



The following prepared remarks are an excerpt from Synopsys' third Quarter Fiscal Year 2010 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 2010.

Certain statements included in these prepared remarks relating to Synopsys' business, products and technologies, including statements regarding projected financial results and financial objectives, 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 uncertainty in the global economy and the semiconductor and 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; 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, 2010 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 2010 could differ materially from the targets and guidance provided 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 and costs formerly capitalized but now expensed due to new accounting guidance related to business combinations, (iv) changes in the anticipated amount of employee stock 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 guidance, (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, 2010. Furthermore, Synopsys' actual tax rates applied to income for the fourth quarter and fiscal year 2010 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 2010 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 18, 2010 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 contain 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 2010 earnings release and financial supplement, each dated August 18, 2010 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 18, 2010.

Good afternoon. Q3 was a strong quarter, and I am happy to report that we met or exceeded virtually all of our targets. We delivered non-GAAP earnings per share of 39 cents, with revenue of \$337 million. We again carefully managed expenses, and are on track to meet our ops margin target of 24% for the year. Our business outlook improved, and we're raising our full-year revenue and operating cash flow targets. We also announced a further expansion of our total addressable market with the pending acquisition of Virage Logic.

Let me start by addressing the customer environment and its effect on demand for our EDA, Systems, and IP products. For 2010, industry analysts are now predicting semiconductor revenue growth of 25-30% after a 10% decline in 2009. Note that the 10% drop in semi revenue was much less than predicted through most of last year. The smaller-than-expected drop during the recession and the rapid bounce back illustrate the resilience in demand for electronics in a rapidly globalizing and tech-dependent society. In fact, a new "electronics wave" is upon us, with global demand for "connected and smart everything" – smart-phones, pads, netbooks, grids, and even smart-toys.

Management teams remain somewhat cautious in terms of the magnitude and sustainability of post-recovery growth. However, today's semiconductor capacity is effectively fully utilized, and most semi executives are increasingly positive about the long-term prospects for their products. With this new electronics wave, EDA is essential, especially as we now touch both hardware and software, and provide the design infrastructure to reach all the way from end user functionality to chip manufacturing. Synopsys is the leader in providing that very infrastructure, and our focus is now clearly aimed at growing our business.

Although we'll provide specific 2011 guidance in our fourth quarter earnings report, I would like to share with you our long-term financial thinking: Our top objective is to grow earnings per share on a sustainable basis, by one, growing revenue both organically and through M&A; Two, focusing resources increasingly towards growth businesses; Three, maintaining emphasis on corporate efficiency, expense management and resulting ops margin; Four, accentuating our differentiation through advanced R&D and highly-skilled global support; And five, keeping share count roughly flat. We have used the last two years of the recession to put us on this trajectory, and view our opportunity space primarily as gaining market share and technology strength in traditional EDA, and broadening our offerings in our growth adjacencies – IP and Systems. Let me expand on each.

First, traditional EDA, where by virtually any measure you consider – revenue, seats, customer budgets – we substantially gained share during the downturn. This has been accomplished with head-to-head competitive wins, and customers choosing to consolidate largely on Synopsys. We're doing well for four key reasons: State-of-the-art technology; Scale and expertise of our global support; Breadth of our integrated product portfolio; and the financial strength to invest and maintain customer confidence.

Let me provide some color around our technology differentiation, first in verification: In digital, our solution is the backbone to the vast majority of advanced designs, including 60 percent of 45nm and 90 percent of 32nm chips. We're especially strong in very demanding applications, such as processors, graphics, and networking SoCs. In analog/mixed-signal, our advanced solution is deployed at 19 of the world's top 20 semiconductor companies.

In digital implementation, in Q3 we saw a notable increase in penetration in a number of accounts, as well as a large, important competitive win that enables significant further expansion over time. We also continue to substantially streamline the way in which design is done, most recently with an innovative and extremely effective integration of place & route and physical verification. Customers are quickly moving to adoption, and endorsements already include 5 of the top 10 semiconductor companies.

In addition, we expanded our addressable market by about \$250 million in traditional EDA by delivering an internally developed solution for custom design, an area that has been dominated by a single vendor for years. Our new product is demonstrating increasingly strong technical results, and customer interest is converting to business. Foveon, for example, which makes image sensors for the consumer market, switched to Synopsys from its existing vendor, and – importantly – was able to do so in less than two months. This win is a good indication that the barriers-to-switching in custom design are slowly, but steadily, coming down.

Now let me move to the IP and Systems space, where we have substantially augmented years of internal development with several exciting acquisitions. The resulting business is now 13% of our revenue, prior to closing the Virage acquisition, and growing well.

In IP, customer dynamics are dovetailing nicely with our product portfolio. The reputation of trust and quality we've built over the years is proving essential in repeat, and growing, customer engagements. In Q3, our IP cores business was very strong, with several large companies accelerating their migration to more outsourced IP.

A few statistics: On today's chips, more than half of the content is re-used from previous customer blocks or commercial IP. On many chips, we are seeing the cost of third-party IP rise to the level of spending on EDA tools.

Today, less than one-third of IP is outsourced. The rest is developed internally, but customers are actively looking for preferred partners to outsource more of these activities. This provides substantial upside potential for Synopsys.

We're the #1 supplier of interface IP, with a rich portfolio including all the popular standards, such as USB, DDR, PCIexpress and HDMI. The resulting business is strong across the board. Synopsys also leads in the analog IP segment, where we have multiple engagements with top-tier communications and multi-media customers. The acquisition of Virage, which we expect to close next month, will further expand our portfolio and enable us to add several hundred million dollars of addressable market.

If you view IP as the building blocks to modern chip design, our system strategy facilitates bringing it all together, most notably with a strong emphasis on the intersection of hardware and software. With the awesome computational power embedded in most chips, the amount of software content is exploding, and with it, the challenges of design and verification. We've systematically developed and gathered cornerstone pieces towards delivering a complete hardware/software design solution. While connecting downstream in an efficient and predictable fashion to our traditional EDA flows, a key value to our customers is to use our system solution to accelerate earlier software development and thus time-to-market.

Central to this ability is the notion of prototyping. A prototype is a software or FPGA-based model of a chip that can be used to develop embedded and application software many months before the actual chip or chips are available. For our customers, this can get products to market months earlier than previously possible – a huge competitive advantage in all fast-moving markets. Today most chips are prototyped in some form, but this is mostly done in house. Similar to the shift towards outsourcing IP re-use, we see considerable long-term potential in providing commercial solutions in this area. In terms of both R&D investments and acquisitions, we've been extremely active, expanding our systems TAM by about \$250 million in what is likely a high-growth adjacency.

Our IP and systems position clearly broaden us beyond traditional EDA, and we have a multi-year lead over our competitors towards solving some of our customer's most pressing challenges. With the Virage acquisition, we expect this space to grow to about 20% of our revenue, and we're targeting double-digit growth in this area going forward.

In summary, during the past several years, we've invested to broaden our portfolio and address our customers' toughest challenges. And our financial strength and execution has enabled us to significantly expand our TAM on several fronts. Looking towards the future, we're focused on sustainably growing earnings per share, with revenue strength in traditional EDA, and higher growth in our IP and Systems business.

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 Q4 and 2010 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, which are posted on our website. In my discussions, all of my comparisons will be year-over-year unless I specify otherwise.

Synopsys delivered a strong quarter, highlighted by very strong business levels and we met or exceeded virtually all of the quarterly financial targets that we provided in May. Additionally, we continued our stock repurchase program and generated considerable free cash flow. Let me now provide some additional detail on our financials.

Total revenue was \$336.9 million, at the high end of our target range. Our IP and Systems business continues to perform well and achieved double-digit revenue growth for the trailing four quarters. One customer accounted for slightly more than 10 percent of third quarter revenue.

Turning to expenses, total GAAP costs and expenses were \$286.1 million, which included \$14.5 million of stock-based compensation, \$10.6 million of amortization of intangible assets, and \$2.7 million of acquisition-related costs. Total non-GAAP costs and expenses were \$259.4 million – an expected year-over-year increase due mainly to timing of quarterly expenses, such as variable compensation, as well as expenses associated with our acquisitions.

As a result, non-GAAP operating margin was 23 percent for the quarter and 24.3 percent for the first three quarters of the year. For all of 2010, we are on track to achieving our non-GAAP operating margin target of approximately 24 percent.

Turning now to earnings, GAAP earnings were 26 cents per share. Non-GAAP earnings were 39 cents per share, slightly above our target range and includes the slight dilution from our recent acquisitions.

Our non-GAAP tax rate was 24 percent for the quarter – lower than expected due to some non-recurring, prior year R&D tax credit true-ups. For modeling purposes we think that a 27 percent non-GAAP tax rate remains a reasonable estimate for the full year.

Greater than 90 percent of Q3 revenue came from beginning-of-quarter backlog while upfront revenue was 4 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 3 years.

Now turning to our cash and balance sheet items. Our balance sheet remains strong with \$1.2 billion in cash and short-term investments. Of our total cash balance, about 50 percent is currently held within the United States. We expect domestic cash to decline in Q4 reflecting the anticipated close date of our pending acquisition of Virage Logic. As a reminder, the total value of the transaction is approximately \$315 million, or \$12 per Virage share. Net of cash acquired, the total value is approximately \$289 million.

Now, in the quarter we generated \$208 million in cash from operations, including an expected annual payment from a large customer in the quarter. Driven primarily by very strong business levels and an improved customer collections environment, we are raising our operating cash flow target for the year from \$205-\$225 million to approximately \$300 million. Capital expenditures were \$13.8 million resulting in free cash flow of \$194 million. For all of 2010, we expect capital spending to be in the range of \$40 – \$45 million.

During the quarter, we purchased 3.5 million shares of Synopsys stock for \$75 million. During the first three quarters of the fiscal year we've spent \$125 million repurchasing 5.8 million shares, and have \$375 million remaining on our current authorization. I'd like to reiterate that our current approach is to use stock repurchases to keep our share count roughly flat with first-quarter 2010 levels.

We also completed two small acquisitions during the quarter, funded from our U.S. cash balance. Over the past three quarters we've spent \$138 million on M&A and closed six acquisitions – in addition to the pending acquisition of Virage. We've continued to deliver on our commitment to more aggressively put our balance sheet to work in 2010. Through diligent expense management we've maintained our beginning of the year FY10 non-GAAP operating margin and EPS targets, despite the slight dilutive impact of these closed acquisitions.

Continuing on with balance sheet items, Q3 net accounts receivable totaled \$148.6 million and we maintained industry-leading DSOs of 40 days, reflecting the high quality of our current AR portfolio. Deferred revenue at the end of the quarter was \$627.9 million, and we ended Q3 with approximately 6,050 employees.

Before moving on to guidance let me provide some additional commentary around our pending acquisition of Virage Logic. As you know, the 30-day waiting period under the HSR Act expired on July 19, satisfying one of the conditions for completion of the transaction. The transaction remains subject to other customary closing conditions, along with approval by Virage shareholders, who are scheduled to vote on September 2nd. We expect the deal to close shortly thereafter. As a result, we currently expect the acquisition to be roughly neutral to 2010 non-GAAP earnings per share and accretive in 2011. Until the transaction is closed, we have limited ability to comment on our specific plans going forward. However, let me remind you that the deferred revenues will be subject to a haircut under purchase accounting. This is typical of software company acquisitions and it will impact reported revenues for the first 12 months. We will be providing 2011 guidance when we report Q4 results.

Now let me address our fourth quarter and fiscal 2010 guidance, which excludes the pending Virage acquisition. Our GAAP forecasts also exclude any future acquisition-related expenses that may be incurred in Q4.

For the fourth quarter of FY10, our targets are:

- Revenue between \$349 and \$357 million;
- Total GAAP costs and expenses between \$291 and \$310 million, which includes approximately \$14 million of stock-based compensation expense;
- Total non-GAAP costs and expenses between \$267 and \$277 million, an expected sequential increase due to traditionally higher Q4 expenses;
- Other income and expense between \$0 and \$3 million;
- A non-GAAP tax rate of approximately 27 percent;
- Outstanding shares between 149 and 153 million;
- GAAP earnings of \$0.21 to \$0.27 per share; and
- Non-GAAP earnings of \$0.37 to \$0.39 per share.
- We expect greater than 90 percent of the quarter's revenue to come from backlog.

Now our current fiscal 2010 outlook:

- We're raising our revenue range, with our new target between \$1.354 and \$1.362 billion primarily reflecting higher-than-expected business levels.
- Other income and expense between \$4 and \$7 million;
- A non-GAAP tax rate of approximately 27 percent;
- Outstanding shares between 149 and 153 million;
- GAAP earnings between \$1.61 and \$1.67 per share, which includes the impact of approximately \$58 million in stock-based compensation expense;

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- Non-GAAP earnings of \$1.58 to \$1.60 per share.
- And as I mentioned earlier, we are targeting cash flow from operations of approximately \$300 million.

To conclude, we're pleased with our strong Q3 financial performance. Our business continues to benefit from technology leadership, customer momentum and our expansion efforts into new products and growth adjacencies. With that, I'll turn it over to the operator for questions.