

**Magma Design Automation,
Inc.**

Company▲

LAVA
Ticker▲Q4 2010 Earnings Call
Event Type▲May 27, 2010
Date▲**MANAGEMENT DISCUSSION SECTION**

Operator: Welcome to Magma's fourth quarter fiscal 2010 earnings call. All lines have been placed on mute and we ask that all participants turn off 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.

Milan G. Lazich, Vice President, Corporate Marketing

Thank you. Welcome to Magma's fiscal 2010 fourth quarter earnings call, hosted by Chairman and CEO, Rajeev Madhavan; President and Chief Operating Officer, Roy Jewell; and CFO Pete Teshima. Our Q4 earnings release 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 a reconciliation of non-GAAP results to GAAP results, as well as updated financial guidance.

Unless otherwise noted, during this call all references to expenses, margins and other financials are on a non-GAAP basis. Please note that during our call, including the question-and-answer period, we 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 January 31, 2010 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

Good afternoon. As I look back at the year just ended and ahead to the year just begun, I have to say that both views are better than 12 months ago. Fourth quarter revenue was \$33.6 million, non-GAAP EPS was \$0.06 and non-GAAP operating margin was 13%, all of which exceeded our guidance.

For fiscal 2010, revenue came in at \$123.1 million, also better than our guidance. At the beginning of the fourth quarter, we increased our bookings expectations to greater than \$130 million, and we exceeded our bookings target. And for the second year in a row, more than 90% of revenue came from backlog in our highly ratable revenue model.

This is a good time to be Magma, as we begin fiscal 2011 at a very strong point in our product cycle, with a backlog greater than we had a year ago and the biggest pipeline the company has ever had to begin a year. Bookings growth was strong last year and we are projecting another strong year with bookings expected to be in the range of 160 million to 170 million, a 22 to 30% increase. We are very optimistic about the year ahead – let me tell you why.

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One reason is our position in analog – our products met with great acceptance as we entered this market. The FineSim products continue to take share in circuit simulation, and our analog products, which includes FineSim, Titan ADX, Titan ALX, are growing even faster than Blast Fusion did when it was the basis for Magma's IPO.

In addition to our deployment at foundries, we have deployed FineSim in 13 of the Top 25 semiconductor companies, and with Titan we are actively engaged with 9 of the Top 25 semiconductor companies. For the Titan platform, we used fiscal 2010 to lay a foundation for growth this year, and based on early successes and recent line extensions, I expect to see that growth.

The Titan Accelerators are the latest additions to the Titan line, providing capabilities for rapidly designing and optimizing analog and mixed-signal SoCs for advanced geometries. Titan lets customers preserve their legacy investment in analog, and its tight integration with the Talus digital platform provides the most complete solution for mixed-signal SoC design.

In the digital market, we strengthened our product line significantly. In March, we announced Tekton, a new static timing analysis engine along with QCP, our new parasitic extractor that is based on technology from our gold standard QuickCap product. The latest Talus release is performing very well and there is more to come. Watch for 2 major product announcements in place and route that will extend our leadership even beyond when we launched Magma with physical synthesis. Some customers at DAC will get an advance look at them under NDA.

Overall, we are seeing wide product adoption by customers, including some accounts where traction had slowed. Several key accounts that had been promoted as using another supplier as their primary EDA vendor, recently expanded their relationships with Magma, including some of the leaders at 28- and 20-nanometer technology.

In the last 2 quarters, 3 of the biggest fabless companies designing chips at the 28-nanometer nodes for both wireless and high-performance applications renewed or extended their commitment to Magma Talus.

Now, Roy will cover some of the product and customer successes of the quarter. Roy?

Roy E. Jewell, President and Chief Operating Officer

Thanks, Rajeev. Magma has a lot of momentum right now as Rajeev described. Some recent product announcements are big reasons for it. We announced Tekton and QCP in March with a lineup of initial customer engagements well beyond the number targeted. Tekton enables multi-scenario static timing analysis on a single machine in just minutes for the industry's biggest chips. This means design teams can drastically reduce compute requirements, while at the same time greatly reducing time to tape out.

Tekton generated more business in its first quarter of availability than any other Magma product. QCP, our new extractor, is also gaining traction in the customer base. It provides a 10x performance boost over existing solutions and has the capacity to extract very large designs, more than 40 million instances on a single machine. It was designed to integrate tightly with Tekton.

A couple weeks ago, we announced Titan ALX and Titan AVP. Rajeev mentioned the strong acceptance we've experienced as we continue to push into analog. The reason for this is simple: the Titan platform vastly increases design productivity. Titan ALX and Titan AVP are just the latest additions to the Titan family of accelerators, which enable analog IP reuse and rapid design exploration and automate layout creation and process porting.

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A key advantage of these products is the flexibility they provide the user. Designers can use Titan accelerators to improve an existing design flow or can combine them with the Titan platform to create a new mixed-signal design solution.

We made a couple of other product additions during the quarter. We released FineSim Fast Monte Carlo, which improves the already fast FineSim technology with an approach up to 100 times faster than traditional Monte Carlo methods. And earlier this month, we announced SiliconSmart ACE Memory Characterization, which embeds our ultra-fast FineSim Pro simulator and provides faster, more accurate timing, power and noise characterization than competitors.

This is the latest addition to the industry-standard SiliconSmart product line, which we announced Tuesday is being used by ARM to enhance and expand their production characterization system for Physical IP products. ARM said SiliconSmart has helped them develop the automation, performance and reliability needed to characterize standard-cell and I/O products.

The Quartz physical verification platform continued its momentum in Q4. Quartz won every head-to-head engagement, including bake-offs at two major Top 20 semiconductor companies. Quartz won a multi-year, multi-million-dollar deal displacing the competition at a major fabless company. This customer chose Quartz based on its superior performance and because they could replace their legacy tool easily thanks to foundry-certified runsets.

In fact, for all of 2010 Quartz had a very good year. Three of TSMC's top five fabless customers included Quartz in their plans for the 28-nanometer design, and TSMC announced that Quartz has included in its integrated sign-off flow for 65-nanometer. This is a significant milestone, as TSMC selects only tools deemed production worthy.

The industry infrastructure continues validation and adoption of Magma products. Last week, we announced that Titan platform supports TSMC 65 and 40-nanometer Interoperable Process Design Kits. This continues a mutual commitment our companies have to help customers achieve first-time silicon success.

I will close with one organizational update, the appointment of Noriaki Kikuchi as the new President of Magma KK. Kikuchi-san has more than 30 years experience in EDA and other technology industries and a proven track record of success. I am personally very happy to have him on board overseeing our operations in Japan.

Now I'll turn the call over to Pete.

Peter S. Teshima, Corporate Vice President, Finance and Chief Financial Officer

Thanks, Roy. Good afternoon, everyone. After we cover quarter four results, I'll review our updated 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 four was 33.6 million, above our guidance range of 32.5 to 33 million. This compares to revenue in the year-ago quarter of 34.1 million and to quarter three's revenue of 31 million. In quarter four, the percentage of revenue from backlog-related transactions was again greater than 90%.

For fiscal 2010, revenue was 123.1 million, above our guidance range of 122 to 122.5 million. This compares to fiscal 2009 revenue of 147 million. Backlog at the end of the year was greater than

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300 million. This represents an increase from the backlog at the end of fiscal 2009, which we reported at greater than 292 million.

Quarter four spending for R&D, sales & marketing, and G&A totaled 25.1 million or 75% of revenue. Operating income for quarter four was 4.3 million or 13% of revenue. This exceeded our guidance range of 11% to 12% of revenue and compared to quarter three's operating income of 3.7 million or 12% of revenue.

For fiscal 2010, operating margin was 11.4% outside the high end of our guidance range of 10% to 11% and an improvement from an operating margin of minus 4% in fiscal 2009. We had a tax benefit for quarter four of approximately 316,000 compared to a tax expense of 700,000 in quarter three.

Quarter four's diluted non-GAAP EPS was \$0.06 per share, exceeding our guidance range of 0.03 to \$0.04 per share and compared to quarter three's EPS of \$0.04 per share.

For fiscal 2010, our non-GAAP EPS was a profit of \$0.17 compared to fiscal 2009's non-GAAP loss of \$0.15 per share. Non-GAAP-to-GAAP adjustments for fiscal 2010 accounted for approximately \$0.24 per share on a diluted basis.

In quarter four, we were cash flow positive on both an operating and free-cash-flow basis and generated 2.4 million in cash from operations. Over the trailing four quarters, Magma generated a total of 16 million in cash from operations.

We ended quarter four with total cash and investments, including restricted cash of 74.6 million compared to 67.3 million at the end of quarter three. Accounts receivable was 17.4 million for quarter four compared to 19.4 million for quarter three. DSO for quarter four was 47 days compared to 56 days in quarter three and we do not factor our receivables.

We announced last week repayment of the outstanding convertible notes due this month, a total of 23.3 million. With that transaction, the bulk of the convertible debt originally issued in 2003 has been retired with the remaining 26.7 million due four years from now in May of 2014.

In addition, we further strengthened our balance sheet with access to a new \$30 million credit facility with Wells Fargo Capital. We finished quarter four with 677 employees compared to 673 at the end of quarter three.

Now, here is our guidance for fiscal 2011's first quarter ending August 1, 2010. Revenue in quarter one is expected to be in the range of 31 million to 31.5 million. Non-GAAP operating margin is expected to be in the range of 9.5% to 10.5%. Non-GAAP taxes are expected to be 400,000 to 500,000. Non-GAAP EPS is expected to be in the range of \$0.02 to \$0.03 and diluted shares outstanding are expected to be in the range of 55.9 million to 56.3 million, excluding the as-if-converted shares of the outstanding 2014 convertible bonds.

Now, here is our full-year guidance for fiscal 2011 ending May 1, 2011. We expect bookings in fiscal 2011 to be in the range of 160 million to 170 million, an increase of 22 to 30% over fiscal 2010 bookings. Revenue in fiscal 2011 is expected to be in the range of 130 million to 133 million. Non-GAAP operating margin is expected to be in the range of 12.5% to 13.5%. Non-GAAP EPS is expected to be in the range of \$0.18 to \$0.20 per share. Diluted shares outstanding are expected to be in the range of 73 million to 74 million shares including the as-if-converted shares of the outstanding 2014 convertible bonds.

Our guidance for the first quarter and fiscal 2011 is in the Financial Data Supplement on our website. Now we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Rich Valera from Needham & Co.

<Q – Richard Valera>: Thank you. I wondered if you could give some color, Roy, on how you see – what you see driving the bookings number next year by product?

<A – Roy Jewell>: Okay, Rich, we still seek – we mentioned number of times the great growth we've seen in the circuit simulation business and I think we will continue to see FineSim continue to grow and in fact in our fourth quarter it continued to grow in terms of market share and being a meaningful part of our bookings. I think in the digital realm, we feel that we are going to have a very strong, especially second half and digital implementation as we roll out our Talus 1.2 product, as well as our Talus Fx product.

In the analog space as we've talked a number of times, fiscal 2010 was more of a period of us learning how to market and support our analog creation product and I think you'll see – I think meaningful bookings coming in 2011. And we still see Quartz right now being a very competitive product against Calibre and the other players in that market and especially with the success we've had at TSMC and other foundries, I think Quartz will be doing much better in 2011. So I think that FineSim will continue to lead both company in terms of overall growth, but our other products are showing significant adoption rates. That's why we're even more optimistic than we've been in the past, relative what we'll see in bookings in 2011.

<A – Rajeev Madhavan>: So, Rich, I'm just adding onto the few things here. Across the board, every product we're seeing momentum right now. Funds and leads are back in terms of percentage of growth. Titan is right behind it, maybe even overtake it half way into the year and as a percentage because it's going from a smaller base. Digital, the new technologies, there are two new digital place and route as I mentioned, both will go into play. They are in the hands of beta customers as we speak. And you are going to see momentum and traction and differentiation as we come along with that as well. So feeling very bullish about the product line.

<Q – Richard Valera>: Great, and just you mentioned you felt pretty good about Quartz and the recent success there. I'm guessing you guys saw a recent ESNUG benchmark between Quartz and Calibre, which suggested Quartz maybe still had some room to go to fully compare with Calibre. What do you guys make of that? Do you think that was an out of date version of Quartz or what do you make of that benchmark?

<A – Rajeev Madhavan>: So that news came out in the morning; had a meeting two hours later. We are pretty much close to resolving the issue. You will see an updated post. We believe we'll be significantly faster than our competition in both run time and memory. We expect to see corrections to that write-up in the next two weeks to three weeks.

<Q – Richard Valera>: Is the implication that that was an outdated version of Quartz or not the right version?

<A – Rajeev Madhavan>: It's basically a combination of outdated versions with combinations of some errors and checkups and run times and things like that. Not necessarily errors by the user as much as errors in how the data was interpreted, et cetera. So we have, we know exactly what the issues are. We did track the customer, the customer had raised it to us. We apologize to a customer that we did not fix it in time and he suddenly posted it, we got the attention and we have fixed it. Let's put it that way.

<Q – Richard Valera>: Okay. So, I'll certainly look forward to that. So, Rajeev, how would you, you said you feel better as a company than you did four months ago. Is that really due to the macro environment or more due to the state of your products? You know has there been any change in the macro environment in the last four months from your perspective?

<A – Rajeev Madhavan>: The macro environment has continued to sort of improve, but I don't think people are starting to just open their purse strings and just place orders a lot more quicker or faster than ever before. They are still very methodical in their analysis of when to place an EDA order et cetera.

Having said that from a product perspective, over the last four quarters slowly but steadily we have actually made such momentum and we have another two more quarters where the momentum will continue. We're really in a solid execution pattern right now in terms of the products. We have five new products between now and September, including two digital place and route tools. So we are really in solid execution mode right now.

<Q – Richard Valera>: Great. And I think in recent past, Roy, you have characterized the place and route products as you're expecting them to be flat to slightly up going forward. Does this impending release of Talus change that? It sounds like you might be actually expecting some growth in the second half with Talus?

<A – Roy Jewell>: I think two things changed that. It's the release of, and the adoption is going on in Tekton and QCP. And then these new releases will let us play I think much more aggressively especially in very large flat designs our capacity will be unsurpassed in the industry right now.

<A – Rajeev Madhavan>: Yeah.

<Q – Richard Valera>: So then I guess you do expect some growth then from the?

<A – Roy Jewell>: Absolutely.

<A – Rajeev Madhavan>: Yeah, we do but just, to just answer your question on the 160 to 170 million booking targets, we can achieve that with the 1.1 today. That's the news for you.

<A – Roy Jewell>: Yeah.

<A – Rajeev Madhavan>: So, we think as 1.2 and some of these other things that Roy mentioned that comes into, out of the to the junior digital products and other things come in, we think we could do significantly better in the latter half of the year.

<Q – Richard Valera>: Great. And then final one from me, how was, it looks like you came in right around the 130 mark, maybe a little over 131. I mean, how was the linearity of bookings for the quarter? Did it come in, did the quarter finish up the way you expected? Was it, did anything significant slip into Q1 that gives you an especially good start to the year? If you can characterize how sort of the bookings were throughout the quarter.

<A – Roy Jewell>: Actually, Rich, they came in pretty consistently like as you would expect during a normal quarter four. I mean, the bulk of them came in towards the back end, but now with the 90/10 model, we can sit and be patient and wait for the better type deals. So we did have some deals that we did not close just because we didn't have to, right? And it's going to help us to begin the year definitely.

<A – Rajeev Madhavan>: So, Rich, just to give you some color, there was at least 20% to 30% of the deals that we've walked away from that we probably could have focused and gotten worse

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deals than what we would otherwise have been taking this quarter or next quarter with those products. So clearly in a situation to do that and it was a very solid year for us from a bookings perspective.

<Q – Richard Valera>: Okay. And I guess the deals you walked away from the presumption is that you'll re-engage in the first quarter?

<A – Rajeev Madhavan>: We're already reengaged, we'll probably close most of it this quarter and some of it may be next quarter. But we're really taking a very deliberate strategy because of the differentiation that we are adding with all these newer technologies. We're already very deliberate in our negotiations right now.

<Q – Richard Valera>: Okay, that's helpful. Thank you.

Operator: Our next question comes from the line of Tom Diffely from D. A. Davidson.

<Q – Tom Diffely>: Yeah, good afternoon. Just hoping to get another question about your bookings guidance. Could you further characterize the growth in the guidance in terms of either share gain or market growth or maybe just your own renewal cycle?

<A – Rajeev Madhavan>: Well, share gain just to give you very simply, much of this is from share gain as far as Magma is concerned. Obviously, this is showing and I'll target at 160 to 170 net bookings growth. Since a big portion of it comes in from share gains and converters and circuit simulation, we model much in that 160 to 70 in digital. And Roy pointed out with all the new tools coming in, we think we can have an upside in the latter half of the year more than what we have currently modeled with the 160 to 170.

So a lot of growth is predicated on analog products, the Tekton, the QCP, et cetera, we have certainly all of our growth with that as I mentioned as color in my call this is the highest booking backlog we have ever had to start a year in the history of Magma.

<Q – Tom Diffely>: All right. Over the last month or two we've heard a lot of your customers raised their R&D spending levels too, but it sounds like you haven't seen a big increase on more of a general market sense, overall market and it's more just share gains. It is like the fundamentals in the industry are also getting stronger to.

<A – Rajeev Madhavan>: Yes. We do see that, but the point I'm making is that – that fairly has not translated to the budgets of the purse strings being leased quick and fast or anything like that. They all tried to negotiate and part of it is that because the industry has had one or two players at any given time do bad deals and I do see to give credit to some of my competition there and everybody seems to be getting a little more in line on price negotiations et cetera, which gives more stability to the market and I think that's very, very good for the industry.

<Q – Tom Diffely>: All right, now, let's get longer term. Maybe a balance sheet question then, for the 26 million you still have in converts, is there a call provision on those?

<A – Milan Lazich>: No, there is not.

<Q – Tom Diffely>: Okay. And rest have been answered. Thank you.

<A – Milan Lazich>: Thank you, Tom.

Operator: [Operator Instructions] And our next question comes from the line of Doug Anderson. He is a private investor.

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<Q>: Good afternoon. I have a few things if we could one macro and then a couple of financial ones. Roy, since you are out traveling around with Rajeev, could you talk a little bit I mean there is really a follow-up on the spending question, but it does seem like foundries in particular are starting to spend more – is that translated all to better visibility or more fruitful negotiation on longer term deals with the life of TSMC.

The second thing is on margins, Pete, could you comment on there has been a general significant downward trend in cost of goods both for software and for services. My guess is it doesn't go a lot lower, but could you comment on time, what has contributed to that?

And the final thing is, in general in the balance sheet shareholder equities improved, the transaction having to do with the converts are a little bit confusing, could you comment, Pete, on – in general where you think the balance sheet is going just in terms of debt levels, cash and your general level of near to intermediate term liabilities?

And the final question is could you talk a little bit about the fluctuations in balance of the cash in deferred revenue? Thank you.

<A – Roy Jewell>: Hey, Doug, I'll start with – on the first question. There has been an announcement by a number of foundries, TSMC, Samsung in terms of a lot significant capital investment going on. Frankly, we are not seeing R&D budgets at least those being allocated EDA as Rajeev talked about. We're not seeing a lot of growth. And frankly it's still pretty flat and there is some consolidation going on with companies like NEC and Renesas that are merging and the same time they are looking for cost reduction as a combined entity.

The big difference we're seeing is lot of our growth has been driven by new products, and 12 months ago, most of our customers were not healthy, they did not have a very good visibility into their business, which meant they were not too amenable to even looking at new technology even if it was going to improve their productivity.

That's changed a lot today. So we're seeing a lot more success and a lot more interest and especially in our newer products and Magma as a company just to reiterate what Rajeev said our growth is through market share gains. We are not depending on overall macroeconomic growth. We're betting on that we've got competitive differentiation in our legacy products as well as our newer products. And with our customers having more financial help, we're able to basically get on to – look at the products and actually adopt them as new tools in their design flows. So that's what we are seeing right now.

<A – Peter Teshima>: Hey, Doug, let me answer a few of the questions that I can remember that you asked, and let's just check them off one by one and then let me know which ones I didn't answer, okay. So from the standpoint of the P&L and the margin increases that we're seeing in the cost of revenue, the comparison points that you are talking about go back – go back a year basically, both in terms of the quarter as well as for the full year. And essentially what we did back then is we were just in the throws of the recession, and we did things to realign and restructure the company, and all in the name and the goal of efficiencies from both from a post and pre-sales standpoint.

So, the effect of that you see run-through the P&L right throughout the year, and so that's the real reason for the increase in margins over time. On top of that, going forward like Rajeev and Roy were talking about the new product families like circuit simulation for example are much less support intensive. So I mean one AE can actually perform maybe five evaluations whereas in the legacy products like Talus, it takes a lot more support to do that. So, as we drive the higher levels of revenue in those product families, right, we are going to get higher margins.

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So it's kind of a combination of the two. Relative to cash and I think the question you had is what has happened in terms of our cash balances throughout the year, I think if you look at the balances on a quarterly basis, we've increased steadily throughout the year.

From an operating cash perspective, if you add up the four quarters and each of them has been positive in terms of cash flow, it's totaled about 16 million. So it's been very good from that standpoint. I think – another question you had, had to deal with I believe it was deferred revenue, is that right?

<Q>: I think that's right.

<A – Peter Teshima>: Okay. So I think what you're talking about is, as you can see a trend where the – most recent balance is about 26 million and you're comparing that to 35 or 36 million a year – about a year ago, right and I guess your question is what causes this.

<Q>: Right. Peter, the big question is bookings have seen to be fairly good. One would, in a fairly linear world, you'd expect deferred revenue to go up as bookings go up, right?

<A – Peter Teshima>: Yeah. Okay, so what it is, is deferred revenue on the balance sheet represents consummated deals where the revenue has not yet been taken. And it consists mainly of maintenance contracts and contracts with billing cycles of less than a year. That's the key point. So there are two things which impact this. So one of the benefits of the 90/10 revenue model is that we can close deals right at the end of the quarter more on a customer timeline than ours.

So some of the pressure is off. Can be patient and wait for better deals. So that's one of the impacts to that line. And then another is, is that as we move to longer-term contracts with the billing cycles are in excess of a year, you will see that deferred revenue balance come down as those orders go to backlog, which essentially is off book. And that's a trend that we're seeing now. Because over the last three quarters we've seen, we've experienced our contract durations go back to three plus years in a very strong fashion, so that's why that's occurring.

<A – Rajeev Madhavan>: Hey, Doug, I think you know as you mentioned our bookings, we had a very strong year in terms of bookings and it's even stronger than the 131 or whatever Rich has calculated as the net bookings. Given the fact that we had actually pulled out of FPGA and we had pulled out of a number of products, which we scrubbed on our backlog, so given that I mean we have significantly north of 140 in terms of where we are, in terms of additions of new bookings and the fact that the net bookings itself is 131 given the decisions we had done during the recession is a phenomenal achievement for us.

<A – Peter Teshima>: Hey, Doug, Pete again here. I just remembered another one of your questions, it had to do with the convertible notes and the balance sheet. So what you are looking at, what we are reporting on right now is our quarter four results. And if you look at the balance sheet right, under the short-term liabilities, you see the convertible notes at 23 plus million.

<Q>: Right.

<A – Peter Teshima>: And then you see the long-term convertible subordinated notes at 28 million, they're both sitting here. What we're referring to is that we recently paid the short-term portion, I believe it was May 13, so that will be reflected in the quarter one of fiscal 2011's balance sheet. So, that's probably what you are referring to.

<Q>: That's terrific. So the transaction retired the notes occur after the close of the quarter, that makes sense?

<A – Peter Teshima>: You got it.

<Q>: So two or three things to just follow up, one on gross margins, again the cost of goods has fallen dramatically, so you've got no third-party licenses or other costs in cost of goods for software. Correct?

<A – Peter Teshima>: Nothing. Nothing material, Doug.

<Q>: Okay. And then the other thing is, to Rajeev's point, I think it's generally been a reasonable trend set, if you look at deferred revenue and use that as [inaudible] for bookings growth or what the true backlog is, and if I hear you right, you are telling me that they are less connected now than they have in the past, is that fair?

<A – Peter Teshima>: That is very fair.

<A – Rajeev Madhavan>: Yeah, it is very – there is no connection between the two and the bookings continue to grow there, as we said 160 to 170 is a big faster brands than the bookings that we have. And as Roy pointed out, [inaudible] this is assuming a flatter model on the digital side and tail end we think we have upside opportunity.

<Q>: Great, thank you.

Operator: I'm showing no further questions in the queue. I'd like to turn the call over to Rajeev Madhavan.

Rajeev Madhavan, Chairman and Chief Executive Officer

Thank you for joining us today. Those of you in New York next week can get a more detailed update on the company at the D.A. Davidson Technology Forum on Tuesday or the Cowen Technology, Media and Telecom Conference on Wednesday and if you attend the Design Automation Conference in Anaheim next month drop by the Magma Board.

Our continuous focus on technology differentiation has paid off in Magma's products. This enabled us last year to achieve a book-to-bill ratio and bookings growth, which both exceeded our EDA pairs – our EDA peers. And our bookings growth forecast are in the range of 22 to 30% for fiscal 2011 is reflective of the business growth we are expecting. As I said, it's a good time to be in Magma. Good afternoon.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may all disconnect. Everyone, have a great day.

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