 25% of this award vested on June 15, 2015, and the remaining 75% are scheduled to vest in three equal annual installments beginning on June 15, 2016, so long as Mr. Pham provides continuous services to us.

- (17) Option vests as to 25% of the shares subject to the option on the one-year anniversary of the grant date and as to 6.25% of such shares per quarter thereafter. Accordingly, 25% of the underlying shares for these stock options became exercisable on May 23, 2015, and 6.25% became, and so long as Mr. Runkel provides continuous services to us, will become, exercisable quarterly thereafter until fully vested on May 23, 2018.

- (18) This stock award is granted as restricted stock units and is converted into an equivalent number of shares of our common stock following vesting. This award vests in three equal annual installments beginning on June 15, 2015. Accordingly, one-third of this award vested on June 15, 2015, and the remaining two-thirds are scheduled to vest in two equal annual installments beginning on June 15, 2016, so long as Mr. Runkel provides continuous services to us.

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The following table provides information with respect to all stock options exercised and the value realized upon exercise, and all stock awards vested and the value realized upon vesting, by our NEOs during fiscal 2015.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(1)	Number of Shares Acquired on Vesting (#)(2)	Value Realized on Vesting (\$)(3)
Aart J. de Geus	182,500	\$ 5,165,097	55,400	\$ 2,411,766
Chi-Foon Chan	194,650	3,305,800	43,300	1,882,512
Trac Pham			6,939	338,373
Brian M. Beattie	44,000	899,660	17,175	746,715
Joseph W. Logan	110,937	2,169,774	17,775	772,730
John F. Runkel, Jr.			5,000	248,700

- (1) The value realized on exercise equals the difference between (a) either (i) the actual sales price of our common stock underlying the options exercised if the shares were immediately sold or (ii) the closing price per share of our common stock as reported on the NASDAQ Global Select Market on the date of exercise if the shares were held and (b) the applicable exercise price of such stock options.
- (2) Such number of shares represents the gross number of shares acquired by the NEO on the vesting date. Synopsys withholds shares for tax purposes and the NEO actually receives a smaller number of shares.
- (3) The value realized on vesting equals the closing price per share of our common stock as reported on the NASDAQ Global Select Market on the vesting date multiplied by the gross number of shares acquired on vesting as described above in note (2).

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We maintain a non-qualified deferred compensation program for a select group of management and highly compensated employees so that an eligible employee may elect, on a prospective basis, to defer the receipt of a portion of the compensation they receive from us. The program is administered under two plans: the Synopsys Deferred Compensation Plan (Deferred Compensation Plan I) and the Synopsys Amended and Restated Deferred Compensation Plan II (Deferred Compensation Plan II). The amount of earnings (or losses) that accrue to a participant's account under either the Deferred Compensation Plan I or the Deferred Compensation Plan II depends on the performance of investment alternatives selected by the participant. The investment alternatives under both plans consist of various investment funds that are generally consistent with the investment opportunities provided to our employees under our 401(k) plan, which are selected and monitored by our Deferred Compensation Plans Committee. Therefore, we do not regard the returns from these investment alternatives as above-market or preferential. We do not supplement or guarantee the returns on amounts deferred under either plan. We have entered into a trust agreement, with a third-party provider acting as trustee, to hold certain funds in connection with the program. All funds held in the trust are subject to the claims of our creditors.

The Deferred Compensation Plan I administers the elective deferrals made by eligible employees, including Dr. Chan, prior to January 1, 2005. No further contributions may be made to the Deferred Compensation Plan I; however, gains and losses and distributions and withdrawals continue to be processed on existing account balances in accordance with the terms of the Deferred Compensation Plan I as of December 31, 2004. All accrued balances maintained under the Deferred Compensation Plan I are fully vested. Amounts may be withdrawn from the plan pursuant to elections made by the participants in accordance with the terms of the Deferred Compensation Plan I, including elective withdrawals subject to a 10% forfeiture.

The Deferred Compensation Plan II was originally adopted in 2005 in order to comply with Section 409A of the Code, and currently allows the deferral by eligible employees of up to 50% of salary and 100% of cash incentive compensation. All account balances maintained under the Deferred Compensation Plan II are currently fully vested. However, we may, at our discretion, make contributions in the future toward participant balances, and those contributions may be made subject to vesting. To date, no such contributions have been made. Amounts may be withdrawn or distributed from the Deferred Compensation Plan II through pre-scheduled payments or upon death, retirement, disability, separation from service or a change in control of Synopsys, as elected in advance by the plan participant in accordance with the terms of the plan. Payments may be made in the form of a lump-sum payment or installments.

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The following table provides certain information regarding our NEOs' participation under the Deferred Compensation Plans I and II:

Name	Synopsys, In		Aggregate		Aggregate Balance at End of Fiscal 2015 (\$)
	Contributions in Fiscal 2015 (\$)(1)	Fiscal 2015 (\$)	in Fiscal 2015 (\$)(2)	Withdrawals/ Distributions in Fiscal 2015 (\$)	
Aart J. de Geus	\$	\$	\$	\$	\$
Chi-Foon Chan			256,893(3)		5,827,287(4)
Trac Pham	222,007(5)		72,795(6)		1,576,774(7)
Brian M. Beattie	369,000(8)		171,357(6)		3,912,493(9)
Joseph W. Logan					
John F. Runkel, Jr.	49,572(8)		1,977(6)		51,549(10)

- (1) All contributions in fiscal 2015 were made under the Deferred Compensation Plan II.
- (2) Earnings from these investments are not reported as compensation in the Summary Compensation Table, above.
- (3) All of these aggregate earnings were accrued under the Deferred Compensation Plan I.
- (4) At end of fiscal 2015, the entire aggregate balance was subject to the Deferred Compensation Plan I and did not include any compensation reported in the Summary Compensation Table.
- (5) Consists of (a) \$26,707 of salary reported in the Summary Compensation Table under the Salary column for services performed in fiscal 2015 and (b) \$195,300 of cash incentive compensation for services performed in fiscal 2014 though paid in fiscal 2015, and thus not reflected in the Summary Compensation Table as Mr. Pham was not an NEO in fiscal 2014.
- (6) All of these aggregate earnings were accrued under the Deferred Compensation Plan II.
- (7) Includes \$26,707 of salary reported in the Summary Compensation Table under the Salary column for services performed in fiscal 2015. The entire aggregate balance at the end of fiscal 2015 was subject to the Deferred Compensation Plan II.

- (8) Consists of cash incentive compensation reported in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column for services performed in fiscal 2014 though paid in fiscal 2015.
- (9) Includes (a) \$369,000 of cash incentive compensation reported in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column for services performed in fiscal 2014 though paid in fiscal 2015 and (b) \$450,000 of cash incentive compensation reported in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column for services performed in fiscal 2013 though paid in fiscal 2014. The entire aggregate balance at the end of fiscal 2015 was subject to the Deferred Compensation Plan II.
- (10) Includes \$49,572 of cash incentive compensation reported in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column for services performed in fiscal 2013 though paid in fiscal 2014. The entire aggregate balance at the end of fiscal 2015 was subject to the Deferred Compensation Plan II.

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Set forth below is a description of potential payments to our NEOs upon a termination of employment or a change of control. For additional information regarding the arrangements for such payments, please also refer to the Severance and Change of Control Benefits discussion in Compensation Discussion and Analysis, above.

Potential Payments upon Involuntary Termination of Employment in Connection with a Change of Control

The table below outlines the potential payments and benefits payable to each NEO in the event of the NEO's involuntary termination in connection with a change in control of Synopsys, as if the involuntary termination in connection with a change of control had occurred as of October 31, 2015, the last day of fiscal 2015. The payments set forth below are payable to Dr. de Geus and Dr. Chan pursuant to their employment agreements and to Mr. Pham, Mr. Beattie, Mr. Logan, and Mr. Runkel pursuant to the Executive Change of Control Severance Benefit Plan.

In the event of an involuntary termination of their respective employment other than for cause within 24 months following a change of control of Synopsys, Dr. de Geus and Dr. Chan are each entitled to receive: (1) a lump-sum cash payment equal to two times his salary for the current fiscal year or the immediately preceding fiscal year, whichever is greater; (2) a lump-sum cash payment equal to two times his cash incentive target for the current fiscal year or, if there is no cash incentive target in effect for the current fiscal year, the highest cash incentive target in the preceding three fiscal years; (3) the estimated cash value of his health care premiums for 18 months, payable in a lump sum; and (4) full acceleration of all unvested stock options and other equity awards. Dr. de Geus and Dr. Chan must sign a release in order to receive benefits should a qualifying termination occur. Pursuant to their respective employment agreements, no benefits are paid if the employment termination is voluntary or for cause.

Mr. Pham, Mr. Beattie, Mr. Logan, and Mr. Runkel participate in the Executive Change of Control Severance Benefit Plan, which provides for benefits if the executive's employment with us is terminated without cause within 30 days before or 12 months after a change of control or there is a constructive termination of the executive's employment within 12 months after a change of control. The benefits consist of: (1) a cash severance payment equal to one year of salary, payable in four equal quarterly payments; (2) one to two times the executive's cash incentive target, depending upon the timing of the termination within our fiscal year, payable in four equal quarterly payments; (3) a lump-sum cash payment equal to the estimated cost of health care premiums for 12 months; and (4) full acceleration of all unvested stock options and other equity awards held by the executive at the time of termination. An executive must sign a severance agreement and a release and, upon the written request of Synopsys or the surviving corporation in the change of control, enter into an 18-month non-competition agreement in order to receive benefits should a qualifying termination occur. The plan does not provide any benefits if the executive's employment termination is voluntary or for cause.

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Name	Salary Continuation	Cash-Based	Continuation of	Intrinsic Value of	Intrinsic Value of
		Incentive Award	Health and Welfare Benefits	Unvested Stock Awards(1)	Unvested Option Awards(1)
Aart J. de Geus	\$ 1,000,000	\$ 2,200,000	\$ 15,469	\$ 4,946,071	\$ 3,241,140
Chi-Foon Chan	1,000,000	2,200,000	19,208	4,696,171	3,157,402
Trac Pham	350,000	560,000(2)	18,141	915,384	398,718
Brian M. Beattie	440,000	1,012,000(2)	12,744	1,851,159	1,503,450
Joseph W. Logan	400,000	1,200,000(2)	23,988	2,096,561	1,588,681
John F. Runkel, Jr.	350,000	490,000(2)	18,141	926,829	637,427

- (1) Amounts represent the intrinsic value of accelerated restricted stock units and stock options based upon the closing price per share of our common stock on October 30, 2015, the last trading day of fiscal 2015, of \$49.98 as reported on the NASDAQ Global Select Market.
- (2) The last day of our fiscal 2015 was Saturday, October 31, 2015. The Executive Change of Control Severance Benefit Plan provides for participants to receive their cash incentive target plus a prorated portion of such target based on the number of days the participant has served during the fiscal year by the time the termination occurs. Accordingly, for purposes of determining the amount of the cash-based incentive awards payable to Mr. Pham, Mr. Beattie, Mr. Logan, and Mr. Runkel in the event of their terminations in connection with a change of control as of October 31, 2015, each would be entitled to two times his cash incentive target, given that each would have worked the entirety of fiscal 2015 as of such date.

Potential Payments upon a Change of Control

Pursuant to our equity plans, all of our employees receive full acceleration of the vesting of any unvested stock options or stock awards in the event that such equity awards are not assumed, continued or substituted by the surviving or acquiring company following a change of control of Synopsys. The table below outlines the potential payments and benefits payable to each NEO in the event of a change in control of Synopsys in which equity awards are not assumed, continued or substituted, as if the change of control had occurred as of October 31, 2015, the last day of fiscal 2015. Vesting acceleration of equity awards if such equity awards are not assumed, continued or substituted is the only benefit provided to our NEOs in the event of a change of control in which the executive is not involuntarily terminated.

Name	Salary Continuation	Cash-Based	Continuation of	Intrinsic Value of	Intrinsic Value of
		Incentive Award	Health and Welfare Benefits	Unvested Stock Awards(1)	Unvested Option Awards(1)
Aart J. de Geus	\$	\$	\$	\$ 4,946,071	\$ 3,241,140
Chi-Foon Chan				4,696,171	3,157,402
Trac Pham				915,384	398,718
Brian M. Beattie				1,851,159	1,503,450
Joseph W. Logan				2,096,561	1,588,681
John F. Runkel, Jr.				926,829	637,427

- (1) Amounts represent the intrinsic value of accelerated restricted stock units and stock options based upon the closing price per share of our common stock on October 30, 2015, the last trading day of fiscal 2015, of \$49.98 as reported on the NASDAQ Global Select Market.

Table of Contents**Potential Payments upon Involuntary Termination of Employment**

Dr. de Geus and Dr. Chan are the only NEOs who are entitled to severance benefits in the event their employment is involuntarily terminated not in connection with a change of control. No benefits are paid if their termination is for cause or is a voluntary termination without good reason. Cause and good reason are defined in Dr. de Geus and Dr. Chan's respective employment agreements. The table below outlines the potential amounts payable to each NEO in the event of such an involuntary termination, as if such event had occurred as of October 31, 2015, the last day of fiscal 2015. Pursuant to their respective employment agreements, Dr. de Geus and Dr. Chan would each receive: (1) a lump-sum cash payment equal to his salary during the fiscal year or immediately preceding fiscal year, whichever is greater; (2) a lump-sum cash payment equal to the cash incentive target then in effect or, if there is no cash incentive target in effect for such year, the highest cash incentive target in the three preceding years, provided he does not engage in certain conduct for six months following the termination date; and (3) the estimated cash value of his health care premiums for 12 months, payable in a lump sum. Dr. de Geus and Dr. Chan must sign a release in order to receive benefits should a qualifying termination occur.

Name	Salary Continuation	Cash-Based Incentive Award	Continuation of Health and Welfare Benefits	Intrinsic Value of	Intrinsic Value of
				Unvested Stock Awards	Unvested Option Awards
Aart J. de Geus	\$ 500,000	\$ 1,100,000	\$ 10,265	\$	\$
Chi-Foon Chan	500,000	1,100,000	12,744		
Trac Pham					
Brian M. Beattie					
Joseph W. Logan					
John F. Runkel, Jr.					

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The following table provides information regarding our equity compensation plans as of October 31, 2015.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights(1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(2)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans(3)
Equity Compensation Plans Approved by Stockholders	10,644(4)	\$ 35.57	17,412(5)
Equity Compensation Plans Not Approved by Stockholders(6)			
Total	10,644	\$ 35.57	17,412

(1) Number of securities in thousands.

(2) The weighted-average exercise price does not include outstanding restricted stock units, which have no exercise price.

(3) Number of securities in thousands. These numbers exclude the shares listed under the column heading Number of Shares to be Issued upon Exercise of Outstanding Options, Warrants and Rights.

(4) Includes 3.9 million shares of common stock issuable upon vesting of restricted stock units under the 2006 Employee Plan and 6.7 million shares of common stock issuable upon exercise of outstanding stock options granted under the 2006 Employee Plan and the 2005 Non-Employee Directors Equity Incentive Plan.

(5) Comprised of (a) 11.9 million shares remaining available for issuance under the 2006 Employee Plan, (b) 0.3 million shares remaining available for issuance under the 2005 Non-Employee Directors Equity Incentive Plan, and (c) 5.3 million shares remaining available for issuance under the Employee Stock Purchase Plan as of October 31, 2015 (of which up to 2.0 million shares were subject to purchase during the purchase period that was ongoing as of October 31, 2015).

(6) Does not include 0.6 million shares of common stock issuable upon exercise of outstanding stock options, with a weighted-average exercise price of \$27.50 per share, under various plans assumed in connection with acquisitions of other companies. No shares remain available for future issuance under these acquired plans.

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The Audit Committee of our Board of Directors has selected KPMG LLP, our independent registered public accounting firm, to audit our consolidated financial statements for fiscal 2016. KPMG LLP has audited our consolidated financial statements since fiscal 1992. As a matter of good corporate governance, we are asking our stockholders to ratify the Audit Committee's selection of KPMG LLP as our independent registered public accounting firm for fiscal 2016.

We expect that a KPMG LLP representative will be present at the Annual Meeting, will have the opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions.

Ratification of the selection of KPMG LLP requires that the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting, and voting on this Proposal 5, vote For this Proposal 5. Abstentions will not be counted as either votes cast For or Against this Proposal 5. Discretionary votes by brokers, banks and related agents on this routine proposal will be counted towards the quorum requirement and will affect the outcome of the vote.

Stockholder ratification of the appointment of KPMG LLP as our independent registered public accounting firm is not required by our Bylaws or otherwise. Nevertheless, our Board of Directors is submitting the selection of KPMG LLP to our stockholders for ratification. If our stockholders do not ratify the selection, the Audit Committee will reconsider whether or not to retain KPMG LLP. Even if the selection is ratified, the Audit Committee in its discretion may direct the selection of a different independent registered public accounting firm at any time if they determine that such a change would be in the best interests of Synopsys and our stockholders.

Our Board of Directors Recommends that You Vote FOR

the Ratification of the Selection of KPMG LLP to Serve as

Our Independent Registered Public Accounting Firm for Fiscal 2016

Fees and Services of Independent Registered Public Accounting Firm

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of our annual financial statements and fees billed for all other services rendered by KPMG LLP during the following fiscal years.

	Fiscal Year Ended	
	Oct. 31, 2015	Nov. 1, 2014
	(in thousands)	(in thousands)
Audit fees	\$ 3,275	\$ 2,962
Audit-related fees(1)	232	163
Tax fees(2)	105	77

Total fees	\$ 3,612	\$ 3,202
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(1) Consists of fees for due diligence services.

(2) Consists of fees for assistance with international tax compliance services relating to certain foreign subsidiaries.

Audit Committee Pre-Approval Policies and Procedures

As required by Section 10A(i)(1) of the Exchange Act, all audit and non-audit services to be performed by our independent registered public accounting firm must be approved in advance by the Audit Committee, subject to certain exceptions relating to non-audit services accounting for less than five percent of the total fees paid to our independent registered public accounting firm which are subsequently ratified by the

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Audit Committee (referred to in this Proposal 5 as the De Minimis Exception). In addition, pursuant to Section 10A(i)(3) of the Exchange Act, the Audit Committee has established procedures by which the Chairperson of the Audit Committee may pre-approve such services, provided the Chairperson subsequently reports the details of the services to the full Audit Committee. None of the non-audit services performed by KPMG LLP during fiscal 2015 or fiscal 2014 were performed pursuant to the De Minimis Exception.

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As more fully described in its written charter, the Audit Committee acts on behalf of the Board to perform financial oversight responsibilities relating to (1) the integrity of Synopsys' financial statements, financial reporting processes and systems of internal accounting and financial controls, (2) Synopsys' internal audit function, which reports to the Audit Committee and management and is responsible for independently and objectively assessing Synopsys' financial and business processes and controls, including controls related to the integrity and reliability of financial information, (3) the annual independent audit of Synopsys' financial statements, (4) the engagement of Synopsys' independent registered public accounting firm and evaluation of their performance and independence, (5) compliance with legal and regulatory requirements that pertain to Synopsys' financial statements, internal controls over financial reporting, and disclosure controls, and (6) evaluation of enterprise risk issues. The Audit Committee has the authority to retain, at Synopsys' expense, special legal, accounting or other advisors or consultants as it deems necessary or appropriate in the performance of its duties. It also has the authority to require that any of Synopsys' personnel, counsel, independent auditors or investment bankers, or other Synopsys advisors, attend any meeting of the Audit Committee or meet with any member of the Audit Committee or any of its consultants.

The Audit Committee is composed of four non-employee directors, each considered independent under the applicable requirements of the Securities and Exchange Commission and the listing standards of the NASDAQ Global Select Market. In addition, the Board has determined that Ms. Coleman, Mr. Castino and Mr. Vallee each qualifies as an audit committee financial expert within the meaning of the regulations of the Securities and Exchange Commission.

The Audit Committee's function is not intended to duplicate or certify the actions of management or Synopsys' independent auditors. Management is responsible for the preparation, presentation, and integrity of Synopsys' financial statements and the effectiveness of Synopsys' internal control over financial reporting. Synopsys' independent auditors are responsible for expressing an opinion as to the conformity of Synopsys' consolidated financial statements with generally accepted accounting principles and as to the effectiveness of Synopsys' internal control over financial reporting. The Audit Committee provides Board-level oversight, advising and directing management and the independent auditors on the basis of the information presented to the Committee, the Committee's discussions with management and the auditors, and the Committee members' business and financial experience.

The Audit Committee met nine times during fiscal 2015. Its agenda included reviewing Synopsys' financial statements, internal control over financial reporting, and audit and other matters. The Audit Committee met with Synopsys' internal auditors and independent auditors, with and without management present, to discuss the scope, plan, status, and results of their respective audits. In addition, the Audit Committee met with management and the independent auditors each quarter to review Synopsys' interim financial results and quarterly earnings press releases prior to their issuance. The Audit Committee also reviewed Synopsys' Quarterly Reports on Form 10-Q and Annual Report on Form 10-K prior to their filing with the Securities and Exchange Commission. At quarterly meetings, the Audit Committee reviewed and discussed with management, and management gave presentations regarding, Synopsys' financial reporting and controls, investments, financing activities, taxes, insurance, and information technology and data security, and related risks, as well as other topics with potential significant financial impact. The Audit Committee oversaw Synopsys' anonymous and confidential ethics reporting system, which encourages and allows employees to submit concerns directly to senior management and the Audit Committee.

* This report shall not constitute soliciting material, shall not be deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any of our other filings under the Securities Act or the Exchange Act, except to the extent we specifically incorporate this report by reference therein.

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Communications with Management and Independent Registered Public Accounting Firm Regarding Audited Financial Statements and Other Matters

The Audit Committee has reviewed and discussed Synopsys' audited financial statements with management. In addition, the Audit Committee has discussed with KPMG LLP, Synopsys' independent registered public accounting firm, the matters required to be discussed by Auditing Standard No. 16, *Communications with Audit Committees*, which includes, among other items, matters related to the conduct of the audit of Synopsys' financial statements. The Audit Committee has also received the written disclosures and letter from KPMG LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding KPMG LLP's communications with the Audit Committee concerning independence. The Audit Committee has discussed with KPMG LLP and reviewed KPMG LLP's independence from Synopsys, including whether KPMG LLP's provision of non-audit services was compatible with that independence.

Recommendation Regarding Audited Financial Statements

Based on the review and discussions referred to above, the Audit Committee unanimously recommended to the Board that Synopsys' audited fiscal 2015 financial statements be included in Synopsys' 2015 Annual Report on Form 10-K.

AUDIT COMMITTEE

Deborah A. Coleman, Chair

Alfred Castino

Janice D. Chaffin

Roy Vallee

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The following table sets forth certain information with respect to the beneficial ownership of our common stock as of January 4, 2016 by (1) each person known by us to beneficially own more than five percent of our common stock outstanding on that date, (2) each of our directors, (3) each of our NEOs, and (4) all of our directors and executive officers as a group. Unless otherwise indicated, each entity or person listed below maintains a mailing address of c/o Synopsys, Inc., 690 East Middlefield Road, Mountain View, California 94043.

Name of Beneficial Owner(1)	Number of Shares of Common Stock Beneficially Owned	Percentage of Outstanding Shares(2)	Additional Information
Entities associated with Dodge & Cox 555 California Street, 40 th Floor San Francisco, CA 94104	21,310,523	14.07%	Based solely on the Schedule 13G/A filed with the Securities and Exchange Commission on February 13, 2015, reporting beneficial ownership as of December 31, 2014. Dodge & Cox has sole dispositive power with respect to all such shares and sole voting power with respect to 20,158,581 shares.
Entities associated with Blackrock, Inc. 55 E. 52 nd Street New York, NY 10055	15,241,647	10.06%	Based solely on the Schedule 13G/A filed with the Securities and Exchange Commission on January 8, 2016, reporting beneficial ownership as of December 31, 2015. Blackrock, Inc. has sole dispositive power with respect to all such shares and sole voting power with respect to 13,767,650 shares.
Entities associated with Ameriprise Financial, Inc. 145 Ameriprise Financial Center Minneapolis, MN 55474	10,257,944	6.77%	Based solely on the Schedule 13G/A filed with the Securities and Exchange Commission on February 17, 2015, reporting beneficial ownership as of December 31, 2014. Ameriprise Financial, Inc. has shared dispositive power with respect to all such shares, Columbia Management Investment Advisers, LLC has shared dispositive power with respect to 10,213,312 shares, and both entities have shared voting power with respect to 307,532 shares.
Entities associated with	10,927,767	7.21%	

The Vanguard Group, Inc.

100 Vanguard Blvd.

Malvern, PA 19355

Based solely on the Schedule 13G/A filed with the Securities and Exchange Commission on February 10, 2016, reporting beneficial ownership as of December 31, 2015. The Vanguard Group has sole dispositive power with respect to 10,758,093 shares, shared dispositive power with respect to 169,674 shares, sole voting power with respect to 152,189 shares and shared voting power with respect to 14,800 shares.

Brian M. Beattie	207,613	*	Includes stock options to purchase 173,383 shares exercisable by Mr. Beattie within 60 days following January 4, 2016.
Executive Vice President, Business Operations and Chief Administrative Officer			
Alfred Castino	40,393	*	
Director			Includes 6,019 shares of restricted stock that are not vested as of January 4, 2016 and are subject to forfeiture.
Janice D. Chaffin	11,831	*	Includes stock options to purchase 9,141 shares exercisable by Ms. Chaffin within 60 days following January 4, 2016. Also includes 2,690 shares of restricted stock that are not vested as of January 4, 2016 and are subject to forfeiture.
Director			
Chi-Foon Chan	355,994	*	Includes stock options to purchase 156,256 shares exercisable by Dr. Chan within 60 days following January 4, 2016.
Co-Chief Executive Officer, President and Director			

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Name of Beneficial Owner(1)	Number of Shares of Common Stock Beneficially Owned	Percentage of Outstanding Shares(2)	Additional Information
Bruce R. Chizen Director	28,230	*	Includes 6,019 shares of restricted stock that are not vested as of January 4, 2016 and are subject to forfeiture.
Deborah A. Coleman Director	45,430	*	Includes 6,019 shares of restricted stock that are not vested as of January 4, 2016 and are subject to forfeiture.
Aart J. de Geus Co-Chief Executive Officer and Chairman of the Board of Directors	1,352,344	*	Includes stock options to purchase 640,281 shares exercisable by Dr. de Geus within 60 days following January 4, 2016. Also includes 22,500 shares owned by Mora Investment Partners L.P.
Joseph W. Logan Executive Vice President, Worldwide Sales and Corporate Marketing	196,985	*	Includes stock options to purchase 123,863 shares exercisable by Mr. Logan within 60 days following January 4, 2016.
Chrysostomos L. Max Nikias Director	57,424		Includes stock options to purchase 42,147 shares exercisable by Dr. Nikias within 60 days following January 4, 2016. Also includes 6,019 shares of restricted stock that are not vested as of January 4, 2016 and are subject to forfeiture.
Trac Pham Chief Financial Officer	30,897		Includes stock options to purchase 24,188 shares exercisable by Mr. Pham within 60 days following January 4, 2016.
John F. Runkel, Jr. General Counsel and Corporate Secretary	36,827	*	Includes stock options to purchase 31,934 shares exercisable by Mr. Runkel within 60 days following January 4, 2016.
John Schwarz Director	35,778	*	Includes 6,019 shares of restricted stock that are not vested as of January 4, 2016 and are subject to forfeiture.
Roy Vallee	55,230	*	Includes 6,019 shares of restricted stock that are not vested as of

Director			January 4, 2016 and are subject to forfeiture.
Steven C. Walske	23,565	*	Includes 6,019 shares of restricted stock that are not vested as of January 4, 2016 and are subject to forfeiture.
Director			
All directors and executive officers as a group (14 persons)	2,478,541	1.62%	Includes stock options to purchase 1,201,193 shares exercisable by all directors and executive officers within 60 days following January 4, 2016. Also includes 44,823 shares of restricted stock that are not vested as of January 4, 2016 and are subject to forfeiture.

* Less than 1%

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as indicated in the Additional Information column, and subject to community property laws where applicable, we believe, based on information furnished by such persons and from Schedules 13D and 13G filed with the Securities and Exchange Commission, that the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them as of January 4, 2016.
- (2) Percentage of beneficial ownership is based on 151,495,625 shares of common stock outstanding as of January 4, 2016, adjusted as required by Securities and Exchange Commission rules. Shares of common stock that are subject to stock options or other convertible securities currently issuable or issuable into shares of common stock within 60 days of January 4, 2016, are deemed outstanding for the purposes of computing the percentage ownership of the person holding these stock options or convertible securities, but are not deemed outstanding for computing the percentage ownership of any other person.

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Section 16(a) of the Exchange Act requires our directors, executive officers and greater than ten percent beneficial owners of our common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Directors, executive officers and greater than ten percent stockholders are required by the rules and regulations of the Securities and Exchange Commission to furnish us with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of the Forms 3, 4 and 5 filed by or received from our reporting persons (or written representations received from such persons), we believe that all of the Section 16 filing requirements were satisfied during fiscal 2015.

Why did I receive a notice about Synopsys, Inc.'s proxy materials?

Since you owned common stock of Synopsys, Inc. at the close of business on February 4, 2016, the Record Date, you are considered a stockholder. Our Board of Directors is soliciting proxies for the Annual Meeting. Accordingly, we are providing you with access to our proxy materials in order to solicit your vote at the Annual Meeting.

The Notice of Internet Availability of Proxy Materials, this Proxy Statement, the accompanying proxy card or voting instruction form and our 2015 Annual Report on Form 10-K were distributed and made available on or about February 16, 2016.

Why did I receive a two-page notice instead of the proxy materials themselves, and how can I get the materials?

We are pleased to continue to take advantage of the Securities and Exchange Commission rule that allows companies to furnish proxy materials to their stockholders over the Internet. As a result, we are mailing to most of our stockholders a two-page Notice of Availability of Proxy Materials instead of a printed copy of all of the proxy materials.

The Notice of Availability of Proxy Materials you received provides instructions on how to access our proxy materials and submit your vote on the Internet and also instructs you on how to request a printed copy of our proxy materials. We believe this process of sending a two-page notice reduces the environmental impact of printing and distributing hard copy materials and lowers our costs.

Why did I receive a full set of proxy materials in the mail instead of a two-page notice?

If you previously requested printed copies of the proxy materials, we have provided you with printed copies of the proxy materials instead of a two-page Notice of Availability of Proxy Materials. If you would like to reduce the environmental impact and the costs incurred by us in mailing proxy materials, you may elect to receive all future

proxy materials electronically via email or the Internet.

To sign up for electronic delivery, please follow the instructions to vote using the Internet provided with your proxy materials and on your proxy card or voting instruction form, and, when prompted, indicate that you agree to receive or access stockholder communications electronically in the future.

Table of Contents**What proposals will be presented at the Annual Meeting and what are the voting recommendations of the Board of Directors?**

The proposals that will be presented at the Annual Meeting and our Board's voting recommendations are set forth in the table below:

Proposal	Board's Voting Recommendation
1. To elect ten directors nominated by our Board of Directors to hold office until the next annual meeting of stockholders and until their successors have been elected and qualified	FOR all nominees
2. To approve our 2006 Employee Equity Incentive Plan, as amended, in order to, among other items, increase the number of shares available for issuance under that plan by 3,800,000 shares	FOR
3. To approve an amendment to our Employee Stock Purchase Plan primarily to increase the number of shares available for issuance under that plan by 5,000,000 shares	FOR
4. To approve, on an advisory basis, the compensation of our named executive officers, as disclosed in the Proxy Statement	FOR
5. To ratify the selection of KPMG LLP as our independent registered public accounting firm for the fiscal year ending October 29, 2016	FOR

We will also consider any other business that properly comes before the Annual Meeting. As of the Record Date, we are not aware of any other matters to be submitted for consideration at the Annual Meeting. If any other matters are properly brought before the meeting, the persons named in the enclosed proxy card or voting instruction form will vote the shares they represent using their best judgment.

When and where will the Annual Meeting be held?

The Annual Meeting will be held on March 29, 2016, at 8:00 a.m. Pacific Time at our office located at 1030 West Maude Avenue, Sunnyvale, California 94085. A map and directions are provided on the back of this Proxy Statement.

How can I attend the Annual Meeting?

You will be admitted to the Annual Meeting if you were a Synopsys stockholder or joint holder as of the close of business on February 4, 2016, or you have authority to vote under a valid proxy for the Annual Meeting.

You should be prepared to present photo identification for admittance. In addition, if you are a stockholder of record, your name will be verified against the list of stockholders of record prior to admittance to the Annual Meeting. If you are a beneficial owner, you should provide proof of beneficial ownership on the Record Date, such as an account statement covering February 4, 2016, a copy of the voting instruction form provided by your broker, trustee, or nominee, or other similar evidence of ownership. If you are a stockholder who is a natural person and not an entity, you and your immediate family members will be admitted to the Annual Meeting, provided you and they comply with

the above procedures.

Who can vote?

If you are a stockholder of record or a beneficial owner who owned our common stock at the close of business on the Record Date of February 4, 2016, you are entitled to attend and vote at the Annual Meeting. For further details on how to vote, please see the questions below.

As of the Record Date, 151,508,866 shares of our common stock were outstanding and entitled to vote. You are entitled to one vote for each share of common stock you held on the Record Date. The names of stockholders of record entitled to vote at the Annual Meeting will be available to

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stockholders entitled to vote for ten days prior to the Annual Meeting for any purpose relevant to the Annual Meeting. This list can be viewed between the hours of 9:00 a.m. and 5:00 p.m. at our principal executive offices at 690 East Middlefield Road, Mountain View, California 94043.

Whether or not you plan to attend the Annual Meeting, we urge you to submit your proxy.

What is the difference between a stockholder of record and a beneficial owner?

Stockholder of Record: If on the Record Date your shares were registered directly in your name with our transfer agent, Computershare Investor Services, then you are a stockholder of record.

Beneficial Owner: If on the Record Date your shares were held through a broker, bank, or other agent and not in your name, then you are the beneficial owner of our common stock. If you are a beneficial owner, your shares are held in street name, as is the case for most of our stockholders.

How can I vote if I am a stockholder of record?

There are four ways to vote:

In person. If you are a stockholder of record, you may vote in person at the Annual Meeting. We will provide a ballot to you when you arrive.

Via the Internet. You may vote by proxy via the Internet by following the instructions provided in the proxy card or Notice of Availability of Proxy Materials.

By Telephone. If you received printed copies of the proxy materials, you may vote by proxy by calling the toll free number found on the proxy card. If you only received a Notice of Availability of Proxy Materials and wish to vote by proxy over the telephone, you may do so by first requesting printed copies of the proxy materials by mail by following the instructions in the Notice of Availability of Proxy Materials and then calling the toll free number found on the proxy card.

By Mail. If you received printed copies of the proxy materials, you may vote by proxy by filling out the proxy card and sending it back in the envelope provided. If you only received a Notice of Availability of Proxy Materials and wish to vote by proxy via mail, you may do so by first requesting printed copies of the proxy materials by mail by following the instructions in the Notice of Availability of Proxy Materials and then filling out the proxy card and sending it back in the envelope provided.

Whether or not you plan to attend the meeting, we urge you to vote by proxy.

How can I vote if I am the beneficial owner?

There are four ways to vote:

In person. If you are a beneficial owner and you wish to vote in person at the Annual Meeting, you must obtain a legal proxy from the organization that holds your shares. Please contact that organization for instructions regarding obtaining a legal proxy.

Via the Internet. You may vote by proxy via the Internet by following the instructions provided in the voting instruction form or Notice of Availability of Proxy Materials.

By Telephone. If you received printed copies of the proxy materials, you may vote by proxy by calling the toll free number found on the voting instruction form. If you only received a Notice of Availability of Proxy Materials and wish to vote by proxy over the telephone, you may do so by first requesting printed copies of the proxy materials by mail by following the instructions in the Notice of Availability of Proxy Materials and then calling the toll free number found on the voting instruction form.

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By Mail. If you received printed copies of the proxy materials, you may vote by proxy by filling out the voting instruction form and sending it back in the envelope provided. If you only received a Notice of Availability of Proxy Materials and wish to vote by proxy via mail, you may do so by first requesting printed copies of the proxy materials by mail by following the instructions in the Notice of Availability of Proxy Materials and then filling out the voting instruction form and sending it back in the envelope provided.

As a beneficial owner, you are also invited to attend the Annual Meeting. However, since you are not a stockholder of record, you may not vote your shares in person at the Annual Meeting unless you request and obtain a legal proxy from the organization that holds your shares.

What votes can I cast for the proposals?

Proposal 1. You may either vote **For** all the nominees to our Board of Directors or you may **Withhold** your vote for any nominee you specify.

Proposals 2, 3, 4 and 5. You may vote **For** or **Against**, or **Abstain** from voting. An abstention will not be counted as either a vote cast **For** or **Against**.

What if I don't give specific voting instructions?

If you indicate a choice on your proxy on a particular matter to be acted upon, the shares will be voted as indicated. If you are a stockholder of record and you return a signed proxy card but do not indicate how you wish to vote, the proxy holders will vote your shares in the manner recommended by our Board of Directors on all matters presented in this Proxy Statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the Annual Meeting. If you do not return the proxy card, your shares will not be voted and will not be deemed present for the purpose of determining whether a quorum exists.

If you are a beneficial owner and the organization holding your account does not receive instructions from you as to how to vote those shares, under the rules of various national and regional securities exchanges, that organization may exercise discretionary authority to vote on routine proposals but may not vote on non-routine proposals. As a beneficial owner, you will not be deemed to have voted on such non-routine proposals. The shares that cannot be voted by brokers on non-routine matters are called broker non-votes. Broker non-votes will be deemed present at the Annual Meeting for purposes of determining whether a quorum exists for the Annual Meeting. Broker non-votes will make a quorum more readily obtainable but will not otherwise affect the outcome of the vote of any proposal.

Which proposals in this Proxy Statement are considered routine or non-routine ?

The ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2016 (Proposal 5) is a matter considered routine under applicable rules. A broker or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposal 5.

The election of directors (Proposal 1), the proposal to approve our 2006 Employee Equity Incentive Plan, as amended (Proposal 2), the proposal to approve an amendment to our Employee Stock Purchase Plan (Proposal 3), and the advisory vote to approve executive compensation (Proposal 4) are matters considered non-routine under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters, and therefore there may be broker non-votes on Proposals 1, 2, 3, and 4.

What if I change my mind and want to revoke my proxy?

If you are a stockholder of record, you may revoke your proxy at any time before the Annual Meeting by delivering a written notice of revocation or a duly executed proxy card bearing a later date to our principal executive offices at 690 East Middlefield Road, Mountain View, California 94043, attention

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Corporate Secretary. Such notice or later dated proxy must be received by us prior to the Annual Meeting. You may also revoke your proxy by attending the Annual Meeting and voting in person.

If you are a beneficial owner, please contact your broker, bank or other agent for instructions on how to revoke your proxy.

What is a quorum?

We need a quorum of stockholders to hold our Annual Meeting. A quorum exists when at least a majority of the outstanding shares entitled to vote as of the Record Date are represented at the Annual Meeting either in person or by proxy. Your shares will be counted towards the quorum only if a valid proxy or vote is submitted. Stockholders who vote Abstain on any proposal and discretionary votes by brokers, banks and related agents on routine proposals will be counted towards the quorum requirement.

Who is paying for this solicitation?

Synopsys will bear the cost of soliciting proxies. We have retained D.F. King & Co., Inc. to assist us in soliciting proxies, for which we will pay D.F. King & Co., Inc. a fee of approximately \$11,500 plus out-of-pocket expenses. We will also reimburse brokerage firms and other persons representing beneficial owners of shares for their reasonable expenses in forwarding solicitation material to such beneficial owners. We will furnish copies of solicitation material to such brokerage firms and other representatives. Proxies may also be solicited personally or by telephone, facsimile or email by our directors, officers and employees without additional compensation.

I received notice that communications to my address are being householded. What does that mean?

The Securities and Exchange Commission has adopted rules that permit companies and intermediaries (for example, brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement or Notice of Availability of Proxy Materials addressed to those stockholders. A number of brokers with account holders who are our stockholders household our proxy materials in this manner.

If you have received notice from your broker that it will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, 2015 Annual Report on Form 10-K or Notice of Availability of Proxy Materials, please notify your broker and our investor relations department in writing at 690 East Middlefield Road, Mountain View, California 94043, by email at invest-info@synopsys.com or by telephone at (650) 584-4257. If you currently receive multiple copies of the Notice of Availability of Proxy Materials or proxy statement at your address and would like to request householding of your communications, please contact your broker, bank or other agent.

I also have access to Synopsys, Inc.'s 2015 Annual Report on Form 10-K. Is that a part of the proxy materials?

Our Annual Report on Form 10-K for the fiscal year ended October 31, 2015, as filed with the Securities and Exchange Commission on December 14, 2015, accompanies this Proxy Statement. These documents constitute our Annual Report to Stockholders and are being made available to all stockholders entitled to receive notice of and to vote at the Annual Meeting. Except as otherwise stated, the 2015 Annual Report on Form 10-K is not incorporated into this Proxy Statement and should not be considered proxy solicitation material.

Where can I find the voting results of the meeting?

The preliminary voting results will be announced at the Annual Meeting. The final results will be published in a Current Report on Form 8-K, which we will file with the Securities and Exchange Commission by April 4, 2016.

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How can I make a proposal to be voted on at next year's annual meeting of stockholders?

To be considered for inclusion in the proxy materials for next year's annual meeting of stockholders, your proposal must be submitted in writing by October 19, 2016 to Corporate Secretary, Synopsys, Inc., 690 East Middlefield Road, Mountain View, California 94043, and must comply with all applicable requirements of Rule 14a-8 promulgated under the Exchange Act. If you wish to submit a proposal that is not to be included in next year's proxy materials, but that may be considered at the annual meeting of stockholders to be held in 2017, you must do so in writing following the above instructions not earlier than the close of business on September 19, 2016 and not later than the close of business on October 19, 2016. We advise you to review our Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations, including the different notice submission date requirements in the event our annual meeting for 2017 is held more than 30 days before or after March 29, 2017. The subsection Director Nominations under the Corporate Governance section, above, provides additional information on the director nomination process.

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We know of no other business that will be presented at the Annual Meeting. If any other business is properly brought before the Annual Meeting, it is intended that proxies in the enclosed form will be voted in accordance with the judgment of the persons voting the proxies.

Whether or not you intend to be present at the Annual Meeting, we urge you to return your signed proxy promptly.

By order of the Board of Directors,

John F. Runkel, Jr.

General Counsel and

Corporate Secretary

Dated: February 12, 2016

A copy of our 2015 Annual Report on Form 10-K is available without charge upon written request to Corporate Secretary, Synopsys, Inc., 690 East Middlefield Road, Mountain View, California 94043.

Important Notice Regarding the Internet Availability of Proxy Materials

for the Annual Meeting to Be Held on March 29, 2016

The Proxy Statement and our 2015 Annual Report on Form 10-K will be available at

<http://materials.proxyvote.com/871607> on or about February 16, 2016.

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SYNOPSYS, INC.

2006 EMPLOYEE EQUITY INCENTIVE PLAN

ADOPTED BY THE BOARD OF DIRECTORS: MARCH 3, 2006

APPROVED BY THE STOCKHOLDERS: APRIL 25, 2006

AS AMENDED BY THE BOARD OF DIRECTORS: DECEMBER 15, 2015

AMENDMENT SUBJECT TO APPROVAL BY THE STOCKHOLDERS: MARCH 29, 2016

TERMINATION DATE: APRIL 1, 2026

1. GENERAL.

(a) **Successor and Continuation of Prior Plans.** The Plan is intended as the successor and continuation of the (i) Synopsys, Inc. 1992 Stock Option Plan, (ii) Synopsys, Inc. 1998 Nonstatutory Stock Option Plan, and (iii) Synopsys, Inc. 2005 Assumed Stock Option Plan (collectively, the *Prior Plans*). Following the Effective Date, no additional stock awards shall be granted under the Prior Plans. Any shares remaining available for issuance pursuant to the exercise of options under the Prior Plans shall become available for issuance pursuant to Stock Awards granted hereunder. Any shares subject to outstanding stock awards granted under the Prior Plans that expire or terminate for any reason prior to exercise or settlement shall become available for issuance pursuant to Stock Awards granted hereunder. On the Effective Date, all outstanding stock options granted under the Prior Plans shall be deemed to be stock options granted pursuant to the Plan, but shall remain subject to the terms of the Prior Plans with respect to which they were originally granted.

(b) **Eligible Award Recipients.** The persons eligible to receive Awards are Employees and Consultants. Non-employee Directors are not eligible to receive Awards under this Plan.

(c) **Available Awards.** The Plan provides for the grant of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Restricted Stock Awards, (iv) Restricted Stock Unit Awards, (v) Stock Appreciation Rights, (vi) Performance Stock Awards, and (vii) Other Stock Awards. The Plan also provides for the grant of Performance Cash Awards.

(d) **Purpose.** The Company, by means of the Plan, seeks to secure and retain the services of the group of persons eligible to receive Stock Awards as set forth in Section 1(b), to provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate and to provide a means by which such eligible recipients may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Stock Awards.

2. DEFINITIONS.

As used in the Plan, the following definitions shall apply to the capitalized terms indicated below:

- (a) **Affiliate** means (i) any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, provided each corporation in the unbroken chain (other than the Company) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, and (ii) any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. The Board shall have the authority to determine (i) the time or times at which the ownership tests are applied, and (ii) whether **Affiliate** includes entities other than corporations within the foregoing definition.
- (b) **Award** means a Stock Award or a Performance Cash Award.
- (c) **Board** means the Board of Directors of the Company.
- (d) **Capitalization Adjustment** has the meaning ascribed to that term in Section 9(a).

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(e) **Cause** means, with respect to a Participant, the occurrence of any of the following: (i) the Participant commits an act of dishonesty in connection with the Participant's responsibilities as an Employee or Consultant; (ii) the Participant commits a felony or any act of moral turpitude; (iii) the Participant commits any willful or grossly negligent act that constitutes gross misconduct and/or injures, or is reasonably likely to injure, the Company or any Affiliate; or (iv) the Participant willfully and materially violates (A) any written policies or procedures of the Company or any Affiliate, or (B) the Participant's obligations to the Company or any Affiliate. The determination that a termination is for Cause shall be made by the Company in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Awards held by such Participant shall have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

(f) **Change in Control** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur (A) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person from the Company in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities or (B) solely because the level of Ownership held by any Exchange Act Person (the **Subject Person**) exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control shall be deemed to occur;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction;

(iii) the stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company shall otherwise occur;

(iv) there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition; or

(v) individuals who, on the date this Plan is adopted by the Board, are members of the Board (the ***Incumbent Board***)
cease for any reason to constitute at least a majority of the

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members of the Board; *provided, however*, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member shall, for purposes of this Plan, be considered as a member of the Incumbent Board.

For avoidance of doubt, the term Change in Control shall not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company.

Notwithstanding the foregoing, to the extent that the Company determines that any of the payments or benefits under this Plan that are payable in connection with a Change in Control constitute deferred compensation under Section 409A that may only be paid on a transaction that meets the standard of Treasury Regulation Section 1.409A-3(a)(5), the foregoing definition of Change in Control shall apply only to the extent the transaction also meets the definition used for purposes of Treasury Regulation Section 1.409A-3(a)(5), that is, as defined under Treasury Regulation Section 1.409A-3(i)(5).

(g) **Code** means the Internal Revenue Code of 1986, as amended.

(h) **Committee** means a committee of one (1) or more members of the Board to whom authority has been delegated by the Board in accordance with Section 3(c).

(i) **Common Stock** means the common stock of the Company.

(j) **Company** means Synopsys, Inc., a Delaware corporation.

(k) **Consultant** means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the Board of Directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, shall not cause a Director to be considered a Consultant for purposes of the Plan.

(l) **Continuous Service** means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate from a Consultant to Employee shall not terminate a Participant's Continuous Service. Furthermore, a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's service with the Company or an Affiliate, shall not terminate a Participant's Continuous Service. However, if the corporation for which a Participant is rendering service ceases to qualify as an Affiliate, as determined by the Board in its sole discretion, such Participant's Continuous Service shall be considered to have terminated on the date such corporation ceases to qualify as an Affiliate. A leave of absence shall be treated as Continuous Service for purposes of vesting in an Award to such extent as may be provided in the Company's leave of absence policy or in the written terms of the Participant's leave of absence.

(m) **Corporate Transaction** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of at least ninety percent (90%) of the outstanding securities of the Company;

(iii) the consummation of a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) the consummation of a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(n) ***Covered Employee*** has the meaning provided in Section 162(m)(3) of the Code and the regulations promulgated thereunder.

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- (o) **Director** means a member of the Board.
- (p) **Disability** means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months, as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and shall be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.
- (q) **Effective Date** means the effective date of the Plan as specified in Section 12.
- (r) **Employee** means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, shall not cause a Director to be considered an Employee for purposes of the Plan.
- (s) **Entity** means a corporation, partnership or other entity.
- (t) **Exchange Act** means the Securities Exchange Act of 1934, as amended.
- (u) **Exchange Act Person** means any natural person, Entity or group (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that Exchange Act Person shall not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or group (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the effective date of the Plan as set forth in Section 12, is the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities.
- (v) **Fair Market Value** means for purposes of Sections 3(f), 5(b), 5(c), 6(b), 6(c), 6(d)(iv), 7(c)(ii), 7(c)(iii) and 8(d), as of any date, the value of the Common Stock determined as follows:
- (i) If the Common Stock is listed on any established stock exchange or traded on any market system, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date in question, as reported in The Wall Street Journal or such other source as the Board deems reliable. Unless otherwise provided by the Board, if there is no closing sales price (or closing bid if no sales were reported) for the Common Stock on the date in question, then the Fair Market Value shall be the closing sales price (or closing bid if no sales were reported) on the last preceding date for which such quotation exists.
- (ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined by the Board in a manner that complies with Sections 409A and 422 of the Code.
- (w) **Incentive Stock Option** means an Option which qualifies as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.
- (x) **Non-Employee Director** means a Director who either (i) is not a current employee or officer of the Company or an Affiliate, does not receive compensation, either directly or indirectly, from the Company or an Affiliate for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure

would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act (**Regulation S-K**), does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K; or (ii) is otherwise considered a non-employee director for purposes of Rule 16b-3.

(y) **Nonstatutory Stock Option** means an Option which does not qualify as an Incentive Stock Option.

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(z) **Officer** means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(aa) **Option** means an Incentive Stock Option or a Nonstatutory Stock Option to purchase shares of Common Stock granted pursuant to the Plan.

(bb) **Option Agreement** means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(cc) **Optionholder** means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(dd) **Other Stock Award** means an award based in whole or in part by reference to the Common Stock which is granted pursuant to the terms and conditions of Section 7(e).

(ee) **Other Stock Award Agreement** means a written agreement between the Company and a holder of an Other Stock Award evidencing the terms and conditions of an Other Stock Award grant. Each Other Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(ff) **Outside Director** means a Director who either (i) is not a current employee of the Company or an affiliated corporation (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an affiliated corporation who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, has not been an officer of the Company or an affiliated corporation, and does not receive remuneration from the Company or an affiliated corporation, either directly or indirectly, in any capacity other than as a Director, or (ii) is otherwise considered an outside director for purposes of Section 162(m) of the Code.

(gg) **Own, Owned, Owner, Ownership** A person or Entity shall be deemed to Own, to have Owned, to be the of, or to have acquired Ownership of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

(hh) **Participant** means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Award.

(ii) **Performance Cash Award** means an award of cash granted pursuant to the terms and conditions of Section 7(d)(ii).

(jj) **Performance Criteria** means one or more criteria that the Board shall select for purposes of establishing the Performance Goals for a Performance Period. The Performance Criteria that shall be used to establish such Performance Goals may be based on any one of, or combination of, the following: (i) earnings per share; (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization (EBITDA); (iv) net earnings; (v) return on equity; (vi) return on assets, investment, or capital employed; (vii) operating margin; (viii) gross margin; (ix) operating income; (x) net income (before or after taxes); (xi) net operating income; (xii) net operating income after tax; (xiii) pre- and after-tax income; (xiv) pre-tax profit; (xv) operating cash flow; (xvi) orders (including backlog) and revenue; (xvii) orders quality metrics; (xviii) increases in revenue or product revenue; (xix) expenses and cost reduction goals; (xx) improvement in or attainment of expense levels; (xxi) improvement in or attainment of working capital levels; (xxii) market share; (xxiii) cash flow; (xxiv) cash flow per share; (xxv) share

price performance; (xxvi) debt reduction; (xxvii) implementation or completion of projects or processes (to the extent consistent with Section 162(m) of the Code, if deductibility is desired); (xxviii) customer satisfaction; (xxix) stockholders' equity; (xxx) quality measures; (xxxi) Non-GAAP Net Income (meaning net income excluding (1) the amortization of acquired intangible assets; (2) the impact of stock-based compensation expense; (3) acquisition-related costs; (4) other non-recurring significant items, such as the effect of tax or legal settlements with the Internal Revenue Service and restructuring charges; and (5) the income tax effect of non-GAAP pre-tax adjustments from the provision for income taxes); and (xxxii) to the extent that an Award is not intended to comply with Section 162(m) of the Code, any other

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measures of performance selected by the Board. Partial achievement of the specified criteria may result in the payment or vesting corresponding to the degree of achievement as specified in the Stock Award Agreement or the written terms of a Performance Cash Award. The Board shall, in its sole discretion, define the manner of calculating the Performance Criteria it selects to use for such Performance Period.

(kk) **Performance Goals** means, for a Performance Period, the one or more goals established by the Board for the Performance Period based upon the Performance Criteria. Performance Goals may be set on a Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to internally generated business plans, approved by the Board, the performance of one or more comparable companies or the performance of one or more relevant indices. To the extent consistent with Section 162(m) of the Code and the regulations thereunder, the Board is authorized to make adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (i) to exclude restructuring and/or other nonrecurring charges (including but not limited to the effect of tax or legal settlements); (ii) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated net sales and operating earnings; (iii) to exclude the effects of changes to generally accepted accounting standards required by the Financial Accounting Standards Board; (iv) to exclude the effects of any statutory adjustments to corporate tax rates; (v) to exclude stock-based compensation expense determined under generally accepted accounting principles; (vi) to exclude any other unusual or infrequently occurring item; (vii) to respond to, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development; (viii) to respond to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions; (ix) to exclude the dilutive effects of acquisitions or joint ventures; (x) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a Performance Period following such divestiture; (xi) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common shareholders other than regular cash dividends; (xii) to reflect a corporate transaction, such as a merger, consolidation, separation (including a spinoff or other distribution of stock or property by a corporation), or reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code); (xiii) to reflect any partial or complete corporate liquidation; (xiv) to exclude the effect of in-process research and development expenses; and (xv) to exclude the income tax effect of non-GAAP pre-tax adjustments from the provision for income taxes. The Board also retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals.

(ll) **Performance Period** means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to and the payment of a Performance Stock Award or a Performance Cash Award.

(mm) **Performance Stock Award** means either a Restricted Stock Award or a Restricted Stock Unit Award granted pursuant to the terms and conditions of Section 7(d)(i).

(nn) **Plan** means this Synopsys, Inc. 2006 Employee Equity Incentive Plan.

(oo) **Prior Plans** means the Company's 1992 Stock Option Plan, 1998 Nonstatutory Stock Option Plan, and 2005 Assumed Stock Option Plan as in effect immediately prior to the effective date of the Plan.

(pp) **Restricted Stock Award** means an award of shares of Common Stock which is granted pursuant to the terms and conditions of Section 7(a).

(qq) ***Restricted Stock Award Agreement*** means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(rr) ***Restricted Stock Unit Award*** means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 7(b).

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(ss) ***Restricted Stock Unit Award Agreement*** means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement shall be subject to the terms and conditions of the Plan.

(tt) ***Rule 16b-3*** means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(uu) ***Securities Act*** means the Securities Act of 1933, as amended.

(vv) ***Stock Appreciation Right*** means a right to receive the appreciation on Common Stock that is granted pursuant to the terms and conditions of Section 7(c).

(ww) ***Stock Appreciation Right Agreement*** means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement shall be subject to the terms and conditions of the Plan.

(xx) ***Stock Award*** means any right granted under the Plan, including an Option, a Stock Appreciation Right, a Restricted Stock Award, a Restricted Stock Unit Award, a Performance Stock Award, or an Other Stock Award.

(yy) ***Stock Award Agreement*** means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(zz) ***Subsidiary*** means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%).

(aaa) ***Ten Percent Stockholder*** means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Affiliate.

3. ADMINISTRATION.

(a) **Administration by Board.** The Board shall administer the Plan unless and until the Board delegates administration of the Plan to a Committee, as provided in Section 3(c).

(b) **Powers of Board.** The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for administration of the Plan and Awards. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement or in the written terms of a Performance Cash Award, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(ii) To determine from time to time (1) which of the persons eligible under the Plan shall be granted Awards; (2) when and how each Award shall be granted; (3) what type or combination of types of Award shall be granted; (4) the provisions of each Award granted (which need not be identical), including the time or times when a person shall be permitted to receive cash or Common Stock pursuant to an Award; and (5) the number of shares of Common Stock with respect to which a Stock Award shall be granted to each such person.

(iii) To accelerate the time at which an Award may be exercised or the time during which an Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Award stating the time at which it may be exercised or the time during which it will vest.

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(iv) To approve forms of award agreements for use under the Plan and to amend the terms of any one or more outstanding Awards.

(v) To amend the Plan or an Award as provided in Section 10. Subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Awards without the affected Participant's consent if necessary to maintain the qualified status of the Award as an Incentive Stock Option, to clarify the manner of exemption from, or to bring the Award into compliance with, Section 409A of the Code or to comply with other applicable laws.

(vi) To terminate or suspend the Plan as provided in Section 11.

(vii) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan.

(viii) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by individuals who are foreign nationals or employed outside the United States.

(c) Delegation To Committee.

(i) **General.** The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board or the Committee (as applicable). The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, re-vest in the Board some or all of the powers previously delegated.

(ii) **Section 162(m) and Rule 16b-3 Compliance.** In the sole discretion of the Board, the Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3. In addition, the Board or the Committee, in its sole discretion, may (1) delegate to a committee of one or more members of the Board who need not be Outside Directors the authority to grant Awards to eligible persons who are either (a) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Award, or (b) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code, and/or (2) delegate to a committee of one or more members of the Board who need not be Non-Employee Directors the authority to grant Stock Awards to eligible persons who are not then subject to Section 16 of the Exchange Act.

(d) **Delegation to an Officer.** The Board may delegate to one or more Officers of the Company the authority to do one or both of the following (i) designate Employees of the Company or any of its Subsidiaries to be recipients of Options, Stock Appreciation Rights and, to the extent permitted by applicable law, other Stock Awards and, to the extent permitted by applicable law, the terms thereof, and (ii) determine the number of shares of Common Stock to be subject to such Stock Awards granted to such Employees; *provided, however*, that the Board resolutions regarding such delegation shall specify the total number of shares of Common Stock that may be subject to the Options granted by such Officer. Any such Stock Awards granted by Officers will be granted on the form of Stock Award Agreement most recently approved for use by the Committee or the Board, unless otherwise provided in the resolutions approving the delegation authority. Notwithstanding anything to the contrary in this Section 3(d), the Board may not delegate to an Officer authority to determine the Fair Market Value of the Common Stock pursuant to Section 2(v)(ii) above.

(e) **Effect of Board's Decision.** All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

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(f) **Repricing; Cancellation and Re-Grant of Stock Awards.** Neither the Board nor any Committee shall have the authority to: (i) reprice any outstanding Stock Awards under the Plan, (ii) provide for the exchange of an Option or Stock Appreciation Right for cash when the exercise price or strike price of such Option or Stock Appreciation Right, respectively, is greater than or equal to the Fair Market Value of a share of Common Stock or (iii) cancel and re-grant any outstanding Stock Awards under the Plan, in each case unless the stockholders of the Company have approved such an action within twelve (12) months prior to such an event, provided, however, that this provision shall not prevent cancellations of Stock Awards upon expiration or termination of such Stock Awards and the return of the underlying shares of Common Stock to the Plan for future issuance pursuant to Section 4(b) hereof.

4. SHARES SUBJECT TO THE PLAN.

(a) **Share Reserve.** Subject to the provisions of Section 9(a) relating to Capitalization Adjustments, the number of shares of Common Stock that may be issued pursuant to Stock Awards shall not exceed Eighty-Three Million Five Hundred Ninety-Seven Thousand Two Hundred Forty-Eight (83,597,248) shares of Common Stock in the aggregate. Subject to Section 4(b), the number of shares available for issuance under the Plan shall be reduced by: (i) one (1) share for each share of stock issued pursuant to (A) an Option granted under Section 6, or (B) a Stock Appreciation Right granted under Section 7(c), and (ii) (A) one and thirty-six hundredths (1.36) shares for each share of Common Stock issued prior to February 27, 2009 pursuant to a Restricted Stock Award, Restricted Stock Unit Award, or Other Stock Award granted under Section 7, (B) two and eighteen hundredths (2.18) shares for each share of Common Stock issued on or after February 27, 2009 pursuant to a Restricted Stock Award, Restricted Stock Unit Award, or Other Stock Award granted under Section 7, (C) one and twenty-five hundredths (1.25) shares for each share of Common Stock issued on or after March 24, 2011 pursuant to a Restricted Stock Award, Restricted Stock Unit Award, or Other Stock Award granted under Section 7, (D) one and five tenths (1.50) shares for each share of Common Stock issued on or after April 3, 2012 pursuant to a Restricted Stock Award, Restricted Stock Unit Award, or Other Stock Award granted under Section 7, (E) one and six tenths (1.60) shares for each share of Common Stock issued on or after April 2, 2015 pursuant to a Restricted Stock Award, Restricted Stock Unit Award, or Other Stock Award granted under Section 7, and (F) one and seven tenths (1.70) shares for each share of Common Stock issued on or after March 29, 2016 pursuant to a Restricted Stock Award, Restricted Stock Unit Award, or Other Stock Award granted under Section 7. Shares may be issued in connection with a merger or acquisition as permitted by NASDAQ Listing Rule 5635(c) or, if applicable, NYSE Listed Company Manual Section 303A.08, or other applicable rule, and such issuance shall not reduce the number of shares available for issuance under the Plan.

(b) Reversion of Shares to the Share Reserve.

(i) **Shares Available For Subsequent Issuance.** If any (i) Stock Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, (ii) shares of Common Stock issued to a Participant pursuant to a Stock Award are forfeited to or repurchased by the Company at their original exercise or purchase price (if any) pursuant to the Company's reacquisition or repurchase rights under the Plan, including any forfeiture or repurchase caused by the failure to meet a contingency or condition required for the vesting of such shares, or (iii) Stock Award is settled in cash, then the shares of Common Stock not issued under such Stock Award, or forfeited to or repurchased by the Company, shall revert to and again become available for issuance under the Plan. To the extent there is issued a share of Common Stock pursuant to a Stock Award that counted as either (A) one and thirty-six hundredths (1.36) shares, (B) two and eighteen hundredths (2.18) shares, (C) one and twenty-five hundredths (1.25) shares, (D) one and five tenths (1.50) shares, (E) one and six tenths (1.60) shares or (F) one and seven tenths (1.70) shares as applicable, against the number of shares available for issuance under the Plan pursuant to Section 4(a) and such share of Common Stock again becomes available for issuance under the Plan pursuant to this Section 4(b)(i) on or after March 29, 2016, then the number of shares of Common Stock available for issuance under

the Plan shall increase by 1.7 shares (regardless of when such share was issued).

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(ii) **Shares Not Available for Subsequent Issuance.** If any shares subject to a Stock Award are not delivered to a Participant because the Stock Award is exercised through a reduction of shares subject to the Stock Award (*i.e.*, net exercised) or an appreciation distribution in respect of a Stock Appreciation Right is paid in shares of Common Stock, the number of shares subject to the Stock Award that are not delivered to the Participant shall not remain available for subsequent issuance under the Plan. If any shares subject to a Stock Award are not delivered to a Participant because such shares are withheld in satisfaction of the withholding of taxes incurred in connection with the exercise of, or the issuance of shares under, a Stock Award, the number of shares that are not delivered to the Participant shall not remain available for subsequent issuance under the Plan. If the exercise price of any Stock Award is satisfied by tendering shares of Common Stock held by the Participant (either by actual delivery or attestation), then the number of shares so tendered shall not remain available for subsequent issuance under the Plan.

(c) **Incentive Stock Option Limit.** Notwithstanding anything to the contrary in this Section 4, subject to the provisions of Section 9(a) relating to Capitalization Adjustments the aggregate maximum number of shares of Common Stock that may be issued pursuant to the exercise of Incentive Stock Options shall be Eighty-Three Million Five Hundred Ninety-Seven Thousand Two Hundred Forty-Eight (83,597,248) shares of Common Stock.

(d) **Source of Shares.** The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

5. ELIGIBILITY.

(a) **Eligibility for Specific Stock Awards.** Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Employees and Consultants; *provided, however*, that Nonstatutory Stock Options and Stock Appreciation Rights may not be granted to Employees and Consultants who are providing Continuous Services only to any parent of the Company, as such term is defined in Rule 405 promulgated under the Securities Act, unless such Stock Awards comply with (or are exempt from) Section 409A of the Code or unless the stock underlying such Stock Awards is otherwise determined to be service recipient stock under Section 409A of the Code. Stock Awards under this Plan may not be granted to non-employee Directors.

(b) **Ten Percent Stockholders.** An Employee who is also a Ten Percent Stockholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock on the date of grant and the Option has a term of no more than five (5) years from the date of grant and is not exercisable after the expiration of five (5) years from the date of grant.

(c) **Section 162(m) Limitation on Annual Awards.** Subject to the provisions of Section 9(a) relating to Capitalization Adjustments no Employee shall be eligible to be granted Stock Awards whose value is determined by reference to an increase over an exercise or strike price of at least one hundred percent (100%) of the Fair Market Value of the Common Stock on the date the Stock Award is granted covering more than one million (1,000,000) shares of Common Stock during any calendar year.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates shall be issued for shares of Common Stock purchased on exercise of each type of Option. The provisions of separate Options need not be identical; *provided*,

however, that each Option Agreement shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) **Term.** No Option shall be exercisable after the expiration of seven (7) years from the date of grant, or such shorter period specified in the Option Agreement; *provided, however*, that an Incentive Stock Option granted to a Ten Percent Stockholder shall be subject to the provisions of Section 5(b).

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(b) **Exercise Price of an Incentive Stock Option.** Subject to the provisions of Section 5(b) regarding Ten Percent Stockholders, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner consistent with the provisions of Sections 409A and 424(a) of the Code.

(c) **Exercise Price of a Nonstatutory Stock Option.** The exercise price of each Nonstatutory Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, a Nonstatutory Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner consistent with the provisions of Sections 409A and 424(a) of the Code.

(d) **Consideration.** The purchase price of Common Stock acquired pursuant to the exercise of an Option shall be paid, to the extent permitted by applicable law and as determined by the Board in its sole discretion, by any combination of the methods of payment set forth below. The Board shall have the authority to grant Options that do not permit all of the following methods of payment (or otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to utilize a particular method of payment. The methods of payment permitted by this Section 6(d) are:

(i) by cash or check;

(ii) pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;

(iii) by delivery to the Company (either by actual delivery or attestation) of shares of Common Stock;

(iv) by a net exercise arrangement, if the option is a Nonstatutory Stock Option, pursuant to which the Company will reduce the number of shares of Common Stock issued upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; *provided, however*, the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued; *provided, however*, that shares of Common Stock will no longer be outstanding under an Option and will not be exercisable thereafter to the extent that (i) shares are used to pay the exercise price pursuant to the net exercise, (ii) shares are delivered to the Participant as a result of such exercise, and (iii) shares are withheld to satisfy tax withholding obligations; or

(v) in any other form of legal consideration that may be acceptable to the Board.

(e) **Transferability of Options.** The Board may, in its sole discretion, impose such limitations on the transferability of Options as the Board shall determine. In the absence of such a determination by the Board to the contrary, the following restrictions on the transferability of Options shall apply:

(i) **Restrictions on Transfer.** An Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder.

(ii) **Domestic Relations Orders.** Notwithstanding the foregoing, an Option may be transferred pursuant to a domestic relations order; *provided, however*, that if an Option is an Incentive Stock Option, such Option may be deemed to be a

Nonstatutory Stock Option as a result of such transfer.

(iii) **Beneficiary Designation.** Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form provided by or otherwise satisfactory to the

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Company and any broker designated by the Company to effect Option exercises, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option. In the absence of such a designation, the executor or administrator of the Optionholder's estate shall be entitled to exercise the Option. However, the Company may prohibit designation of a beneficiary at any time, including due to any conclusion by the Company that such designation would be inconsistent with the provisions of applicable laws.

(f) **Vesting of Options Generally.** The total number of shares of Common Stock subject to an Option may vest and therefore become exercisable in periodic installments that may or may not be equal. The Option may be subject to such other terms and conditions on the time or times when it may or may not be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options may vary. The provisions of this Section 6(f) are subject to any Option provisions governing the minimum number of shares of Common Stock as to which an Option may be exercised.

(g) **Termination of Continuous Service.** In the event that an Optionholder's Continuous Service terminates (other than for Cause or upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination of Continuous Service) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service (or such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination of Continuous Service, the Optionholder does not exercise his or her Option within the time specified herein or in the Option Agreement (as applicable), the Option shall terminate.

(h) **Extension of Termination Date.** An Optionholder's Option Agreement may provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service (or such longer or shorter period specified in the Option Agreement) during which the exercise of the Option would not be in violation of such registration requirements, or (ii) the expiration of the term of the Option as set forth in the Option Agreement.

(i) **Disability of Optionholder.** In the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination of Continuous Service (or such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination of Continuous Service, the Optionholder does not exercise his or her Option within the time specified herein or in the Option Agreement (as applicable), the Option shall terminate.

(j) **Death of Optionholder.** In the event that (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death, or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the option upon the Optionholder's death, but only within the period ending on the earlier of (i) the date twelve (12) months following the date of death (or such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of such Option as set forth in the Option Agreement. If, after the Optionholder's death, the Option is not exercised within the time specified herein or in the Option Agreement (as

applicable), the Option shall terminate.

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(k) **Termination for Cause.** In the event that an Optionholder's Continuous Service is terminated for Cause, the Option shall terminate immediately and cease to remain outstanding and the Option shall cease to be exercisable with respect to any shares of Common Stock (whether vested or unvested) at the time of such termination.

7. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS.

(a) **Restricted Stock Awards.** Each Restricted Stock Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. To the extent consistent with the Company's Bylaws, at the Board's election, shares of Common Stock may be (i) held in book entry form subject to the Company's instructions until any restrictions relating to the Restricted Stock Award lapse; or (ii) evidenced by a certificate, which certificate shall be held in such form and manner as determined by the Board. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical; *provided, however*, that each Restricted Stock Award Agreement shall include (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) **Consideration.** A Restricted Stock Award may be awarded in consideration for (i) past or future services rendered to the Company or an Affiliate, or (ii) any other form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

(ii) **Vesting.** Shares of Common Stock awarded under a Restricted Stock Award Agreement may be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Board.

(iii) **Termination of Participant's Continuous Service.** In the event a Participant's Continuous Service terminates, the Company may receive via a forfeiture condition or repurchase right any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

(iv) **Transferability.** Rights to acquire shares of Common Stock under the Restricted Stock Award Agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Board shall determine in its sole discretion, so long as Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

(b) **Restricted Stock Unit Awards.** Each Restricted Stock Unit Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical; *provided, however*, that each Restricted Stock Unit Award Agreement shall include (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) **Consideration.** A Restricted Stock Unit Award may be awarded in consideration for (i) past or future services rendered to the Company or an Affiliate, or (ii) any other form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

(ii) **Vesting.** At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

(iii) **Payment.** A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

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(iv) **Termination of Participant's Continuous Service.** Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

(c) **Stock Appreciation Rights.** Each Stock Appreciation Right Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Stock Appreciation Right Agreements may change from time to time, and the terms and conditions of separate Stock Appreciation Right Agreements need not be identical; *provided, however*, that each Stock Appreciation Right Agreement shall include (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) **Term.** No Stock Appreciation Right shall be exercisable after the expiration of seven (7) years from the date of grant, or such shorter period specified in the Stock Appreciation Right Agreement.

(ii) **Strike Price.** Each Stock Appreciation Right will be denominated in shares of Common Stock equivalents. The strike price of each Stock Appreciation Right shall not be less than one hundred percent (100%) of the Fair Market Value of the Common Stock equivalents subject to the Stock Appreciation Right on the date of grant. Notwithstanding the foregoing, a Stock Appreciation Right may be granted with a strike price lower than that set forth in the preceding sentence if such Stock Appreciation Right is granted pursuant to an assumption or substitution for another stock appreciation right in a manner consistent with the provisions of Sections 409A and 424(a) of the Code.

(iii) **Calculation of Appreciation.** The appreciation distribution payable on the exercise of a Stock Appreciation Right will be not greater than an amount equal to the excess of (i) the aggregate Fair Market Value (on the date of the exercise of the Stock Appreciation Right) of a number of shares of Common Stock equal to the number of share of Common Stock equivalents in which the Participant is vested under such Stock Appreciation Right, and with respect to which the Participant is exercising the Stock Appreciation Right on such date, over (ii) the strike price that is determined by the Board on the date of grant of the Stock Appreciation Right.

(iv) **Vesting.** At the time of the grant of a Stock Appreciation Right, the Board may impose such restrictions or conditions to the vesting of such Stock Appreciation Right as it, in its sole discretion, deems appropriate.

(v) **Exercise.** To exercise any outstanding Stock Appreciation Right, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Appreciation Right Agreement evidencing such Stock Appreciation Right.

(vi) **Payment.** The appreciation distribution in respect of a Stock Appreciation Right may be paid in Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Board and set forth in the Stock Appreciation Right Agreement evidencing such Stock Appreciation Right.

(vii) **Termination of Continuous Service.** In the event that a Participant's Continuous Service terminates (other than for Cause or upon the Participant's death or Disability), the Participant may exercise his or her Stock Appreciation Right (to the extent that the Participant was entitled to exercise such Stock Appreciation Right as of the date of termination of Continuous Service) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Participant's Continuous Service (or such longer or shorter period specified in the Stock Appreciation Right Agreement), or (ii) the expiration of the term of the Stock Appreciation Right as set forth in the Stock Appreciation Right Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Stock Appreciation Right within the time specified herein or in the Stock Appreciation Right Agreement (as applicable), the Stock Appreciation Right shall terminate.

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(viii) **Extension of Termination Date.** A Participant's Stock Appreciation Right Agreement may provide that if the exercise of the Stock Appreciation Right following the termination of the Participant's Continuous Service (other than upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Stock Appreciation Right shall terminate on the earlier of (i) the expiration of a period of three (3) months after the termination of the Participant's Continuous Service (or such longer or shorter period specified in the Stock Appreciation Right Agreement) during which the exercise of the Stock Appreciation Right would not be in violation of such registration requirements, or (ii) the expiration of the term of the Stock Appreciation Right as set forth in the Stock Appreciation Right Agreement.

(ix) **Disability of Participant.** In the event that a Participant's Continuous Service terminates as a result of the Participant's Disability, the Participant may exercise his or her Stock Appreciation Right (to the extent that the Participant was entitled to exercise such Stock Appreciation Right as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination of Continuous Service (or such longer or shorter period specified in the Stock Appreciation Right Agreement), or (ii) the expiration of the term of the Stock Appreciation Right as set forth in the Stock Appreciation Right Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Stock Appreciation Right within the time specified herein or in the Stock Appreciation Right Agreement (as applicable), the Stock Appreciation Right shall terminate.

(x) **Death of Participant.** In the event that (i) a Participant's Continuous Service terminates as a result of the Participant's death, or (ii) the Participant dies within the period (if any) specified in the Stock Appreciation Right Agreement after the termination of the Participant's Continuous Service for a reason other than death, then the Stock Appreciation Right may be exercised (to the extent the Participant was entitled to exercise such Stock Appreciation Right as of the date of death) by the Participant's estate, by a person who acquired the right to exercise the Stock Appreciation Right by bequest or inheritance or by a person designated to exercise the Stock Appreciation Right upon the Participant's death, but only within the period ending on the earlier of (i) the date twelve (12) months following the date of death (or such longer or shorter period specified in the Stock Appreciation Right Agreement), or (ii) the expiration of the term of such Stock Appreciation Right as set forth in the Stock Appreciation Right Agreement. If, after the Participant's death, the Stock Appreciation Right is not exercised within the time specified herein or in the Stock Appreciation Right Agreement (as applicable), the Stock Appreciation Right shall terminate.

(xi) **Termination for Cause.** In the event that a Participant's Continuous Service is terminated for Cause, the Stock Appreciation Right shall terminate immediately and cease to remain outstanding and the Stock Appreciation Right shall cease to be exercisable with respect to any shares of Common Stock (whether vested or unvested) at the time of such termination.

(d) Performance Awards.

(i) **Performance Stock Awards.** A Performance Stock Award is either a Restricted Stock Award or Restricted Stock Unit Award that may be granted, may vest, or may be exercised based upon the attainment during a Performance Period of certain Performance Goals. A Performance Stock Award may, but need not, require the completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained shall be conclusively determined by the Committee in its sole discretion. The maximum benefit to be granted to any Participant in any calendar year attributable to Performance Stock Awards described in this Section 7(d)(i) shall not exceed the value of one million (1,000,000) shares of Common Stock.

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(ii) **Performance Cash Awards.** A Performance Cash Award is a cash award that may be granted or paid upon the attainment during a Performance Period of certain Performance Goals. A Performance Cash Award may also require the completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained shall be conclusively determined by the Committee in its sole discretion. The maximum benefit to be granted to any Participant in any calendar year attributable to Performance Cash Awards described in this Section 7(d)(ii) shall not exceed two million dollars (\$2,000,000).

(e) **Other Stock Awards.** Other forms of Stock Awards valued in whole or in part by reference to, or otherwise based on, Common Stock may be granted either alone or in addition to Stock Awards provided for under Section 6 and the preceding provisions of this Section 7. Subject to the provisions of the Plan, the Board shall have sole and complete authority to determine the persons to whom and the time or times at which such Other Stock Awards will be granted, the number of shares of Common Stock (or the cash equivalent thereof) to be granted pursuant to such Other Stock Awards and all other terms and conditions of such Other Stock Awards. No Other Stock Award may have a term in excess of seven (7) years from the date of grant.

8. MISCELLANEOUS.

(a) **Use of Proceeds.** Proceeds from the sale of shares of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

(b) **Stockholder Rights.** No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Stock Award unless and until such Participant has satisfied all requirements for exercise of, or the issuance of shares under, the Stock Award pursuant to its terms and the issuance of the Common Stock has been entered into the books and records of the Company.

(c) **No Employment or Other Service Rights.** Nothing in the Plan, any Stock Award Agreement or other instrument executed thereunder or in connection with any Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(d) **Incentive Stock Option \$100,000 Limitation.** To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds one hundred thousand dollars (\$100,000), the Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of the applicable Option Agreement(s).

(e) **Investment Assurances.** The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of

exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (i) the issuance of the shares upon the exercise or acquisition of Common Stock under the Stock Award has

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been registered under a then currently effective registration statement under the Securities Act, or (ii) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(f) Securities Law Compliance. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; *provided, however*, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained. A Participant shall not be eligible for the grant of a Stock Award or the subsequent issuance of Common Stock pursuant to the Stock Award if such grant or issuance would be in violation of any applicable securities laws.

(g) Withholding Obligations. Unless prohibited by the terms of a Stock Award Agreement or the written terms of a Performance Cash Award, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with a Stock Award; *provided, however*, that no shares of Common Stock are withheld with a value exceeding the amount of tax required to be withheld by law (or such other amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award agreement.

(h) Electronic Delivery. Any reference herein to a written agreement or document shall include any agreement or document delivered electronically, filed publicly at www.sec.gov (or any successor website thereto) or posted on the Company's intranet.

(i) Deferrals. To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Awards and determine when, and in what annual percentages, Participants may receive payments, including lump-sum payments, following the Participant's termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

(j) Compliance with Section 409A. Unless otherwise expressly provided for in a Stock Award Agreement or the written terms of a Performance Cash Award, the Plan and Award agreements will be interpreted to the greatest extent possible in a manner that makes the Plan and the Awards granted hereunder exempt from Section 409A of the Code, and, to the extent not so exempt, in compliance with Section 409A of the Code. If the Board determines that any Award granted hereunder is not exempt from and is therefore subject to Section 409A of the Code, the agreement

evidencing such Award shall incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code, and to the extent an Award agreement is silent on terms necessary for compliance, such terms are hereby incorporated by reference into such Award agreement. Notwithstanding anything to the contrary in this Plan (and unless the Award agreement specifically provides otherwise), if the shares of the Company's Common Stock are publicly traded and if a

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Participant holding an Award that constitutes deferred compensation under Section 409A of the Code is a specified employee for purposes of Section 409A of the Code, no distribution or payment of any amount that is due because of a separation from service (as defined in Section 409A of the Code without regard to alternative definitions thereunder) will be issued or paid before the date that is six (6) months following the date of such Participant's separation from service or, if earlier, the date of the Participant's death, unless such distribution or payment can be made in a manner that complies with Section 409A of the Code, and any amounts so deferred will be paid in a lump sum on the day after such six (6) month period elapses, with the balance paid thereafter on the original schedule.

(k) Non-Exempt Employees. No Stock Award granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable for any shares of Common Stock until at least six (6) months following the date of grant. Notwithstanding the foregoing, consistent with the provisions of the Worker Economic Opportunity Act, (i) in the event of the Participant's death or Disability, (ii) upon a Corporate Transaction in which such Stock Award is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Participant's retirement (as such term may be defined in the Participant's Stock Award agreement or in another applicable agreement or in accordance with the Company's then current employment policies and guidelines), any vested Stock Awards may be exercised earlier than six (6) months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of a Stock Award will be exempt from his or her regular rate of pay.

(l) No Obligation to Notify or Minimize Taxes. The Company shall have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising such Stock Award. Furthermore, the Company shall have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of a Stock Award or a possible period in which the Stock Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of a Stock Award to the holder of such Stock Award.

(m) Corporate Action Constituting Grant of Stock Awards. Corporate action constituting a grant by the Company of a Stock Award to any Participant shall be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Stock Award is communicated to, or actually received or accepted by, the Participant. In the event that the corporate records (e.g., Board consents, resolutions or minutes) documenting the corporate action constituting the grant contain terms (e.g., exercise price, vesting schedule or number of shares) that are inconsistent with those in the Stock Award Agreement or the written terms of a Performance Cash Award as a result of a clerical error in the papering of the Award agreement, the corporate records will control.

9. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; CORPORATE TRANSACTIONS.

(a) Capitalization Adjustments. If any change is made in, or other events occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the effective date of the Plan set forth in Section 12 without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company (each a *Capitalization Adjustment*)), the Board shall appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 4(a), (ii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of Incentive Stock Options pursuant to Section 4(c), (iii) the class(es) and maximum number of securities that may be awarded to any person pursuant to Sections 5(c) and 7(d)(i), and (iv) the class(es) and number of securities and price per share of stock subject to outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and

conclusive. (Notwithstanding the foregoing, the conversion of any convertible securities of the Company shall not be treated as a transaction without receipt of consideration by the Company.)

(b) **Dissolution or Liquidation.** In the event of a dissolution or liquidation of the Company, all outstanding Stock Awards (other than Stock Awards consisting of vested and outstanding shares of

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Common Stock not subject to a forfeiture condition or the Company's right of repurchase) shall terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company's repurchase option or subject to the forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Stock Award is providing Continuous Service, *provided, however*, that the Board may, in its sole discretion, cause some or all Stock Awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such Stock Awards have not previously expired or terminated) before the dissolution or liquidation is completed but contingent on its completion.

(c) **Corporate Transaction.** The following provisions shall apply to Stock Awards in the event of a Corporate Transaction unless otherwise provided in a written agreement between the Company or any Affiliate and the holder of the Stock Award or unless otherwise expressly provided by the Board at the time of grant of a Stock Award:

(i) **Stock Awards May Be Assumed.** In the event of a Corporate Transaction, any surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) may assume or continue any or all Stock Awards outstanding under the Plan or may substitute similar stock awards for Stock Awards outstanding under the Plan (including, but not limited to, awards to acquire the same consideration paid to the stockholders of the Company pursuant to the Corporate Transaction), and any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to Stock Awards may be assigned by the Company to the successor of the Company (or the successor's parent company, if any), in connection with such Corporate Transaction. A surviving corporation or acquiring corporation may choose to assume or continue only a portion of a Stock Award or substitute a similar stock award for only a portion of a Stock Award. The terms of any assumption, continuation or substitution shall be set by the Board in accordance with the provisions of Section 3(b).

(ii) **Stock Awards Held by Current Participants.** In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue any or all outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have not been assumed, continued or substituted and that are held by Participants whose Continuous Service has not terminated prior to the effective time of the Corporate Transaction (referred to as the *Current Participants*), the vesting of such Stock Awards (and, if applicable, the time at which such Stock Awards may be exercised) shall (contingent upon the effectiveness of the Corporate Transaction) be accelerated in full to a date prior to the effective time of such Corporate Transaction as the Board shall determine (or, if the Board shall not determine such a date, to the date that is five (5) days prior to the effective time of the Corporate Transaction), and such Stock Awards shall terminate if not exercised (if applicable) at or prior to the effective time of the Corporate Transaction, and any reacquisition or repurchase rights held by the Company with respect to such Stock Awards shall lapse (contingent upon the effectiveness of the Corporate Transaction). No vested Restricted Stock Unit Award shall terminate pursuant to this Section 9(c)(ii) without being settled by delivery of shares of Common Stock, their cash equivalent, any combination thereof, or in any other form of consideration, as determined by the Board, prior to the effective time of the Corporate Transaction.

(iii) **Stock Awards Held by Former Participants.** In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue any or all outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have not been assumed, continued or substituted and that are held by persons other than Current Participants, the vesting of such Stock Awards (and, if applicable, the time at which such Stock Award may be exercised) shall not be accelerated and such Stock Awards (other than a Stock Award consisting of vested and outstanding shares of Common Stock not subject to the Company's right of repurchase) shall terminate if not exercised (if applicable) prior to the effective time of the Corporate Transaction; *provided, however*, that any reacquisition or

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repurchase rights held by the Company with respect to such Stock Awards shall not terminate and may continue to be exercised notwithstanding the Corporate Transaction. No vested Restricted Stock Unit Award shall terminate pursuant to this Section 9(c)(iii) without being settled by delivery of shares of Common Stock, their cash equivalent, any combination thereof, or in any other form of consideration, as determined by the Board, prior to the effective time of the Corporate Transaction.

(iv) **Payment for Stock Awards in Lieu of Exercise.** Notwithstanding the foregoing, in the event a Stock Award will terminate if not exercised prior to the effective time of a Corporate Transaction, the Board may provide, in its sole discretion, that the holder of such Stock Award may not exercise such Stock Award but will receive a payment, in such form as may be determined by the Board, equal in value to the excess, if any, of (i) the value of the property the holder of the Stock Award would have received upon the exercise of the Stock Award immediately prior to the effective time of the Corporate Transaction, over (ii) any exercise price payable by such holder in connection with such exercise.

(d) **Change in Control.** A Stock Award may be subject to additional acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the Stock Award Agreement for such Stock Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant. A Stock Award may vest as to all or any portion of the shares subject to the Stock Award (i) immediately upon the occurrence of a Change in Control, whether or not such Stock Award is assumed, continued, or substituted by a surviving or acquiring entity in the Change in Control, or (ii) in the event a Participant's Continuous Service is terminated, actually or constructively, within a designated period following the occurrence of a Change in Control. In the absence of such provisions, no such acceleration shall occur.

10. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(a) **Amendment of Plan.** Subject to the limitations of applicable law, the Board at any time, and from time to time, may amend the Plan. However, stockholder approval shall be required for any amendment of the Plan that either (i) materially increases the number of shares of Common Stock available for issuance under the Plan, (ii) materially expands the class of individuals eligible to receive Awards under the Plan, (iii) materially increases the benefits accruing to Participants under the Plan or materially reduces the price at which shares of Common Stock may be issued or purchased under the Plan, (iv) materially extends the term of the Plan, or (v) expands the types of Awards available for issuance under the Plan, but only to the extent required by applicable law or listing requirements.

(b) **Stockholder Approval.** The Board, in its sole discretion, may submit any other amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to Covered Employees.

(c) **Contemplated Amendments.** It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(d) **Amendment of Awards.** The Board, at any time and from time to time, may amend the terms of any one or more Awards (either directly or by amending the Plan), including, but not limited to, amendments to provide terms more favorable than previously provided in the Stock Award Agreement or the written terms of a Performance Cash Award, subject to any specified limits in the Plan that are not subject to Board discretion; provided, however, that the rights

under any Award outstanding at the time of such amendment shall not be materially impaired by any such amendment unless (i) the Company requests the consent of the affected Participant, and (ii) such Participant consents in writing.

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11. TERMINATION OR SUSPENSION OF THE PLAN.

(a) **Plan Term.** The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on April 1, 2026. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) **No Impairment of Rights.** Suspension or termination of the Plan shall not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant.

12. EFFECTIVE DATE OF PLAN.

The Plan became effective upon approval by the stockholders at Synopsys' 2006 Annual Meeting of Stockholders.

13. CHOICE OF LAW.

The law of the State of Delaware shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state's conflict of laws rules.

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SYNOPSYS, INC.

EMPLOYEE STOCK PURCHASE PLAN

(As amended by approval of the Board of Directors on December 15, 2015

and subject to approval by the stockholders on March 29, 2016)

I. PURPOSE

The Synopsys, Inc. Employee Stock Purchase Plan (the *Plan*) is intended to provide Eligible Employees of the Company and one or more of its Corporate Affiliates with the opportunity to acquire a proprietary interest in the Company through purchases of shares of the Company's common stock.

II. DEFINITIONS

For purposes of the Plan, the following terms shall have the meanings indicated.

Board means the Company's Board of Directors or its delegate, as applicable, to the extent the Board has delegated its authority to administer the Plan pursuant to Section III.

Code means the Internal Revenue Code of 1986, as amended from time to time.

Committee means a committee of Board members that will satisfy Rule 16b-3 of the Securities and Exchange Commission, as in effect with respect to the Company from time to time.

Company means Synopsys, Inc., a Delaware corporation, and any corporate successor to all or substantially all of the assets or voting stock of Synopsys, Inc. that shall by appropriate action adopt the Plan.

Common Stock means shares of the Company's common stock.

Corporate Affiliate means any parent or subsidiary of the Company as such terms are defined in Rule 405 of the Securities Act, including any such parent or subsidiary that becomes such after the Effective Date.

Earnings has the meaning ascribed to it in the applicable Offering Document.

Effective Date means January 27, 2010, the date this amended and restated Plan was approved by the Board.

Eligible Employee means an Employee who meets the requirements set forth in the applicable Offering Document for eligibility to participate in the Offering, provided that such Employee also meets the requirements for eligibility to participate set forth in the Plan.

Employee means any person who is treated as an employee in the records of the Company or a Corporate Affiliate. However, service solely as a director, or payment of a fee for such services, shall not cause a director to be considered

an Employee for purposes of the Plan.

Fair Market Value means fair market value per share of Common Stock, as determined on any relevant date in accordance with the following procedures:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in such source as the Board deems reliable. Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value shall be the closing selling price (or closing bid if no sales were reported) on the last preceding date for which such quotation exists.

(ii) In the absence of such markets for the Common Stock, then the Fair Market Value per share of the Common Stock on such date shall be determined by the Board, after taking into account such factors as the Board deems appropriate.

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Offering means the grant of Purchase Rights to purchase shares of Common Stock under the Plan to Eligible Employees under terms approved by the Board and set forth in an Offering Document.

Offering Date means a date selected by the Board for an Offering to commence and specified in the Offering Document.

Offering Document means the document setting forth the terms of an Offering as approved by the Board.

Offering Period means the duration of an Offering, as set forth in the Offering Document.

Original Effective Date means the first day of the initial Offering scheduled to commence upon the later of (i) February 1, 1992 or (ii) the effective date of the S-8 Registration Statement covering the shares of Common Stock issuable under the Plan.

Participant means any Eligible Employee of a Participating Company who is actively participating in the Plan.

Participating Company means the Company and such Corporate Affiliate or Corporate Affiliates as may be designated from time to time by the Board, the Employees of which may qualify as Eligible Employees that may participate in an Offering.

Period of Participation means each period for which the Participant actually participates in an Offering.

Plan Administrator means any Committee or other group of persons that has been delegated authority to administer the Plan pursuant to Section III.A.

Purchase Date means one or more dates during an Offering established by the Board and set forth in the Offering Document on which Purchase Rights shall be exercised and purchases of shares of Common Stock shall be carried out in accordance with such Offering.

Purchase Right means an option to purchase shares of Common Stock granted pursuant to the Plan under the terms set forth in the Plan and the applicable Offering Document.

Securities Act means the Securities Act of 1933, as amended.

III. ADMINISTRATION

A. The Plan shall be administered by the Board or its designee (each such designee is a Plan Administrator). As of the Effective Date, the Board has designated the Compensation Committee of the Board as the Plan Administrator. The Board or its Compensation Committee may from time to time select another committee or persons to be responsible as Plan Administrator for any Plan transactions not subject to Rule 16b-3, which Plan Administrator shall be subject to the overall supervision of the Compensation Committee or the Board, as applicable. Unless otherwise specified herein, the Plan Administrator shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Plan Administrator, including the power to delegate to a Committee or other persons any of the administrative powers the Plan Administrator is authorized to exercise (and except as otherwise specifically provided herein, all references to the Board in this Plan or in any Offering Document shall thereafter be deemed references to the Plan Administrator or its designee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board retains

the authority to concurrently administer the Plan with the Plan Administrator and may, at any time, revert in the Board some or all of the powers previously delegated to the Plan Administrator.

B. The Board may administer, interpret and amend the Plan in any manner it believes to be desirable (including amendments to outstanding Purchase Rights and the designation of a brokerage firm at which accounts for the holding of shares purchased under the Plan must be established by each Eligible Employee desiring to participate in the Plan), and any such interpretation shall be final and binding on all parties who have an interest in the Plan.

C. Any Plan Administrator that is not a Committee may not, without the approval of the Board, or without stockholder approval to the extent required under Section X: (i) increase the number of shares

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issuable under the Plan, except that the Plan Administrator shall have the authority, exercisable without such approval, to effect adjustments to the extent necessary to reflect changes in the Company's capital structure pursuant to Section VI.B; (ii) alter the purchase price formula so as to reduce the purchase price payable for the shares issuable under the Plan; or (iii) materially increase the benefits accruing to Participants under the Plan or materially modify the requirements for eligibility to participate in the Plan.

IV. OFFERINGS

A. The Board may from time to time grant Purchase Rights to purchase shares of Common Stock under the Plan to Eligible Employees in an Offering (consisting of one or more Periods of Participation) on an Offering Date or Offering Dates selected by the Board and as specified in an Offering Document. Each Offering Document shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate, which shall comply with the terms of the Plan, and which shall designate the Participating Companies for such Offering. Unless otherwise specifically provided in the Offering Document, with respect to each Offering in effect under the Offering Document each Participating Company shall be considered for purposes of the Plan to have its own separate Offering for the Eligible Employees employed by such Participating Company, so that no two Participating Companies shall participate in the same Offering.

B. The terms and conditions of an Offering shall be set forth in an Offering Document that is incorporated by reference into the Plan and treated as part of the Plan. The provisions of separate Offerings under the Plan need not be identical, but each Offering Document shall include (through incorporation of the provisions of this Plan by reference in the Offering Document) the Offering Period, which period shall not exceed twenty-seven (27) months beginning with the Offering Date, and the substance of the provisions contained in Sections IV through VII, inclusive.

C. If a Participant has more than one Purchase Right outstanding under the Plan, unless he or she otherwise indicates in agreements or notices delivered hereunder: (i) each agreement or notice delivered by that Participant shall be deemed to apply to all of his or her Purchase Rights under the Plan, and (ii) a Purchase Right with a lower exercise price (or an earlier-granted Purchase Right, if different Purchase Rights have identical exercise prices) shall be exercised to the fullest possible extent before a Purchase Right with a higher exercise price (or a later-granted Purchase Right if different Purchase Rights have identical exercise prices) shall be exercised.

D. The Board shall have the discretion to structure an Offering so that if the Fair Market Value of the shares of Common Stock on the first day of a new Purchase Period within that Offering is less than or equal to the Fair Market Value of the shares of Common Stock on the Offering Date, then (i) that Offering shall terminate immediately, and (ii) the Participants in such terminated Offering shall be automatically enrolled in a new Offering beginning on the first day of such new Purchase Period.

V. ELIGIBILITY

A. Purchase Rights may be granted only to employees of the Company or, as the Board may designate, to employees of a Corporate Affiliate. Except as provided in Section V.B, an Employee shall not be eligible to be granted Purchase Rights under the Plan unless, on the Offering Date, such Employee has been in the employ of the Company or a Corporate Affiliate, as the case may be, for such continuous period preceding such Offering Date as the Board may require pursuant to the Offering Document, but in no event shall Offerings intended to qualify under Code Section 423 require that the period of continuous employment be greater than two (2) years. In addition, the Board may provide in the Offering Document that no employee shall be eligible to be granted Purchase Rights under the Plan unless, on the

Offering Date, such employee's customary employment with the Company or the Corporate Affiliate is for more than twenty (20) hours per week (or such lesser number of hours per week as the Board may approve for an Offering) and more than five (5) months per calendar year (or such lesser number of months per calendar year as the Board may approve for the Offering).

B. The Board may provide in an Offering Document that each person who, during the course of an Offering, first becomes an Eligible Employee shall, on a date or dates specified in the Offering Document which coincides with the day on which such person becomes an Eligible Employee or that

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occurs thereafter, receive a Purchase Right under that Offering, which Purchase Right shall thereafter be deemed to be a part of that Offering. Such Purchase Right shall have the same characteristics as any Purchase Rights originally granted under that Offering, as described herein, except that:

- (i) the date on which such Purchase Right is granted shall be the Offering Date of such Purchase Right for all purposes, including determination of the exercise price of such Purchase Right;
- (ii) the period of the Offering with respect to such Purchase Right shall begin on its Offering Date and end coincident with the end of such Offering; and
- (iii) the Board may provide that if such person first becomes an Eligible Employee within a specified period of time before the end of the Offering, he or she shall not receive any Purchase Right under that Offering.

C. No Employee shall be eligible for the grant of any Purchase Rights under the Plan if, immediately after any such Purchase Rights are granted, such Employee owns stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Corporate Affiliate. For purposes of this Section V.C., the rules of Section 424(d) of the Code shall apply in determining the stock ownership of any Employee, and stock that such Employee may purchase under all outstanding Purchase Rights shall be treated as stock owned by such Employee.

D. As specified by Section 423(b)(8) of the Code, an Eligible Employee may be granted Purchase Rights under the Plan only if such Purchase Rights, together with any other rights granted under all employee stock purchase plans of the Company and any Corporate Affiliates, do not permit such Eligible Employee's rights to purchase stock of the Company or any Corporate Affiliate to accrue at a rate that exceeds twenty five thousand dollars (\$25,000) of Fair Market Value of such stock (determined at the time such rights are granted and, with respect to the Plan, as of their respective Offering Dates) for each calendar year in which such rights are outstanding at any time. Notwithstanding the foregoing, such limitation shall not apply to Eligible Employees participating in an Offering that is not intended to qualify as a qualified employee stock purchase plan offering under Code Section 423, unless otherwise provided in the Offering Document.

E. Officers of the Company and any designated Corporate Affiliate, if they are otherwise Eligible Employees, shall be eligible to participate in Offerings under the Plan. Notwithstanding the foregoing, the Board may provide in an Offering that Employees who are highly compensated Employees within the meaning of Section 423(b)(4)(D) of the Code shall not be eligible to participate.

VI. STOCK SUBJECT TO PLAN

A. The Common Stock purchasable by Participants under the Plan shall, solely in the discretion of the Board, be made available from either authorized but unissued shares of the Common Stock or from shares of Common Stock reacquired by the Company, including shares of Common Stock purchased on the open market. The total number of shares that may be issued under the Plan shall not exceed 45,700,000 shares. If any Purchase Right granted under the Plan shall for any reason terminate without having been exercised, the shares of Common Stock not purchased under such Purchase Right shall again become available for issuance under the Plan.

B. In the event any change is made to the Company's outstanding Common Stock by reason of any stock dividend, stock split, combination of shares or other change affecting such outstanding Common Stock as a class without receipt of consideration, then appropriate adjustments shall be made by the Board to (i) the class and maximum number of

shares issuable over the term of the Plan, (ii) any share limitations in an Offering on the maximum number of shares purchasable under the Offering; and (iii) the class and number of shares and the price per share of the Common Stock subject to each Purchase Right at the time outstanding under the Plan. Such adjustments shall be designed to preclude the dilution or enlargement of rights and benefits under the Plan.

VII. PURCHASE RIGHTS; PURCHASE PRICE

A. Maximum Payroll Deductions. The maximum payroll deduction authorized by the Participant for purposes of acquiring shares of Common Stock under the Plan will be designated by the Board in

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the Offering Document for the Offering and may not exceed a maximum of fifteen percent (15%) of the Participant's Earnings (as defined by the Board in such Offering Document) paid to the Participant for payroll periods that are applicable to the Offering Period, as established by the Board for such Offering.

B. Enrollment Agreement. An Employee who participates in the Plan for a particular Offering must complete and submit to the Company an enrollment agreement in the form and in accordance with the procedures prescribed by the Board (which may include electronic enrollment). Each such enrollment agreement shall authorize an amount of payroll deductions expressed as a percentage of the submitting Participant's Earnings (as defined in each Offering Document) for payroll periods that are applicable to the Offering Period (not to exceed the maximum percentage specified by the Board in the Offering Document). To the extent provided in the Offering Document, a Participant may thereafter reduce (including to zero) or increase his or her payroll deductions.

C. Purchase Price. Common Stock shall be issuable on any Purchase Date at a purchase price equal to 85 percent of the lower of (i) the Fair Market Value per share on the Offering Date or (ii) the Fair Market Value per share on the Purchase Date.

D. Number of Purchasable Shares. The number of shares purchasable per Participant on each Purchase Date within an Offering shall be the number of whole shares obtained by dividing the amount collected from the Participant through payroll deductions applicable to the Offering Period (after conversion into U.S. Dollars, if necessary) by the purchase price in effect on the Purchase Date. In connection with each Offering made under the Plan, the Board may specify (i) a maximum number of shares of Common Stock that may be purchased by any Participant on any Purchase Date during such Offering, and (ii) a maximum aggregate number of shares of Common Stock that may be purchased by all Participants pursuant to such Offering. In addition, in connection with each Offering that contains more than one Purchase Date: (i) the Board may specify a maximum aggregate number of shares of Common Stock that may be purchased by all Participants on any Purchase Date under the Offering, and (ii) if the aggregate purchase of shares of Common Stock issuable upon exercise of Purchase Rights granted under the Offering would exceed any such maximum aggregate number, then, in the absence of any Board action otherwise, a pro rata allocation of the shares of Common Stock available shall be made in as nearly a uniform manner as shall be practicable and equitable.

E. Condition to Exercise of Purchase Rights. No Purchase Rights may be exercised to any extent unless the shares of Common Stock to be issued upon such exercise under the Plan are covered by an effective registration statement pursuant to the Securities Act of 1933 (as amended) and the Plan is in material compliance with all applicable federal, state, foreign and other securities and other laws applicable to the Plan. If on a Purchase Date during any Offering the shares of Common Stock are not so registered or the Plan is not in such compliance, no Purchase Rights of any Offering shall be exercised on such Purchase Date, and the Purchase Date shall be delayed until the shares of Common Stock are subject to such an effective registration statement and the Plan is in such compliance, except that the Purchase Date shall not be delayed more than twelve (12) months and the Purchase Date shall in no event be more than twenty-seven (27) months from the Offering Date for the Offering. If, on the Purchase Date under any Offering, as delayed to the maximum extent permissible, the shares of Common Stock are not registered and the Plan is not in such compliance, no Purchase Rights of any outstanding Offering shall be exercised and all contributed payroll deductions that accumulated during the Offering (reduced to the extent, if any, such contributions have been used to acquire shares of Common Stock) shall be distributed to the Participants without interest (unless otherwise required by applicable law). The Company shall seek to obtain from each federal, state, foreign or other regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of Common Stock upon exercise of the Purchase Rights. If, after commercially reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability

for failure to issue and sell Common Stock upon exercise of such Purchase Rights unless and until such authority is obtained.

F. *Payment.* Payment for the Common Stock purchased under the Plan shall be effected by means of the Participant's authorized payroll deductions (after conversion into U.S. Dollars, if necessary) accumulated for the Period of Participation. The amounts so collected shall be credited to

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the Participant's bookkeeping account under the Plan, but no interest shall be paid on the balance outstanding in such account. The amounts collected from a Participant may be commingled with the general assets of the Company and may be used for general corporate purposes. To the extent specifically provided in the Offering Document, in addition to making contributions by payroll deductions, a Participant may make contributions through the payment by cash or check prior to each Purchase Date of the Offering.

G. Termination of Purchase Right. Unless otherwise provided in the Offering Document, the following provisions shall govern the termination of outstanding Purchase Rights in effect under the Offering:

(i) A Participant may, at any time prior to the last five (5) business days of the Period of Participation, terminate his/her outstanding Purchase Right under the Plan by filing the prescribed notification form with the Board. No further payroll deductions shall be collected from the Participant with respect to the terminated Purchase Right, and any payroll deductions collected for the Period of Participation in which such termination occurs shall be refunded without interest (unless otherwise required by applicable law).

(ii) The termination of such Purchase Right shall be irrevocable, and the Participant may not subsequently rejoin the Offering for which such terminated Purchase Right was granted. In order to resume participation in any subsequent Offering, such individual must re-enroll in the Plan.

H. Stock Purchase. Shares of Common Stock shall automatically be purchased on behalf of each Participant (other than Participants whose payroll deductions have previously been refunded or set aside for refund in accordance with the Termination of Purchase Right provisions above) on each Purchase Date (after conversion into U.S. Dollars, if necessary). The purchase shall be effected by applying each Participant's payroll deductions accumulated for the Period of Participation ending on such Purchase Date (plus any payments by cash or check to the extent permitted in the Offering Document) to the purchase of whole shares of Common Stock (subject to the limitation on the maximum number of purchasable shares set forth above) at the purchase price in effect on such Purchase Date. Any payroll deductions not applied to such purchase (a) because insufficient to purchase a whole share or (b) by reason of the limitation on the maximum number of shares purchasable by the Participant on such Purchase Date shall be promptly refunded to the Participant without interest (unless otherwise required by applicable law). No fractional shares shall be issued upon the exercise of Purchase Rights.

I. Rights as Stockholder. A Participant shall have no stockholder rights with respect to the shares subject to his/her outstanding Purchase Right until the shares are actually purchased on the Participant's behalf in accordance with the applicable provisions of the Plan. No adjustments shall be made for dividends, distributions or other rights for which the record date is prior to the date of such purchase.

J. Assignability. No Purchase Right granted under the Plan shall be assignable or transferable by the Participant other than by will or by the laws of descent and distribution following the participant's death, and during the Participant's lifetime the Purchase Right shall be exercisable only by the Participant.

K. Change in Ownership. Should the Company or its stockholders enter into an agreement to dispose of all or substantially all of the assets or outstanding capital stock of the Company by means of:

(i) a sale, merger or other reorganization in which the Company will not be the surviving corporation (other than a reorganization effected primarily to change the State in which the Company is incorporated), or

(ii) a reverse merger in which the Company is the surviving corporation but in which more than fifty percent (50%) of the Company's outstanding voting stock is transferred to holders different from those who held the stock immediately

prior to the reverse merger,

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then all outstanding Purchase Rights under the Plan shall automatically be exercised immediately prior to the consummation of such sale, merger, reorganization or reverse merger by applying the accumulated payroll deductions of each Participant (after conversion into U.S. Dollars, if necessary) for the Period of Participation in which the transaction occurs to the purchase of whole shares of Common Stock at eighty-five percent (85%) of the lower of (i) the Fair Market Value per share on the Offering Date for the Offering in which such transaction occurs or (ii) the Fair Market Value per share immediately prior to the consummation of such transaction. However, the applicable share limitations of Section V and any share purchase limitations set forth in the Offering Document shall continue to apply to any such purchase. The Company shall use its best efforts to provide at least ten (10) days advance written notice of the occurrence of any such sale, merger, reorganization or reverse merger, and Participants shall, following the receipt of such notice, have the right to terminate their outstanding Purchase Rights in accordance with the applicable provisions of this Section VII.

VIII. STATUS OF PLAN UNDER FEDERAL TAX LAWS

The Plan is designed to qualify as an employee stock purchase plan under Code Section 423, so that Offerings under the Plan may qualify as qualified employee stock purchase plan offerings under Code Section 423, and all shares reserved for issuance under the Plan may be issued pursuant to the exercise of Purchase Rights that qualify as qualified employee stock purchase rights under Code Section 423. However, the Board may in its sole discretion determine to approve Offerings under the Plan that are not intended to meet the requirements of Code Section 423, including, without limitation, Offerings in which Eligible Employees who are not subject to U.S. tax laws may participate.

IX. AMENDMENT AND TERMINATION

A. The Board may amend, alter, suspend, discontinue, or terminate the Plan at any time, including amendments to outstanding Purchase Rights. Subject to the requirements of Section III, the Plan Administrator may amend the Plan and outstanding Purchase Rights. However, stockholder approval shall be required for any amendment of the Plan that:

- (i) increase the number of shares issuable under the Plan, except that the Board shall have the authority, exercisable without such stockholder approval, to effect adjustments to the extent necessary to reflect changes in the Company's capital structure pursuant to Section VI.B;
- (ii) alter the purchase price formula so as to reduce the purchase price payable for the shares issuable under the Plan; or
- (iii) materially increase the benefits accruing to Participants under the Plan or materially modify the requirements for eligibility to participate in the Plan;

but in each of (i) through (iii) above only to the extent stockholder approval is required by applicable law or listing requirements.

B. The Board may elect to terminate any or all outstanding Purchase Rights at any time. In the event the Plan is terminated, the Board may also elect to terminate outstanding Purchase Rights either immediately or upon completion of the purchase of shares on the next Purchase Date, or may elect to permit Purchase Rights to expire in accordance with their terms (and participation to continue through such expiration dates). If Purchase Rights are terminated prior

to expiration, all funds contributed to the Plan that have not been used to purchase shares shall be returned to the Participants as soon as administratively feasible.

X. GENERAL PROVISIONS

A. The Plan originally became effective on the Original Effective Date. This amended and restated Plan document became effective on the Effective Date, subject to stockholder approval at the 2010 annual meeting of the Company's stockholders.

B. All costs and expenses incurred in the administration of the Plan shall be paid by the Company.

C. Neither the action of the Company in establishing the Plan, nor any action taken under the Plan by the Board, nor any provision of the Plan itself shall be construed so as to grant any person the right to remain in the employ of the Company or any of its Corporate Affiliates for any period of specific duration.

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D. The provisions of the Plan shall be governed by the laws of the State of California without resort to that State's conflict-of-laws rules.

E. If the Board in its discretion so elects, it may retain a brokerage firm, bank, or other financial institution to assist in the purchase of shares, delivery of reports, or other administrative aspects of the Plan. If the Board so elects, each Participant shall (unless prohibited by the laws of the nation of his or her employment or residence) be deemed upon enrollment in the Plan to have authorized the establishment of an account on his or her behalf at such institution. If the Board in its discretion so elects, shares purchased by a Participant under the Plan shall be held in the account in the name in which the share certificate would otherwise be issued pursuant to Section VII until such shares are sold.

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Synopsys, Inc.

1030 West Maude Avenue

Sunnyvale, California 94085

From San Jose

Via Highway 101

Highway 101 North

Take the Highway 237/Mountain View exit

Take the Maude Avenue/Middlefield Road exit

Turn left at first light onto Maude Avenue

1030 West Maude Ave. will be the third building
on your right

Via Highway 280

Highway 280 North

Take the Highway 85 North exit

Take the Highway 237 East/Highway 101 exit

Take the Middlefield Road/Maude Avenue exit

Turn right at second light onto Maude Avenue

1030 West Maude Ave. will be the third building
on your right

From San Francisco

Via Highway 101

Highway 101 South

Take the Ellis Street exit

Turn right onto Ellis Street

Turn left onto Middlefield Road

Turn left at the fourth light onto the frontage road

Turn right at the first light onto Maude Avenue

1030 West Maude Ave. will be the third building
on your right

Via Highway 280

Highway 280 South

Take the Highway 85 North exit

Take the Highway 237 East/Highway 101 exit

Take the Middlefield Road/Maude Avenue exit

Turn right at the second light onto Maude Avenue

1030 West Maude Ave. will be the third building
on your right

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