SYNOPSYS®

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In addition, Synopsys' actual expenses and earnings per share on a GAAP and non-GAAP basis for the fiscal quarter ending July 31, 2008 and actual expenses, earnings per share and operating cash flow on a GAAP and non-GAAP basis for fiscal year 2008, as well as other projections for future performance, could differ materially from the targets stated 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, to increase or decrease an income tax asset or liability, (iii) integration and other acquisition-related expenses including amortization of additional 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) charges 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 most recent Quarterly Report on Form 10-Q for the first quarter, ended January 31, 2008. Furthermore, Synopsys' actual tax rates applied to income for the third quarter and full-year fiscal 2008 could differ from the targets given as a result of a number of factors, including the actual geographic mix of revenue during the quarter. Finally, Synopsys' targets for outstanding shares in the third quarter and full-year fiscal 2008 could differ from the targets given 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 this transcript represents Synopsys' expectations and beliefs as of May 21, 2008 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 this 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.

This presentation 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 second quarter fiscal 2008 earnings release and financial supplement, each dated May 21, 2008 and available on Synopsys' website at www.synopsys.com.

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Good afternoon.

I'm happy to report a very strong quarter for Synopsys.

Revenue came in at $325 million, at the high end of our target range while maintaining our uniquely predictable business model – with over 90% time-based license revenue.

We held expenses within our guidance range, and delivered above-target non-GAAP earnings growth of 17%, or 41 cents per share.

We completed the acquisition of Synplicity, a strong technology leader in FPGA design and hardware-based rapid prototyping.

We further strengthened our product offering, yielding very strong business levels that support our growth expectations for '08 and '09.

And we are raising revenue and earnings guidance for the rest of this year.

ENVIRONMENT/OUTLOOK

As many of you have asked us why we're seeing a better environment than our competitors, let me address for a moment the customer landscape.

Fundamentally, things have not changed much from last quarter. The overall economy has been soft, bringing some uncertainty to the semiconductor industry.

On the positive side, even if mitigated a bit by continued ASP pressure, volume demand for electronics continues to grow.

The main profitability stress areas are in the memory markets, where a number of companies battle for share based on price and capacity.

For the rest of the semiconductor industry, we see a number of M&A transactions aimed at giving companies larger share and increased competitiveness in market sub-segments. A clear example of this trend is the recently-announced wireless joint venture between ST and NXP.

For Synopsys, there is little change in our customers' behavior, including timing and closure rates of contracts. And although we have seen some aggressive pricing attempts by competitors trying to make their quarter-end numbers, Synopsys has fared well.

In this environment, customers are searching for optimal EDA partners and closer collaboration. Our leading technology, comprehensive solutions, conservative business model, and strong field support make us a preferred candidate for broader and closer relationships.

Indeed, just this week we announced that yet another leading semiconductor company, Matsushita, maker of the Panasonic brand, has selected Synopsys to be its primary EDA supplier. Their decision is supported by an expanded license and collaboration spanning design, digital-and-AMS verification, and manufacturing. This agreement indicates a further step towards delivering better productivity through more integrated solutions to our top customers.

In summary, companies are understandably cautious in their spending. However, Synopsys is executing well and we continue to grow our business run-rate.

A key benefit of our ratable model is its inherent predictability, which means that we are already well into the planning of 2009 and 2010. While we'll provide '09 guidance after our fourth quarter, I want to respond to your requests with some preliminary thoughts on next year.

Based on our business currently running ahead of plan, the closure of the Synplicity acquisition, what we see as a healthy pipeline of opportunities, and steady organic growth, our objective for '09 is to reach double-digit revenue growth again. In addition, we plan on continued operating margin expansion supporting double digit non-GAAP EPS growth in '09.

TECHNOLOGY/PRODUCT HIGHLIGHTS

With that backdrop, let me provide some product and technology highlights for the quarter. Across the board, we're doing well and feel momentum in many accounts.

This momentum was visible at our western U.S. user group meeting in March, with record attendance of over 2,000 engineers. The program highlighted our complete solution – from system to manufacturing. As a result, we saw a substantial increase in attendees from system companies and foundries. Sessions on low power were the hottest, no pun intended, and it was standing room only for our IP and manufacturing sessions.

One of the particularly well-received perspectives has been the progress we're making in use of multi-core / multi-thread computation in our products. These new capabilities result in substantial speed-ups such as a 2X performance boost in extraction using dual cores.

In analog/mixed signal verification, we delivered 3X performance improvements to HSpice on a single CPU, and a further 2X on four cores.

We also pioneered a novel capability for concurrent mask synthesis and mask data prep, shaving off significant time in this crucial pre-manufacturing step.

Also in Q2 we launched Eclypse, our Low Power Solution. Eclypse is a comprehensive suite of system-level, verification and implementation technologies, together with IP, methodologies, and services. Built around UPF, the industry standard Unified Power Format, it's designed to make adoption of advanced low-power techniques easier for both advanced and broader-market customers.

CORE EDA

In core EDA, both our digital and analog/mixed-signal solutions did very well.

Digital

In synthesis, we introduced Design Compiler Graphical, a breakthrough new extension to Design Compiler that predicts and reduces downstream congestion in place and route. Customer feedback is excellent. They're reporting that congestion avoidance significantly improves designer productivity and schedule predictability.

In physical design, we're seeing a number of customers coming to Synopsys after having experienced challenges with insufficient or immature capabilities from others. In addition, we'll soon introduce a brand new router, developed from the ground up, that supports multi-core computation. In beta availability today, it significantly improves speed and quality of routing while tackling very tough manufacturing challenges. Stay tuned for more details.

Analog/Mixed-Signal

We're also seeing good progress on the analog/mixed signal side. ST Microelectronics recently adopted our XA capability, which combines Spice accuracy with the speed of FastSpice, for its advanced Smart Power technology.

Additionally, we announced the results of our collaboration with TSMC around a new modeling methodology for their 40nm process that improves AMS simulation while reducing memory use.

Our new custom design solution is on track for introduction later this year. It is already getting very positive feedback from our initial beta partners, and sneak previews of the technology at our large user group meetings in San Jose and Israel generated a great deal of interest.

ADJACENCIES
Now let me turn to our adjacencies – systems and manufacturing –each representing about 10% of our revenue.

IP/SLS
Looking at our entire product portfolio, IP was the one area this quarter that saw some short-term choppiness. This correlates with lighter results reported by other players in the IP space as well. We remain confident, however, in the importance and impact of this area and are continuing to invest in broadening our offering.

Specifically, we delivered the industry's first certified USB 2.0 PHY –or mixed signal core – for 45nm processes. The small area and low power consumption make this core ideal for high-volume, mobile and consumer applications.

IP continues to be a hot topic for semiconductor companies. Many of them are adopting commercially available IP, while focusing their own development R&D on truly differentiating IP blocks.

HiSilicon, for example, which designs chips for communication networks and digital media, selected Synopsys as its IP vendor of choice for protocols including USB, PCI Express and DDR.

We also completed virtual platform projects aimed at embedded software development for two major customers in the computing and consumer electronic domains.

Manufacturing
In manufacturing, both our mask and TCAD solutions showed very good progress.

In the mask area, Proteus OPC was selected by two important customers. One, a large consumer electronics company, chose us not only for their very advanced 32nm process, but also to replace the incumbent at previous process nodes. After a substantial competitive evaluation, the other, a global leader in storage solutions, also chose Proteus.

In TCAD, Toshiba adopted Sentaurus for simulating manufacturing process steps, such as etching, to optimize complex device structures. As a result, Toshiba is able to develop technologies faster, reduce costs, and improve yield.

Another interesting note is that for the many emerging solar cell start-ups, Synopsys TCAD is a promising optimization solution in the global quest for green power.

SYNPLICITY
Finally, last week we closed our acquisition of Synplicity, which is very positive from at least four angles: One, we're being joined by a very capable technical team; Two, Synplicity is a clear leader in the directly adjacent FPGA design area; Three, Synplicity brings an opportunity to cross-sell products to each other's customer base; And last, but certainly not least, Synplicity's growing rapid prototyping business will allow us to put increased emphasis on the embedded software market segment.

We plan to rapidly integrate the company around the same operating margin as Synopsys. Synplicity will thus contribute positively to our EPS growth next year while simultaneously becoming central to our strategic systems thrust going forward.

CONCLUSION
In summary, Synopsys has momentum and expects continued strong financial execution for three key reasons: Our broad product portfolio and critical mass are enabling customers to focus on fewer, more leveraged vendor relationships; This year Synopsys will see the continuous roll-out of compelling technology and exciting new products; And finally, our focus on EPS growth through expense management, revenue growth, and a uniquely predictable business model, makes Synopsys a long-term competitive and stable partner.

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

Thanks, Aart. Good afternoon everyone.

In my comments today I will summarize our financial results for the quarter and provide you with our guidance, including the financial impact of our recent Synplicity acquisition.

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.

Synopsys delivered solid second-quarter results, highlighted by very strong business levels, double-digit revenue and non-GAAP earnings growth, and continued operating margin expansion. In addition, we repurchased $87 million worth of Synopsys shares and exited the quarter with more than $800 million in cash, which of course is prior to the Synplicity acquisition that closed last week.

Let me now provide some additional detail on our financials.

Total revenue increased 11 percent to $324.6 million, at the high end of our target range, with particular strength in Japan.

From a product perspective, we continue to see broad-based demand for our solutions. Our Galaxy design and Discovery verification solutions – which make up our Core EDA platform – each delivered revenue growth in the double-digit range during the quarter.

One customer accounted for slightly more than 10 percent of our second quarter revenue.

Turning to expenses, we remain focused on cost and expense management. Total non-GAAP costs and expenses were $249.7 million – an expected sequential increase due to the timing of quarterly expenses, including variable compensation and some hiring that shifted out of Q1 into Q2.

For the quarter, non-GAAP operating margin was 23.1 percent, and we are well on track to achieving our target operating margin for the year of 23 percent. We remain committed to driving to the mid-to-high 20s in the coming years as we continue to focus on profitable revenue growth.

Turning now to earnings, GAAP earnings per share were 27 cents, with costs and expenses totaling $275 million. This included $12.4 million of amortization of intangible assets and $17.8 million of share-based compensation.

Non-GAAP earnings per share increased 17 percent to 41 cents, exceeding our target range. We achieved these strong results while continuing to make disciplined investments that position us very well to capitalize on the long-term opportunities we see for Synopsys.

Our non-GAAP tax rate was approximately 26 percent, at the low end of our guidance range. For the entire year, we expect a non-GAAP tax rate of approximately 26 percent, which does not assume renewal of the R&D tax credit in the United States.

Given our predictable business model, revenue visibility remains strong and we continue to execute well on contract mix.

Upfront revenue was 4 percent of total – well within our target range of less than 10 percent.

And as expected, greater than 90 percent of Q2 revenue came from beginning-of-quarter backlog.

Our ability to consistently deliver solid financial results illustrates the power of our highly time-based business model.

The average length of our renewable customer license commitments for the quarter was again approximately three years.

Now turning to our cash and balance sheet items,

Cash and short-term investments increased $50 million year-over-year to $817 million, which again, is prior to the Synplicity acquisition. We generated $35 million in cash from operations during the quarter.

We expect higher cash generation in the second half of our fiscal year, partially driven by the expected annual payment from a large customer in the third quarter.

We continue to target 2008 operating cash flow of approximately $325 million, with free cash flow generation of about $280 million.

I would also like to comment that our cash balance is not exposed to auction-rate securities, and we are pleased with the high-quality and conservative risk profile of our investment portfolio.

We purchased 3.8 million shares of Synopsys stock for $87 million and have approximately $260 million remaining on our current authorization. Diluted shares outstanding for the quarter were 145 million.

Q2 net accounts receivable totaled $172 million and we maintained industry-leading DSOs of 48 days, reflecting the high quality of our AR portfolio and the timing of invoices.

Deferred revenue at the end of the quarter was $587 million, and we ended Q2 with approximately 5,300 employees.

As Aart highlighted, we're excited to have closed the acquisition of Synplicity last week. It was an all cash deal valued at approximately $181 million, net of cash acquired. We expect the transaction to be slightly dilutive to non-GAAP earnings in fiscal 2008 and accretive in fiscal 2009.

Although we're still early in the planning process, I wanted to provide you with some preliminary thoughts underlying our FY09 goals of reaching double-digit revenue and EPS growth, and operating margin expansion.

Traditionally, the way we think about our business is to limit expense growth to about half of revenue growth. As you model 2009, at this point, we believe that ratio would temporarily be in the 70 – 75 percent range due to the near-term revenue transition and integration of Synplicity.

Before I provide our third quarter and fiscal 2008 guidance, let me make some general comments.

Our targets reflect an increase in our base Synopsys revenue and EPS guidance, and also the addition of Synplicity.

We expect Synplicity revenue to be modest in Q3 and slightly higher in Q4, primarily reflecting the purchase accounting haircut that is applied to deferred revenue.

Given the highly complementary nature of the two companies' products, our goal over time is to realize revenue synergies, including cross-sell opportunities into the combined installed base.

We also believe there are opportunities for expense synergies over time, such as IT integration and typical G&A efficiencies.

Please keep in mind that we closed the transaction only a week ago so these assumptions may change as we complete the valuation work and integration efforts.

It's also important to note that to ensure minimum impact on customers, we have kept both their development and sales organizations virtually intact.

Finally, even with the slight dilutive effect from the acquisition in 2008, we reiterate our operating margin target of 23 percent.

Now moving on to guidance. For the third quarter of FY08, our targets are:

- Revenue between $335 and $343 million;
- Total GAAP costs and expenses between $290 and $308 million, which includes approximately $17 million of share-based compensation expense;
- Total non-GAAP costs and expenses between $260 and $270 million;
- Other income and expense between $0 and $3 million;
- A non-GAAP tax rate between 26 and 27 percent;
- Outstanding shares between 143 and 148 million;
- GAAP earnings of $0.18 to $0.24 per share; and
- Non-GAAP earnings of $0.38 to $0.40 per share.
- We expect greater than 90 percent of the quarter's revenue to come from backlog.

Now our Fiscal 2008 outlook:

- We're raising our revenue range, with our new target between $1.325 and $1.340 billion – a growth rate of approximately 9 ½ to 10 ½ percent. At this time we anticipate that Synplicity will contribute approximately $20-23 million;

- A non-GAAP tax rate of approximately 26 percent;

- Outstanding shares between 146 and 149 million;

- GAAP earnings per share between $0.99 and $1.11, which includes the impact of approximately $65 million in share-based compensation expense;

- Non-GAAP earnings per share of $1.60 to $1.64. We've increased the low end of our guidance range by 4 cents and the top end by 3 cents, even taking into account the 2-3 cents dilution we expect from Synplicity;

- Cash flow from operations of approximately $325 million; and

- As I mentioned earlier, we're targeting a 23 percent non-GAAP operating margin for the full year.

- As a reminder, our guidance excludes Synplicity's operating revenues and expenses through May 14, as the acquisition closed on May 15.

In summary, we have once again demonstrated solid financial execution. We're performing well against our strategy, while delivering top- and bottom-line growth. Our results illustrate the continued momentum in our business and our proven ability to execute in a competitive environment.

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