



The following prepared remarks are an excerpt from Synopsys' Third Quarter Fiscal Year 2009 Earnings Call. To review the contents of the entire earnings call, please refer to the official webcast, which will remain available on Synopsys' website through the date of the fourth quarter earnings call in December 2009.

Certain statements included in these prepared remarks relating to Synopsys' business, products and technologies, including statements regarding projected financial results, are forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those described by these statements due to a number of uncertainties, including, but not limited to: continued downturn and uncertainty in the global economy in general and weakness in the semiconductor or electronics industries; failure of customers to pay license fees as scheduled; lower-than-expected research and development spending by semiconductor and electronic systems companies; competition in the market for Synopsys' products and services; lower-than-anticipated new IC design starts; lower-than-anticipated purchases or delays in purchases of software or consulting services by Synopsys' customers, including delays in the renewal, or non-renewal, of Synopsys' license arrangements with major customers; changes in the mix of time-based licenses and upfront licenses; lower-than-expected orders; the terms of a final settlement, if any, with the IRS regarding the 2002-2004 returns; and difficulties in the integration of the products and operations of acquired companies or assets into Synopsys' products and operations.

In addition, Synopsys' actual expenses, earnings per share and tax rate on a GAAP and non-GAAP basis for the fiscal quarter ending October 31, 2009 and actual expenses, earnings per share, tax rate, cash flow from operations and other projections on a GAAP and non-GAAP basis for fiscal year 2009 could differ materially from the targets stated under "Financial Targets" for a number of reasons, including, but not limited to, (i) a determination by Synopsys that any portion of its goodwill or intangible assets have become impaired, (ii) application of the actual consolidated GAAP and non-GAAP tax rates for such periods, or judgment by management, based upon the status of pending audits and settlements to increase or decrease an income tax asset or liability, (iii) integration and other acquisition-related expenses including amortization of intangible assets associated with future acquisitions, if any, (iv) changes in the anticipated amount of employee share-based compensation expense recognized on Synopsys' financial statements, (v) actual change in the fair value of Synopsys' non-qualified deferred compensation plan obligations, (vi) increases or decreases to estimated capital expenditures, (vii) changes driven by new accounting rules, regulations, interpretations or pronouncements, (viii) general economic conditions, and (ix), other risks as detailed in our SEC filings, including those described in the "Risk Factors" section in our Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2009. Furthermore, Synopsys' actual tax rates applied to income for the fourth quarter and fiscal year 2009 could differ from the targets given in these prepared remarks as a result of a number of factors, including the actual geographic mix of revenue during the quarter and year, and actions by the government. Finally, Synopsys' targets for outstanding shares in the fourth quarter and fiscal year 2009 could differ from the targets given in these prepared remarks as a result of higher than expected employee stock plan issuances or stock option exercises, acquisitions and the extent of Synopsys' stock repurchase activity.

The information contained in these prepared remarks represents Synopsys' expectations and beliefs as of August 19, 2009 only. Synopsys is under no obligation to (and expressly disclaims any such obligation to) update or alter any of the forward-looking statements made in these prepared remarks, the earnings release, the conference call or the financial supplement whether as a result of new information, future events or otherwise, unless otherwise required by law.

These prepared remarks also contains non-GAAP financial measures as defined by the Securities and Exchange Commission in Regulation G. Reconciliations of the non-GAAP financial measures to their comparable GAAP measures are included in the third quarter fiscal year 2009 earnings release and financial supplement, each dated August 19, 2009 and available on Synopsys' website at www.synopsys.com. Additional information about such

reconciliations can be found in Synopsys' Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 19, 2009.

Good afternoon. I am happy to report that we again made excellent progress towards our year's objectives. In Q3 we demonstrated solid financial results, substantial technology advances, and continued customer momentum.

RESULTS

Summarizing our financial results: we delivered above-target non-GAAP EPS of 47 cents with \$345 million in revenue. We achieved this within our predictable business model, with more than 90% time-based revenue. We continued our focus on cost control, and we exited the quarter with a very strong cash position.

ENVIRONMENT/OUTLOOK

Turning to the economic environment around us, we see that bankruptcies are subsiding, that inventory corrections are driving an increase in activities, and most importantly, that the natural level of consumption is gradually stabilizing the semiconductor market.

That said, forecasts are now that – on average – our customers will end 2009 with revenue down about 15 to 20%. Most semiconductor executives are cautious in a still-uncertain economy, and expect a gradual recovery lasting into 2011.

Accordingly, at Synopsys we are planning for continued industry stress through 2010, although we see a great opportunity to further strengthen our competitive position as customers focus on the best, most reliable long-term options.

OUTLOOK

Given this backdrop, we have assertively managed our business to not only adapt to the downturn, but also to take full advantage of it. Expense controls are offsetting marginally weaker revenue; we are driving long-term segment share shifts with customers moving to us; and we continue to make aggressive technology investments – all focused on reducing our customers' total cost of design.

For fiscal '09, the result is that we've been able to adjust expenses to offset slightly reduced revenue expectations, and provide earnings in excess of our original targets for the year. We're also increasing our operating cash flow forecast to reflect the improved customer collections environment.

We expect to exit this fiscal year with a slightly down revenue run-rate. From an orders point of view, contracts are now renewing closer to the end of their duration as customers are still cautiously delaying decisions. Contract lengths, though, remain stable. While durations fluctuate a bit from quarter to quarter, we continue to see the average range around three years.

Behind our customers' trust and commitment to Synopsys lies the recognition that we are providing them several clear advantages: first, a continuing stream of technology advances. This quarter we again delivered substantial new capabilities to our customers. Second, a global support organization that materially impacts the success of IC designs, as we help customers achieve better chip sizes, speed, power, yield, and, most importantly, meet difficult schedules. And third, an intense focus on the total cost of design, which can be considerably improved by integrated EDA solutions with links to manufacturing, systems, and sophisticated IP blocks.

Indeed, key semiconductor companies such as Exar, Intel, Marvell, National Semiconductor, Panasonic, Renesas, Toshiba, Wolfson, and others are counting on us to be their primary EDA partner as they drive forward the products that will carry them out of the recession.

TECHNOLOGY AND INVESTMENTS

Technology leadership is critical in this equation, and in Q3 we again delivered great new value to our customers.

Implementation

Starting with our Galaxy implementation platform: We introduced brand new In-Design physical verification capability with IC Validator. This is remarkable, as the In-Design integration lets customers diagnose and fix issues during place and route, long before final sign-off, thus minimizing disastrous schedule delays.

In June we also shipped a complete new Galaxy release with extended multi-core features throughout the flow, and enhanced low-power performance. Our customers are seeing notable success: Infineon, for example, used IC Compiler to tape out the lead product of their high-performance automotive microcontroller platform.

At the recent Design Automation Conference, several customers – including Toshiba, Renesas and Samsung – described their excellent results using Galaxy and the In-Design capabilities integrating IC Compiler with synthesis, signoff, and physical verification. Our goal is for these successes to result in segment share gains –and while shifts occur gradually, I can tell you that we are actively replacing competitors at a number of important customers.

The central theme remains the same: technology differentiation, and risk reduction. One effort that precisely fits that description is the collaboration we announced last month with ARM and the IBM/Samsung/Chartered common platform. Together, we are developing a comprehensive new solution for high-volume, mobile applications at 32nm. The tight integration of advanced processors, connectivity IP, manufacturing technology and a state-of-the-art design flow will be instrumental in reducing costs and time-to-market.

Verification

Turning to verification, our Discovery release also included many new, advanced features in both digital and analog. In Q3, we released CustomSim for unified analog simulation. It combines the speed and accuracy of what used to be three separate tools into a single, flexible, easy-to-deploy solution.

We delivered multi-core technology in our core VCS functional simulator, resulting in a 2X speed-up. Given that the simulator is used in the majority of the advanced chips in the world, a speed-up of this magnitude has major economic impact, as customers are able to reduce expenses for costly computer hardware.

Strategic Investments

Turning to our strategic investments, we continue to see excellent progress in both analog/mixed-signal implementation, and in our IP/Systems space.

Custom Designer – our new analog/mixed-signal design solution – went into general availability in June, with two major new features: schematic driven layout, and an advanced analog simulation environment. Customers can now complete full analog/mixed-signal designs using only Synopsys, as evidenced by two tape-outs in the quarter. Interest has been significant, with requests for demos and evaluations exceeding our capacity to fully handle at the moment.

To support the deployment of technology models through open standards, TSMC announced the availability of the first 65nm interoperable Process Design Kits – or iPDK for short. The iPDKs are based on the OpenAccess standard, and work seamlessly in our product. Moreover, TSMC also announced that they have chosen Custom Designer as their iPDK development and validation platform.

IP

Moving to our IP business, last quarter's acquisition of the Analog Business Group from MIPS has generated great feedback from our customers. The integration is right on track and added a rich library of analog IP, as well as HDMI connectivity cores. We continue to do well in this business, and again introduced significant new products

in Q3, including several connectivity titles and key power optimization IP. In addition, we were the first company to achieve certification for a USB analog PHY at 32nm.

Finally, tying it all together at the high end, our systems solution is also progressing well: At DAC, we demonstrated our newly integrated virtual platform and FPGA-based rapid prototyping solution – developed to accelerate embedded software development.

Customer reaction to our technology momentum has been extraordinary. During the quarter we had record-breaking user-group attendance at a number of events, most notably with well over 2000 attendees in our India meeting alone.

CONCLUSION

In summary, Synopsys continues to execute well amid the uncertainty around us. We are actively working with customers to help them successfully navigate the recovery, and in turn are positioning ourselves for even greater strength in the future.

With that, I'll turn the call over to Brian Beattie.

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Thanks, Aart. Good afternoon everyone. In my comments today I will summarize our financial results for the quarter and provide you with our 2009 guidance.

As a reminder, I'll be discussing certain GAAP and non-GAAP measures of our financial performance. We have provided reconciliations in the press release and financial supplement posted on our website. In my discussions, all of my comparisons will be year-over-year unless I specify otherwise.

As Aart highlighted, Q3 financial results were solid. We delivered bottom-line growth, expanded non-GAAP operating margins, and generated considerable operating cash flow. Let me now provide some additional detail on our financials.

Total revenue was \$345.2 million – within our target range – with greater than 90 percent of Q3 revenue coming from beginning-of-quarter backlog. Our IP and Systems business performed particularly well this quarter, driven primarily by our digital and analog IP cores. This of course includes the very small revenue contribution from our acquisition of the Analog Business Group from MIPS Technologies. But even excluding this transaction, business was quite robust. One customer accounted for slightly more than 10 percent of third quarter revenue.

Turning to expenses, total GAAP costs and expenses were \$284.1 million, which included \$11.4 million of amortization of intangible assets, and \$14 million of share-based compensation.

Total non-GAAP costs and expenses declined 4 percent to \$251.9 million and were below our planned range, despite absorbing the Analog Business Group acquisition. The decrease was driven primarily by timing of quarterly expenses, such as variable compensation, as well as company-wide cost control.

As a result, non-GAAP operating margin was 27 percent for the quarter. Q4 operating margin is expected to decline sequentially due to slightly lower revenues and traditionally higher Q4 expenses, driven primarily by variable compensation. This is consistent with the quarterly expense profile we outlined entering the year, and similar to year-ago trends.

While quarterly expenses can be lumpy – due in part to the timing of large transactions – for the year we continue to expect total expense growth to be slightly less than our targeted revenue growth, even with our recent acquisitions.

Turning now to earnings, GAAP earnings were 32 cents per share, down from 39 cents a year ago. As you recall, Q308 GAAP earnings include a one-time \$17.3 million tax benefit associated with the IRS settlement for fiscal years 2000 and 2001. Non-GAAP earnings were 47 cents per share, exceeding our target range, and includes the slight dilution from our recent acquisition.

Our non-GAAP tax rate was 26 percent for the quarter. For the entire year, we continue to expect a non-GAAP tax rate of approximately 27 percent.

Our revenue visibility remains strong with greater than 90 percent coming from beginning-of-quarter backlog. Upfront revenue was 5 percent of total, well within our target range of less than 10 percent. The average length of our renewable customer license commitments for the quarter was about 2.8 years.

Now turning to our cash and balance sheet items. We ended the quarter with \$1.08 billion in cash and short-term investments. Of this balance, 55 percent is held within the United States. We generated \$232 million in cash from operations in the quarter, including an expected annual payment from a large customer.

We are raising our operating cash flow target for the year to approximately \$190 - \$210 million, driven primarily by an improved customer collections environment. This target does not include any impact from our tentative tax settlement with the IRS that we detailed last quarter. While still subject to further approval by the federal government, we would expect the settlement to result in cash payments of approximately \$50 million over the next

12 months, which would be fully offset by tax benefits in future years. We also expect that the settlement would finally permit certain tax refund claims of around \$35 million from other years to be paid to the company in 2010.

Continuing on with our cash and balance sheet items. Capital expenditures were \$9.9 million in the quarter. For the full year we expect capex to be approximately \$35 – \$40 million, including some additional Q4 expenditures as we consolidate our Bay Area facilities. While this is a slight upward revision to our original target range, it is roughly flat with last year.

We did not repurchase stock in the quarter, and have approximately \$210 million remaining on our current authorization. Recall that we acquired the Analog Business Group from MIPS Technologies during the quarter in an all-cash deal, funded from our U.S. cash balance. As always, we will evaluate the best uses of cash each quarter – including company operations, investments and stock repurchases. At the same time, we value the flexibility that our cash provides.

Q3 net accounts receivable totaled \$136.8 million and DSOs declined 15 days sequentially to 36 days, reflecting the high quality of our current AR portfolio and the timing of invoices. Deferred revenue at the end of the quarter was \$618.6 million.

We ended the quarter with approximately 5,990 employees, an expected increase due primarily to the Analog Business Group acquisition. While we have selectively grown our headcount primarily through acquisitions, more than a third of our total employees are located in lower-cost geographies.

Now moving on to guidance. For the fourth quarter of FY09, our targets are:

- Revenue between \$335 and \$343 million, reflecting some caution regarding the level of our upfront and turns business;
- Total GAAP costs and expenses between \$297 and \$313 million, which includes approximately \$15 million of share-based compensation expense;
- Total non-GAAP costs and expenses between \$272 and \$282 million;
- Other income and expense between \$0 and \$3 million;
- A non-GAAP tax rate of approximately 26 percent;
- Outstanding shares between 146 and 149 million;
- GAAP earnings of \$0.14 to \$0.21 per share; and
- Non-GAAP earnings of \$0.29 to \$0.33 per share.
- We expect greater than 90 percent of the quarter's revenue to come from backlog.

As a result our Fiscal 2009 outlook is:

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- Revenue of approximately \$1.357 to \$1.365 billion, representing growth of about 1.5 – 2 percent;
- Other income and expense between \$11 and \$14 million;
- A non-GAAP tax rate of approximately 27 percent;
- Outstanding shares between 144 and 146.5 million;
- GAAP earnings per share between \$1.16 and \$1.23, which includes the impact of approximately \$58 million in share-based compensation expense;
- Non-GAAP earnings per share of \$1.71 to \$1.75. We've increased the low end of our guidance range by 9 cents and the top end by 3 cents.
- And as I mentioned earlier, we are targeting cash flow from operations of \$190 - \$210 million, which does not include any impact from our tentative tax settlement with the IRS.
- We will provide 2010 guidance in our next earnings call in December reporting Q4 results.

In summary, we continue to manage the business well in what is a difficult economic environment. I'm pleased with our consistent execution and solid financial results, highlighted by operating margin expansion and solid cash flow generation.

With that, I'll turn it over to the operator for questions.