

**MANAGEMENT DISCUSSION SECTION**

Operator: Welcome to the Magma's Third Quarter Fiscal 2010 Earnings Call. All lines have been place on mute and we ask that all participants turn of wireless communication devices to prevent background noise. After the speakers' remarks, there will be a question and answer session.  
[Operator Instructions]

Now here is Magma's Vice President of Corporate Marketing, Milan Lazich. Please go ahead.

**Milan G. Lazich, Vice President, Corporate Marketing**

Thank you. Welcome to Magma's fiscal 2010 third quarter earnings call hosted by Chairman and CEO, Rajeev Madhavan, President and Chief Operating Officer, Roy Jewell, and CFO, Pete Teshima. Our Q3 earnings releases is on Magma's website and includes a reconciliation of non-GAAP results to GAAP results. The financial data supplement in our website's Investor Relations section also includes the reconciliation of non-GAAP results to GAAP results, as well as updated financial guidance.

Unless otherwise noted during this call, all references to expenses, margin and other financials are on a non-GAAP basis. Please note that during our call, including the question and answer period, we may make forward-looking statements within the meaning of the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995 and that actual results may differ materially from expectations. For information on factors that could cause a difference in our results, please refer to our Form 10-Q for the fiscal quarter-ended November 1, 2009, to Magma's subsequent and future filings with the Securities and Exchange Commission, and to the cautionary statements related to forward looking statements in today's earnings press release. Magma undertakes no additional obligation to update these forward-looking statements.

With that, let me turn the call over to Rajeev Madhavan.

**Rajeev Madhavan, Chairman and Chief Executive Officer**

Thank you, Milan. Good afternoon. I am happy to report a strong third quarter as we finished with revenue of \$31 million, non-GAAP EPS of \$0.04 and non-GAAP operating margin of 12%, all of which exceeded our guidance ranges. Once again, more than 90% of revenue came from backlog in our highly ratable revenue model.

At the beginning of fiscal 2010, we said we expected bookings would exceed \$120 million and we now believe bookings will exceed \$130 million. Our MUSIC Users Conference will be held in San Jose in less than two weeks, we use that forum to address how we see the world of chip design changing. To that end, I will say here that we foresee a day when our customers face a very different set of design challenges. We all know that for some time it has been insufficient to think about digital design and analog design in isolation, but today it is clear that even the concept of mixed signal has become horse and buggy thinking. Digital SoCs are evolving into mixed signal SoCs providing productivity in such a complex environment was a challenge we took up.

Whereas analog at one time was of limited concern to digital designers, in today's real world of wireless mobile devices and similar advanced systems, its increasing presence creates a new range of problems that confront designers. A description I read recently painted this real world as one where cell phones, wide spread computing and home networks have created a true electronic

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ocean where the line between analog and digital design is rapidly disappearing and design reuse is still in its infancy.

Leaving aside the challenges of the designing these chips, simulation and verification of these complex systems can absorb a large percentage of the design cycle. Needless to say, costs are growing rapidly and it is incumbent on our industry to provide automated solutions that address the new reality of chip design. This is what is driving our product direction and development. Over the past few years, our investment in both our analog, custom and mixed signal platforms have enabled us to provide the transition to being a full mixed-signal solution provider. In addition to our R&D group's industry best work and digital design, we've had major deployments in growth markets of analog design, simulation and physical verification.

A few highlights in our core area of digital technology, the Talus 1.1 release last May proved to solve a lot of problems designers are wrestling with. Talus is Plan of Record for three fables IC companies working on designs in the 28-nanometer process node. Among them is one of the world's largest providers of wireless ICs, which uses Talus as its primary place-and-route solution and has used it to complete 15 tape-outs already.

We continue to invest heavily in our Talus digital implementation product line and we'll be delivering major productivity enhancements in the first half of calendar 2010 that will help design teams complete complex designs with even shorter turnaround times.

In addition, we are continuously improving Talus' ability to deliver high performance designs, reduce silicon area and optimize for low power. It's worth noting that designing for low power is now a requirement for almost all chip designs and this is an area where we have demonstrated leadership and continue to expand our capabilities.

In analog and mixed signal, our Titan platform enables analog designers to operate as highly skilled analog designers. Titan ADX makes it possible to reduce design time by 30% and enables reuse of commonly used analog building blocks. The Titan Shape-based Router delivers better quality of results than any other mixed-signal router on the market and better automation than hand routing.

Titan is gaining market momentum. So, across our product line, we are seeing a pay-off from recent development activities and we expect to release new productivity enabling products in MUSIC followed by an across the product update at the Design Automation Conference.

Before I turn the call over to Roy for an update on successes in the market, I would like to mention two changes to our Board of Directors. Tim Ng is leaving the Board after nearly seven years of service and we thank him for providing invaluable counsel over that period. As Tim departs, we are fortunate to welcome a new member to the Board. As we announced today, Govind Kizhepat of QLogic joins Magma's Board of Directors and we look forward to benefiting from his perspective.

With that, here is Roy.

**Roy E. Jewell, President and Chief Operating Officer**

Thanks, Rajeev.

Recent customer engagement show us that Magma products are as differentiated as ever across all technology segments. And as I review the sales pipeline, it is stronger than it has been in prior quarters with improvements in all geographies. We have cause for optimism, let me update you.

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Our Talus platform continues to demonstrate both technology and market success. Vitesse recently expanded its use of Talus 1.1 for its ability to incorporate more functionality into ICs while reducing power consumption, turnaround time and development cost. One of the world's major semiconductor companies moved a number of designs to Talus 1.1 because they couldn't be completed with a major competitor's design flow. And customers prefer Talus for its advanced power management and variability control which are critical for mobile application.

Overall, Talus has shortened the time required to complete today's most complex business critical chips. One driver of our Talus expansion is the enhanced version of Talus design announced last quarter. It is the synthesis tool of choice with Talus Vortex at a number of major Magma accounts, has demonstrated solid quality and ease of use advantages. We see more customers across the board moving to our full RTL to GDS solution that help address the increasing challenges of deep nanometer technologies.

In analog mixed signal, laying the foundations for fiscal year 2011 growth, our objective has been to facilitate customer success with Talus. Through Q3, we had more than 10 customers adopt it and another dozen in the active pipeline for Titan products. Titan ADX has a half-a-dozen customers today, and in Q3 we booked the biggest Titan ADX deal to-date. And today we announced that PDF Solutions chose Titan and Quartz DRC LVS to improve time to yield for SoC to 45, 40, 32 and 28-nanometer processes at leading foundries.

Speaking of the Quartz physical verification product, they also had a strong Q3. We closed eight deals in the quarter, including a significant enterprise engagement expansion following dozens of production tape outs to 65 and 40-nanometers and across multiple foundries. Three of the engagements were with top-20 semiconductor companies deploying Quartz for 40-nanometer, 28-nanometer and below.

And most importantly, four of the deals represented new customer logos. In circuit stimulation, the FineSim products continued to take share. We closed several deals last quarter, including expansion and repeat orders, and added a number of new customer logos. FineSim Pro continues to provide unbeatable performance in the memory and custom digital market segment.

Last quarter, after a very thorough evaluation, we signed up a leading fabless semiconductor company that specializes in high performance processes. We were able to demonstrate three to five times performance gain over their existing solution, while providing more accurate results.

FineSim SPICE continues to set a higher standard, with true linear scalability across multiple CPUs. Recently one of our customers designed a very large complex analog block, used FineSim SPICE on several CPUs, and found a design flaw during post layout regression stimulation thus avoiding a catastrophic silicon failure. This type of analysis could not have been accomplished if they had used a traditional SPICE tool. FineSim continues to be our fastest growing product in history. We don't often talk about our SiliconSmart product, but it is well regarded as a technology leader in library characterization.

In Q3, we won a number of competitive benchmarks and also, had several expansion and repeat deals. During the quarter, we released SiliconSmart ACE, a new leveraging that offers an Accelerated Circuit Engine. SiliconSmart ACE leverages the FineSim SPICE stimulator for ultra-fast simulation technology. That capability increases characterization throughput up to an order of magnitude, a significant advantage when characterizing IP at 28 nanometer and below. Today more than 70 semiconductor companies worldwide are actively using this product. So, again use of Magma products continues to grow across all technology areas.

Now, I'll turn the call over to Pete.

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Good afternoon, everyone.

After we've covered quarter three results, I will review our updating guidance, which is in the financial data supplement on our website. Unless otherwise noted, all references to expenses, margins, and other financials are on a non-GAAP basis. Revenue for quarter three was 31 million, above our guidance range of 29.5 to 30 million. This compares to revenue in the year-ago quarter of 30.7 million, end of quarter two's revenue of 29.7 million. In quarter three, the percentage of revenue from backlog related transactions was again greater than 90%.

Q3 spending for R&D, sales, and marketing and G&A totaled 23.4 million, or 75% of revenue. Operating income for quarter three was 3.7 million, or 12% of revenue. This exceeded our guidance range of 10% to 11% of revenue, and compared to quarter two's operating income of 3.1 million, or 11% of revenue.

Tax expense for quarter three was approximately 700,000, compared with tax expense of 500,000 in Q2. Quarter three's diluted non-GAAP EPS was \$0.04 per share exceeding our guidance range of \$0.02 to \$0.03 per share and, compared to quarters two's EPS of \$0.03 per share.

We were cash flow positive on both an operating and free cash flow basis, and generated 4 million in cash from operations. Over the trailing four quarters, Magma has generated a total of 19.1 million in cash from operations.

We ended quarter three with total cash and investments, including restricted cash of 67.3 million, compared to 64.3 million at the end of quarter two. Accounts receivable was 19.4 million for quarter three, compared to 13.4 million for quarter two. DSO for quarter three was 56 days, compared to 42 days in quarter two, and we do not factor our receivables. We finished quarter three with 673 employees, compared to 671 at the end of quarter two.

Now here is our guidance for the fourth quarter-ending May 2, 2010. Revenue in Q4 is expected to be in the range 32.5 million to 33 million. Non-GAAP operating margin is expected to be in the range of 11% to 12%. Non-GAAP taxes are expected to be 500,000 to 600,000. Non-GAAP EPS is expected to be in the range of \$0.03 to \$0.04. Diluted shares outstanding are expected to be in the range of 54.5 million to 55.2 million shares or 69.3 million to 70 million shares, including the asset converted shares of the outstanding 2014 convertible bonds.

We're also updating fiscal 2010 full year guidance as follows. Revenue for fiscal 2010 is expected to be in the range of 122 million to 122.5 million, compared to the prior range of 120 million to 125 million. Non-GAAP EPS for fiscal 2010 is expected to be in the range of \$0.13 to \$0.14, compared to the prior range of \$0.11 to \$0.13. With regard to bookings, beginning of fiscal 2010, I said we expected current year bookings to be in excess of 120 million for the year.

Today, we are increasing that forecast and now expect current year bookings to be in excess of 130 million for fiscal 2010. This figure now appears in the financial guidance section of our financial data supplement. For easier reference, we also added beginning of the year backlog to the financial data supplement. It is in table one, the percent of revenue table. Guidance for the fourth quarter in fiscal 2010 is in the financial data supplement on our website.

Now we'll take your questions.

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## QUESTION AND ANSWER SECTION

[Operator Instructions] We will pause for just a moment to assemble our queue. We will take our first question from Raj Seth with Cowen.

**<Q – Raj Seth>**: Hi, thanks. Roy or Rajeev, can you – I know it's a little early, but can you give me a sense for how you are thinking about next year in terms of bookings growth, can you frame just your next year expectations at all at this point. Thanks.

**<A – Rajeev Madhavan>**: Let me take that one, Raj. I expect next year to have a significant growth in our bookings as I have said in some of the Needham Conference, et cetera, for example. We are currently reaching about 6 to 7 million a quarter bookings in FineSim, we expect to be able to end next year at a run rate of 20 million a quarter on bookings on FineSim. So, we see huge opportunities on that, we see huge opportunities on Titan ADX, Titan ALX, and some of the other tools that we have in our arsenal. So, we have not done a quantification, but it certainly will be a big step up for us as a company.

**<Q – Raj Seth>**: And is it fair, Rajeev, to assume that much of the bookings growth will be driven by some of these newer products rather than the core Talus platform?

**<A – Rajeev Madhavan>**: The core Talus platform we are expecting 0 to 5% kind of growth and while we expect significant growth in the other areas as well.

**<Q – Raj Seth>**: And can you – everybody in this industry always says they are gaining share, and it's a little bit hard to resolve. Can you talk a little bit – can you frame the competitive environment, can you talk about what you're seeing from Synopsys, Cadence a little bit, and sort of where it is you're winning share and versus who if you can, but maybe frame what you see competitively happening? Is this share gains that – and in some cases obviously you'll find some share gains that are driving sort of your much better outlook for next year, or is it sort of the sea rising, which would benefit everybody? Thanks.

**<A – Rajeev Madhavan>**: Let me start. Obviously, there is a little bit of a sea rising happening, there is no doubt about that. So, that is helping everyone. As far as we are concerned, let me first start with the custom products, things like FineSim.

I think we are taking market share in pretty any segment, whether it's fast SPICE or accurate SPICE, we are taking shares. We basically win benchmarks in three weeks. We are recording probably somewhere in the range of 10 to 20 new deals a quarter, which are not big deals right now, but it is becoming bigger and bigger as time comes for their renewal of the rest of their licenses.

Well, we're clearly hitting much more predictably in terms of the revenue growth on FineSim. If you look at ADX, up until last quarter it was predominantly in R&D [inaudible] projects, we have now, as Roy pointed, booked at the big deal. And there were not competing against anyone. It's a new method of doing design. We have a new method in some other areas of analog, which are in beta, which are not announced, but we are going to have products with some customers on that.

The shape-based router, we're mainly competing against somebody – but to the level of automation we can do is, we don't see anybody who really we are competing with as much as aiding the manual design process that happens in the analog area. So, that's for the analog area as a whole that I wanted to first cover.

In the digital space, we are still winning in a lot of the more – increased the depth of penetration in some of the accounts as Roy mentioned. Again as Roy mentioned, our last launch was in May of

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2009. We are up for our next version where we expect to increase our differentiation substantially. So, until then, Raj, I don't want to be talking about much about that, but we are at the cusp of it. As soon as we get that out, we will talk about that to you.

**<Q – Raj Seth>:** And just one last one on the FineSim product, if you are 6, 7 million a quarter now and you are sticking to run rate of 20, it's obviously going to be a – that's a big component of the growth. Is that mostly increasing penetration of the customers where you've already had wins or is that going to be driven more by your expectation of getting into new customers?

**<A – Rajeev Madhavan>:** There is some of getting new customer, but what we have done so far is we have actually seeded a lot of accounts by getting probably about 10% of the licenses in many of these accounts to some places that we do have big accounts, but what is ending up happening is, I those guys come up for renewal from the other company's SPICE or fast SPICE engines in the next 12 months, some in the 18 month period, et cetera. And so that is where we will get – that momentum that I am talking about, bulk of it will come in from the second sales into those accounts that we have had sold little deals today into. We have gotten proliferation into every memory supplier, I mean, with the exception of one, but which we expected to get this quarter. So, we have gotten in and we are – we're basically gaining significant traction in those accounts. So, much of it will come from the second sale.

**<A – Roy Jewell>:** So, Raj, one thing to note. Our FineSim penetration is very consistent with what Rajeev said is, we've done a lot of seeding of the market in term of small entry equation. We – and then we have – for example, we announced a while back a lot of success of Hynix for example, in South Korea. These are reasonable size deals – starting to get measurably similar to what we have seen in the digital place and route area, and that's the only way you get to places like \$20 million a quarter. We really haven't exploited a lot of those smaller accounts, which there are literally hundreds of thousands of people using circuit simulation and those are the accounts we haven't been there at all.

**<Q – Raj Seth>:** Right. And Pete, just for you, quickly, again, you don't to walk too much about next year, but if I was putting together a model hypothetically, how generally and maybe it's not a fair question, but do you think about expense growth into next year against what Rajeev suggested would be very strong bookings growth?

**<A – Peter Teshima>:** We think that we might have some graduated expense level increases throughout all of next year, fiscal 2011 at this point, just to feel some of the added booking potential, but that's going to be very selective and it will be very controlled.

**<A – Rajeev Madhavan>:** Raj, we haven't put the model together here and we need to put the model together. Much of it is based on how bookings growth our target is, based on that we will need more AEs. Also as I told you, we have some very unique technology in digital coming out next, from March to May timeframe, there are two sets of it, and they are very, very important for us in terms of substantially taking up one more notch on that battle front as well. And we get that out the door, we will have to build a model on the expenses based on those new tools gaining the shares that we are seeing it already gaining.

**<Q – Raj Seth>:** Great. Nice to hear from you, guys. Nice to hear you, guys. Thanks.

Operator: [Operator Instructions] We'll go next to Rich Valera with Needham.

**<Q – Richard Valera>:** Thank you, good afternoon. Just following up on Raj's next year questions,. could you give us any sense of your expectations for quotes in Titan next year?

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**<A – Rajeev Madhavan>**: Again, Titan is not one product as you probably realize. It's Titan Shape-Based Router, Titan ADX, et cetera. We don't have a number for that, but Titan ADX is certainly going to be a very big component, some layout features like the Shape-Based Router, and some more – one more new tools that is in beta at seven accounts right now that we expect to launch in the next, again, 90 days. So, we don't have an exact breakdown for you, but what we are more measuring by the number of customers than anything else, we have some deep engagements at some of our place-and-route engagements in the wireless company that Roy mentioned.

Last quarter, we have sold them those tools, and they are in the deployment phase as we speak this quarter and next quarter. And next quarter, it gets deployed to all their teams. For collaboration, it's being used on a 28-nanometer process in Asia, or 32-nanometer process in Asia, where we expect the tape-outs to be end of this year, somewhere in that range of things, so we're getting deployed on that. So, there is a lot of deployment happening. We're measuring more in the number of customers. We have some splits in the numbers. All I can tell you is our goal is each product to be profitable on its own P&L merit.

**<A – Roy Jewell>**: So Rich, if you remember, we talked about this year, Titan – this was a learning year for us in the analog space. We weren't really expecting any meaningful bookings. I think I told you 1, 2, 3 million. Frankly, we've already beat the number for the year, and next year I think we've learned how to get this product into deployment. And then of course, as we mentioned, I think in the last call, we're ahead of our bookings target, so the product is doing far better than what we had originally planned.

**<Q – Richard Valera>**: And that leads to my next question, where does the upside come from going from 120 to 130, what product areas drove that upside?

**<A – Roy Jewell>**: In our traditional product area, which is digital implementation, we are maintaining market share and in fact, growing some of our penetration. We are on target there, but in the newer products, that is – we mentioned FineSim doing better than what we expected. Titan ADX grew better than we expected, Quartz beating its number. So, our overall business model, as Rajeev said, 0 to 5% growth next year for digital implementation, that's kind of similar to what we were looking for this year. And maintaining the current run rate that you have in the products, and in fact, our major customers, we maintain every one of those. And then the growth has come out of the newer products, which we are going from zero position in market shares to a meaningful position in markets.

**<A – Rajeev Madhavan>**: So again much of the 0 to 5% growth in the digital increased based on what we are going to launch, but we don't have a model for that for you. I have some very unique technology in digital that we are very, very excited and ecstatic.

**<Q – Richard Valera>**: When do you expect to have that in beta form in customers' hands, Rajeev?

**<A – Rajeev Madhavan>**: It is in beta form, it has taken the first orders. So, it is not released with our first order. Some of them are going to be released with 32 customers in deployment, not in beta cycles, 32 will have software before we launch. So, it's not like the olden days where we just launched and try. We have to be really very careful about how we are doing this now given the tight economy conditions. So, what we've done is made it get deployed at a large amount of accounts before we increase the burn rate on adding AEs on to it.

**<Q – Richard Valera>**: Okay. And on bookings, you guys had recently been seeing fairly significantly shortened durations relative to say historical levels, down on the sort of 2, 2.5 range. Can you talk about what you're seeing on duration, has there been any change there?

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<A – Peter Teshima>: Sure, Rich. This is Pete. In terms of the contract durations, we are seeing contracts come back to three years and in some cases beyond. It's the second quarter that we've experienced this and I mentioned last time that we were keeping a close eye on it, but things look good in that respect.

We're also seeing the continuation of increasing run rates and that's especially encouraging and it's consistent with the product traction both Roy and Rajeev spoke of. And we'd also note finally, that the deal sizes, the annualized deal sizes are growing on a sequential basis and have for about the last three quarters in a row.

<Q – Richard Valera>: So when you look out at next year, you think you're going to be talking about an average duration of three year better in terms of your bookings?

<A – Peter Teshima>: Based on the way, it's going right now, I would think that we would return back to that, right around there, yes.

<Q – Richard Valera>: Where do you think you'll finish this year on an average basis, any sense of that?

<A – Peter Teshima>: Just slightly under three, because of the effects of the first quarter, mainly.

<Q – Richard Valera>: Great. That's helpful. And then your converts, the ones you're not going to retire, at some point obviously when you get profitable enough, you'll start using that in your diluted share counting, it's around 68 million shares. Can you give us a sense of where that crossover point is in terms of pre-tax income, do you have a number you can throw out there?

<A – Peter Teshima>: You know, it actually applies this quarter. We've actually got to higher levels of profit sooner than we expected. So, it's actually applicable this quarter, and as a rule of thumb, it's about 1.5 million, something like that, Rich, where the crossover point is.

<Q – Richard Valera>: Got you. That's helpful. Okay. That's it from me, guys. Thank you.

<A – Peter Teshima>: Thank you.

Operator: Now we'll go next to Doug van Dorsten, a private investor.

<Q>: Couple of quick things. Rajeev, you and Roy were talking about the simulation business, can you remind us – just in general, that's been a pretty stable business already. Can you remind us what the size of that market is, and given that you're kind of a fledgling entrant, or at least a new entrant, your thoughts about how long it will take to develop that market for Magma?

<A – Rajeev Madhavan>: Two things. There are two markets we addressing in the verification and SPICE simulation market, one is the fast SPICE market, which was you know, there had been as you probably will recall, there were two public start-up companies which have gone before in just that area, which is Epic Design and Nasda, each of them had a run rate at the time of us getting acquired of around 15 to \$16 million in a quarter in just the physical – the simulation portion of it, the fast SPICE portion of it.

Then there is the other market, which is the accurate SPICE where there has been a public company called MetaSoftware, which did about 20 million a quarter run rate. So, just combining all of them, and they only represent probably about 50, 60% of the market. The market is at least somewhere in the vicinity of \$300 million-plus market, that market is all about. That market is dictated by a few things. One is, if you are competing in accurate SPICE, your accuracy has to be

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good and then the throughput, the speed. If you're in the fast SPICE, your accuracy has to be good, better than some of the incumbent tools out there, but how fast are you.

We are very uniquely placed in that we have one tool, one engine, which can compete in both markets. With just one flag setting, we can do either the left side or the right side, so there are a number of circuits which cannot be simulated today, or which would take 80 days to simulate, 60 days to simulate, et cetera, that we are able to simulate very quickly with our tools. And the beauty is, we can actually scale with adding number of computers, we can add 20 CPUs, 30 CPUs, 15 CPUs, we can distribute the job and get things that would otherwise have taken days and weeks and then hours to a day kind of turnaround time.

So we're talking around \$300 million market where we have a unique scale and capability. We're not competing by saying we can scale on one 4 CPU machine or an 8 CPU machine. We can scale on 20. And on a single computer, we are significantly faster than the market we have at this point in time. So, that's what the market is. So, the market has had just on that space alone, a number of public EDA companies, all of them had high levels of profitability, because in verification the profitability is a lot easier than the place-and-route business.

<Q>: So, are you – in that context, I mean, it's a decent sized market segment, could you comment about the profitability that you see as possible for that segment?

<A – Rajeev Madhavan>: So I'm just going to give you Nasda's litigation at 25, 30% profitability, operating margins, 30% was where they were running at, and this with all the litigation that they had to bear. So, that gives you a very, very big number that you can achieve, and we don't see any difference about what we can achieve on that P&L alone. And by the way, our ADX and ALX is also turning out to be that kind of model tools, where we can actually do something in that space.

But again, stay tuned for some of those products with the announcement. As Roy said, the first year was to get a feel around how are we going to sell this, how do we get into a profitable model. We have hit our numbers on that, but we have learned a lot on what to do more than anything else and how to package it. So, in the next two quarters, some of the additions that have been done is to productize it such that we can actually turn it over into more of a business than the early stage sales that we were doing with those tools.

<Q>: So is it fair to say then, that as far as new product offerings go, this is one where you guys are focusing a lot of attention because the financial opportunity is a big one for you?

<A – Rajeev Madhavan>: That is the case, and you're going to hear one more in the digital space where we believe we have a similar opportunity that's coming up that we haven't announced, but we hope to – we are seeing significant traction much like you saw on FineSim when we first launched it. We are seeing huge traction with that tool as well. You will hear about that in the next quarter as well.

<A – Roy Jewell>: Look, we've talked about place-and-router as the most expensive revenue stream in EDA, and it's extremely important for these new product areas, the interaction and to be converted into revenue because their contribution margins are so superior, and it will help Pete get the company back to where we've been traditionally 20% plus op margin, which we're targeting.

<Q>: One final question, if I might, and that is could you or can you comment Roy on the trends on the service piece of revenue? Clearly it's been declining and it's lower margin, so you don't have the beneficial impact on overall profitability, but can you give us some sense on where the service component of revenue is going to go?

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<A – Peter Teshima>: Doug, right now it is about what, 6.5, 7 million, and it bounces around a little bit, and the component that bounces around is the pro services fees, right. Just depends on what we get done on any particular quarter. So, I would still, I would expect to maintain around the 7, \$8 million per quarter basis, and then start increasing as we sell more product next year and beyond, but that's why it bounces around a bit. I think that's your real question.

<Q>: Thanks, Pete.

Operator: [Operator Instructions] We will go next to Chris Donnelly with Pacific Rock Capital.

<Q – Chris Donnelly>: Thanks for taking my question. Just, as it relates to operating margins, can you kind of give us a sense – you guys have done a tremendous job in terms of improving the profitability of the business, I think we talked about much higher targets, as it relates to operating margins going forward, can you give us a sense how we should think about continuing improvements on that line and how we should think about your goals for next year?

<A – Peter Teshima>: It's like – I think both Roy and Rajeev stated, our goal is to get back to the 20% op margin levels, and I stated before that I would expect us by quarter four of next fiscal 2011 to be in the mid-to high double-digits. So, I'm looking at 15 to 16% at that point in time, right. So, that's our goal. And if you look back, historically, the last four quarters, we've been at like eight, 10, 11, 12, so we're solely and gradually making a successful advance towards that goal, and I would expect that to continue.

<Q – Chris Donnelly>: And what type of revenue levels would it take to get back to 15 or 16% type operating margin?

<A – Peter Teshima>: Slightly under 40 million. At 40 million and above, we should be very close to 20%.

<Q – Chris Donnelly>: Okay, thank you.

<A – Peter Teshima>: You're welcome.

Operator: And there are no further questions at this time. I'd like to turn the conference back over to Rajeev Madhavan for closing remarks.

#### **Rajeev Madhavan, Chairman and Chief Executive Officer**

Thank you for joining us today. I hope we see some of you at our MUSIC Users Conference, especially those users who are on the call, in San Jose on March 10th. And of course, we look forward to speaking with you on our next quarterly call. Good afternoon, and thank you, all.

Operator: Thank you, everyone. That does conclude today's conference. We thank you for your participation.

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