Certain statements included in this earnings conference call transcript, 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: weakness or continued budgetary caution in the semiconductor or electronics industries; 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; failure of customers to pay license fees as scheduled;
changes in the mix of time-based licenses and upfront licenses; lower-than-expected bookings of licenses on which revenue is recognized upfront; failure of Synopsys' cost control efforts, including recent efforts to outsource certain internal functions, to result in the anticipated savings; failure to successfully develop additional intellectual property blocks or to develop and integrate Synopsys' design for manufacturing and yield management products; 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 and earnings per share on a GAAP and non-GAAP basis for the fiscal quarter ending October 31, 2007 and actual earnings per share and operating cash flow on a GAAP and non-GAAP basis for fiscal year 2007, as well as other projections for future performance, could differ materially from the targets stated for a number of reasons, including (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 stock-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, and (vii) charges driven by adoption of

Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," which Synopsys is required to adopt during fiscal year 2007. Furthermore, Synopsys' actual tax rates applied to non-GAAP net income for the fourth quarter and full-year fiscal 2007 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 fourth quarter and full-year fiscal 2007 could differ from the targets given as a result of higher than expected employee stock plan issuances, acquisitions and the extent of Synopsys' stock repurchase activity.

For further discussion of these and other factors that may cause results to differ from those projected in this release, readers are referred to the reports which Synopsys has filed with the Securities and Exchange Commission (SEC), and which are available at www.sec.gov, particularly the risk factors contained in Part I, Item 1A of Synopsys' Annual Report on Form 10-K for the fiscal year ended October 31, 2006, as supplemented by Part II, Item 1A of Synopsys' recent Quarterly Reports on Form 10-Q.

The information contained in this transcript represents Synopsys' expectations and beliefs as of August 22, 2007 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.

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Good afternoon.

I'm happy to report that Synopsys again produced a very strong quarter.

Excellent business execution brought us strong revenue and earnings growth, as well as solid cash flow, our robust technology was rewarded by increased customer momentum; and our focus on marketing strategy is making visible progress.

Business Commentary

Let me begin with the main financial highlights: in Q3 we delivered excellent earnings growth with non-GAAP earnings of 32 cents per share – a 50% increase over the same period last year.

Revenue in the quarter grew 10% year-over-year to $304 million.

From an orders perspective, we had by far the largest quarter ever, with a book-to-bill of well over 2.

We managed costs well; non-GAAP expenses were within our expected range, at $247 million.

For the year, we are well on track to deliver on our operating margin objective of 20%. Going forward, we remain committed to a target in the mid-to-high 20s over the coming years.

Let me now briefly comment on the overall semiconductor landscape.

Overall Environment
In Q3 the environment did not change significantly from the previous period. Memory pricing is clearly strained, although overall semiconductor demand continues to grow unabated.

A number of companies are reassessing their manufacturing options, including the possibility of sharing capacity and technology development. The move to smaller geometries, meanwhile, is not slowing down; In fact, one of our customers has already announced a 45nm consumer chip that has moved from design to production shipments.

Needless to say, the technical challenges of 65 and 45nm design are substantial.

Verifying hundreds of millions of transistors, laying out the physical design for optimal timing and low power, minimizing the physical effects on yield -- all under severe schedule constraints -- are not simple tasks.

However, these challenges play to Synopsys' strengths of advanced technology, complete solution, and sophisticated support.

As a result, during Q3 we moved several important long-term relationships to the next level of collaboration.

The most visible of these is with Intel. After a substantial set of evaluations, Intel selected Synopsys as its primary EDA supplier. This comprehensive agreement expands our relationship -- not just in terms of commercial duration, run-rate, and product utilization, but also in terms of wide-reaching technical collaboration with what is arguably the most advanced semiconductor technology company in the world.

It's important to note that our business was strong this quarter, even excluding Intel.

A number of other leading companies, including some we have worked closely with for years, are expanding their relationships with us to redefine the technology landscape and sharpen their differentiation. One example is a broad agreement with a semiconductor ecosystem leader, which features both a larger commercial relationship, and a collaboration to bring advanced solutions to our mutual customers.

This brings me to some product highlights for the quarter.

Low Power
Over the years, we've pulled together, and increasingly integrated, a broad complement of capabilities. Today, I'd like to highlight one area where Synopsys is differentiated with a complete end-to-end solution – low power.

At 65nm and below, piecemeal solutions offered by many vendors just don't work. Synopsys' integrated offerings let customers achieve low-power goals, while also meeting their other objectives, on schedule.

As one example, when ARM (the world's largest semiconductor IP company), required a low-power methodology for their CPU cores, they partnered with Synopsys. We jointly developed a low power methodology that was delivered to the design community at June's Design Automation Conference. Demand was so high that the publisher cut its release timeline in half, and was actually selling preliminary copies.

Our low-power expertise permeates both our Galaxy implementation and Discovery verification platforms. While Synopsys synthesis has had embedded power optimization for well over a decade, more recently, our IC Compiler has integrated the most advanced low-power layout techniques with great success.

For example, IC Compiler helped NEC achieve 2X performance improvement and still meet a very tough power budget.

Toshiba is standardizing on IC Compiler for its highly automated, multi-voltage, tightly integrated flow.

Just to expand on IC Compiler for a moment, we have moved beyond the initial deployment phase well into proliferation. On both a business and technology basis, it is doing very well.

On the verification side, we continued our low-power focus with the June acquisition of ArchPro, the industry leader in multi-voltage design verification and signoff. With ArchPro, we are adding unique low-power differentiation to Discovery. Companies such as Renesas, for example, are already using this sophisticated technology in their most advanced multi-voltage designs.

The need for faster and faster verification continues with no end in sight. In both digital and analog/mixed signal, Discovery is seeing great technical and market success.

VCS is seeing important competitive wins and displacements, and continues to grow very well. This momentum is driven by, strong technology, leadership in SystemVerilog, and a complete, mature verification methodology that has been deployed worldwide – most recently in China.

In analog/mixed signal, we also witnessed excellent technical and market progress. Specifically, the ability to trade off accuracy and performance in our AMS 2007 offering was especially well received by our customers.

DFM
Now to our design-for-manufacturing adjacency, which continues to show good results. This area has potential both for manufacturing and for the connection between design and manufacturing.

The physics of ever-smaller geometries make designing for acceptable yield an increasing challenge. Over the last five years, Synopsys has developed and acquired advanced technologies in both design and manufacturing. We have been integrating these two domains to enhance yield at 65nm, and especially at 45nm and below.

Our first integrated product was PrimeYield, which links manufacturing information into design. The result is an accurate simulation of complex lithography physical effects before the chips are actually built. This integration brings customers potentially huge cost savings by avoiding yield pitfalls. We are beginning to see PrimeYield momentum in both technology wins and adoption. In addition, it has already been qualified for TSMC's reference flow 8.0.

Looking forward, we are continuing to integrate more steps along the design-to-manufacturing continuum. For example, we are presently integrating our optical proximity correction and mask data prep solutions. Excellent advancements in our core OPC engine are also bringing us competitive success. We had two significant wins in Q3, against both a traditional competitor whom we displaced, and also a technology win versus a newcomer.

IP

Now to IP, which had another very strong quarter, and is our fastest-growing adjacency.

Having heavily invested in the quality processes to create and port sophisticated IP, we are now enjoying the fruits of those efforts as IP proliferation becomes much more mainstream. Today, Synopsys is the recognized leader in connectivity IP – with both analog and digital cores for standards like USB and PCI Express. During the quarter, we expanded our IP portfolio by acquiring the assets of Mosaid, a leader in DDR cores. Increasing our reach into this key interface standard expands our ability to offer customers a one-stop shop for high-quality IP.

Capturing More Value

Let me focus for a moment on our go-to-market strategy to capture more value for what we provide. I'm happy to report that we made good progress this quarter.

As you recall, in addition to serving customers with the most advanced, bleeding-edge designs, we are focusing on better addressing the needs of customers who design at mature technology nodes of 130nm and above.

Last quarter we introduced our first new product – IC Compiler Express – targeted at these processes. This quarter IC Compiler Express became generally available, and already has several customers.

From the IP side, we are also broadening our offering beyond the most demanding customers.

In Q3, as part of our segmentation strategy, we introduced “Special Edition” DesignWare Cores. These cores are pre-configured and pre-integrated IP for customers who need more mainstream solutions. They reduce engineering effort spent on integrating a digital and analog block together, and reduce our support costs as well.

Going forward, we will apply the same stratification to verification offering. Today, we are viewed as the “go-to” company for the most advanced simulation and bug-finding needs—and rightfully so.

We plan to extend this expertise into the broader market as well. Stay tuned to this area in the quarters to come.

2008 Discussion

Before concluding, I’d like to briefly address our outlook beyond 2007. With recent fluctuations in the financial markets, we appreciate that many of you are wondering about our 2008 outlook.

We are completing our 2008 plans this quarter and will provide final guidance at our next earnings call.

However, thanks to the visibility of our business model, we feel comfortable giving you some preliminary thoughts as an indication of confidence and strength going into the year.

Even with the end of our license model transition, and even without the extra week we had in 2007, we are comfortable with current Wall Street expectations of:

- non-GAAP eps growth of 16-19%,
- revenue growth of 7-8%,
- and assumptions of continued improvement in operating margin.

Conclusion

To wrap up, Q3 was all about excellent execution.

We delivered strong earnings growth, record orders, solid cash flow, and we broadened some very important customer partnerships.

We look forward to ending the year strongly, and are well-positioned to continue to deliver good results into 2008.

With that, I'll turn the call over to Brian, who will provide more detail on the financials.

Thanks, Aart. Good afternoon everyone.

In my comments today I will summarize our financial results for the quarter, provide you with an update on our stock repurchase program and conclude with our guidance.

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

We're very pleased to have completed another strong quarter. We delivered double-digit growth in both revenue and earnings per share and expanded non-GAAP operating margins.

We generated significant cash from operations, continued our stock repurchase program, and our balance sheet remains extremely healthy.

Let me now provide some additional detail on our financials.

Total revenue increased 10 percent to $304.1 million, at the high end of our target range. Business was robust across all product lines, and we continue to expect a book-to-bill greater than 1 for all of FY07. One customer accounted for slightly more than 10 percent of our Q3 revenue.

Turning to expenses, total non-GAAP expenses were within our planned range at $247.2 million for the quarter. As expected, operating expenses increased during the quarter due to timing of expenses such as variable compensation, reflecting higher Q3 and annual business levels. For the full year we're maintaining our total annual expense target of a very modest 2 – 3 percent increase, inclusive of our extra week of spending this year.

We were pleased with our profitability during the quarter. Non-GAAP operating margins increased nearly 400 basis points to 18.7 percent and as expected, dipped sequentially due to timing of expenses. For the first three quarters of our fiscal year, we've achieved a non-GAAP operating margin of 19.4 percent.

We're committed to achieving an operating margin of approximately 20 percent for all of fiscal 2007, and driving to the mid-to-high 20s in the next several years. We plan to achieve these targets by growing revenue and continually improving the company's operations and cost structure.

Turning now to earnings, GAAP earnings per share were 17 cents, with costs and expenses totaling $281.1 million. This included $12.2 million of amortization of intangible assets and $16.1 million of share-based compensation.

Non-GAAP earnings per share increased more than 50% percent to 32 cents, exceeding our target range. We achieved these strong results even as we continued to invest in our marketing efforts and product innovation.

Our non-GAAP tax rate was 26 percent in Q3, down substantially from year-ago levels, primarily due to the continued optimization of our international operations and the reenactment of an R&D tax credit. For modeling purposes, we think that a 28 percent non-GAAP tax rate is a reasonable estimate for FY08.

Turning now to bookings, we continue to execute well on contract mix. Greater than 95 percent of Q3 product orders were booked as ratable licenses, with less than 5 percent upfront.

A large, long-term contract during the quarter brought the average length of our renewable customer license commitments to greater than 4 years. This metric will continue to fluctuate quarterly depending on the mix of contracts signed but would typically be in the 3-year range.

Turning now to cash and balance sheet items, Cash and short-term investments increased $27 million sequentially to $794 million due to strong operating cash flow of $116 million. Capital expenditures were $12 million in the quarter. We continue to execute on our buyback program and repurchased 2.2 million shares of Synopsys stock for $59 million.

During the first three quarters of the fiscal year we've spent $141 million repurchasing approximately 5.3 million shares, and have $441 million remaining on our current authorization.

Because of the timing of a large invoice at the end of the quarter, Q3 net accounts receivable increased to $204.8 million and DSOs were slightly above our historical range at 61 days.

Deferred revenue at the end of the quarter was $635.4 million.

At the end of Q3 we had approximately 5,100 employees, with a slight sequential increase due primarily to the acquisition of ArchPro.

As Aart discussed, we closed two strategic acquisitions during the quarter. In June, we acquired ArchPro Design Automation for low power verification. It was an all cash deal valued at $12.9 million. In July, we acquired the semiconductor IP assets of MOSAID Technologies, a developer and licensor of semiconductor IP. It was an all cash deal valued at $15.3 million. These acquisitions are included in our guidance for FY07.

And now addressing our guidance. For the fourth quarter of FY07, our targets are:

- Revenue between $300 and $310 million;
- Total GAAP costs and expenses between $261 and $277 million, which includes approximately $17 million of share-based compensation expense;
- Total non-GAAP costs and expenses between $236 and $246 million;
- Other income and expense between $3 and $6 million;
- A non-GAAP tax rate between 25 and 26 percent;
- Outstanding shares between 146 and 151 million;
- GAAP earnings of $0.18 to $0.26 per share; and
- Non-GAAP earnings of $0.34 to $0.37 per share.
- We expect greater than 90 percent of the quarter's revenue to come from backlog.

For Fiscal 2007:

- We're again raising the low end of our revenue range, with our new target between $1.195 and $1.205 billion, reflecting an annual increase of 9 to 10 percent;
- Total non-GAAP expenses to be 2-3 percent higher than FY06;
- A non-GAAP tax rate of about 25 percent;
- Outstanding shares between 146 and 151 million;

- GAAP earnings per share between $0.78 and $0.86, which includes the impact of approximately $64 million in share-based compensation expense;
- Non-GAAP earnings per share of $1.31 to $1.34. We've increased the low end of our guidance range by four cents and the high end by one cent;
- Operating margin of approximately 20 percent;
- Over the next four quarters, we expect approximately $1.02 billion of our beginning-of-quarter backlog to turn to revenue.
- We are raising our cash flow from operations target to greater than $325 million.

In summary, we're very pleased with our third quarter financial results. We expanded our profitability, increased cash from operations, and our strong balance sheet stands ready to support our future growth objectives. We'll continue to focus on delivering shareholder returns by improving our capital structure, primarily driven by our stock buyback program.

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