The following prepared remarks are an excerpt from Synopsys’ Second Quarter and Fiscal Year 2015 Earnings Call. To review the contents of the entire earnings call, please refer to the official webcast, which will remain available on Synopsys’ website through the date of the third quarter fiscal year 2015 earnings call in August 2015.

These prepared remarks contain forward-looking statements relating to Synopsys’ business, acquisitions (including the expected closing of our pending acquisition of Codenomicon OY), new products, technologies, customer demand for our technology, new markets, and business model, including statements regarding projected financial results and business objectives. These statements are forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those described by these statements due to a number of uncertainties, including, but not limited to, continued uncertainty in the global economy and its potential impact on the semiconductor and electronics industries; uncertainty in the growth of the semiconductor and electronics industry, and consolidation among our customers; increased competition in the market for Synopsys' products and services including through consolidation in the industry; changes in demand for Synopsys’ products due to fluctuations in demand for its customers’ products; Synopsys' ability to realize the potential financial or strategic benefits of acquisitions it completes, including its acquisition of Coverity, Inc., and challenges in entering new markets in which Synopsys is not experienced and in the integration of the products and operations of acquired companies or assets into Synopsys' products and operations, including possible delays in customer orders, potential loss of customers, key employees, partners or vendors, customer demand and support obligations for product offerings, and disruption of ongoing business operations and diversion of management attention; Synopsys’ ability to consummate the pending acquisition of Codenomicon OY in a timely manner or at all, including the satisfaction of the conditions precedent to consummation of the acquisition; adverse changes in the relationships between Synopsys and key participants in the complex semiconductor ecosystem, including major foundries and intellectual property providers; litigation; lower-than-anticipated new IC design starts; lower-than-anticipated purchases or delays in purchases of products or consulting services by Synopsys’ customers, including delays in the renewal, or non-renewal, of Synopsys’ license arrangements with major customers; changes in accounting principles or standards or in the way they are applied; changes in the mix of time-based licenses and upfront licenses; variability in the timing of revenue recognition due to factors such as payment terms and the timing and value of contract renewals and professional services projects; lower-than-expected orders; and failure of customers to pay license fees as scheduled.

In addition, Synopsys' actual expenses, earnings per share and tax rate on a GAAP and non-GAAP basis for the fiscal quarter ending July 31, 2015; actual expenses, earnings per share, tax rate, and other projections on a GAAP and non-GAAP basis for fiscal year 2015; and cash flow from operations on a GAAP basis for fiscal year 2015 could differ materially from the targets stated in these prepared remarks for a number of reasons, including, but not limited to, (i) integration and other acquisition-related costs, (ii) application of the actual consolidated GAAP and non-GAAP tax rates for such periods, or judgment by management, based upon the status of pending audits and settlements, to increase or decrease an income tax asset or liability, (iii) a determination by Synopsys that any portion of its goodwill or intangible assets has become impaired, (iv) changes in the anticipated amount of employee stock-based compensation expense recognized in Synopsys' financial statements, (v) actual change in the fair value of Synopsys' non-qualified deferred compensation plan obligations, (vi) increases or decreases to estimated capital expenditures, (vii) changes driven by new accounting rules, regulations, interpretations or guidance, (viii) fluctuations in foreign currency exchange rates, (ix) litigation, (x) general economic
conditions, and (xi) other risks as detailed in Synopsys' SEC filings, including those described in the "Risk Factors" section in its Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2015. Furthermore, Synopsys' actual tax rates applied to income for the third quarter and fiscal year 2015 could differ from the targets given in these prepared remarks as a result of a number of factors, including the actual geographic mix of revenue during the quarter and year, and actions by the government. Finally, Synopsys’ targets for outstanding shares in the third quarter and fiscal year 2015 could differ from the targets given in these prepared remarks as a result of higher than expected employee stock plan issuances or stock option exercises, acquisitions, and the extent of Synopsys’ stock repurchase activity.

The information contained in these prepared remarks represents Synopsys’ expectations and beliefs as of May 20, 2015 only. Synopsys is under no obligation to (and expressly disclaims any such obligation to) update or alter any of the forward-looking statements made in these prepared remarks, the earnings release, the conference call, the financial supplement, or the corporate overview presentation, whether as a result of new information, future events or otherwise, unless otherwise required by law.

These prepared remarks also contain non-GAAP financial measures as defined by the Securities and Exchange Commission in Regulation G. Reconciliations of the non-GAAP financial measures to their comparable GAAP measures are included in the second quarter fiscal year 2015 earnings release and financial supplement, each dated May 20, 2015 and available on Synopsys' website at www.synopsys.com. Additional information about such reconciliations can be found in Synopsys’ Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 20, 2015.

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Good afternoon. I am happy to report that our second quarter results were very strong and solidify our outlook for the full year. We delivered revenue of $557 million, non-GAAP earnings per share of 68 cents and $155 million in operation cash flow. We are raising the midpoint of our revenue guidance, with a range of $2.210-2.235 billion, and our non-GAAP EPS objective to a range of $2.76 to $2.81 – double-digit growth at the midpoint. Trac will discuss these results in more detail shortly.

In the semiconductor and systems markets we serve, we continue to see unevenness in terms of business success – with some companies doing very well, while others are challenged – whether in particular verticals or geographies. Nonetheless, firms continue to invest aggressively in advanced design to build the next great chip for the next great product. In that, they rely on Synopsys as a critical partner. These products feature the most complex electronic systems in the world, spanning the entire continuum of Silicon to Software. Ranging from eversmaller transistors and abundant sensors, to the critical communication and supporting cloud infrastructures, to embedded software and more and more sophisticated applications, the resulting interactions between big data, communication, and computation are leading rapidly to the age of “Smart Everything.”
In the decade to come, advances in this space will again bring about unparalleled new capabilities that just a few years ago felt like far-away science fiction. Synopsys is well positioned. Our EDA solutions enable the most advanced chips, our IP business greatly boosts designer productivity, and recently, our software quality and security tools address the complexity of both embedded and applications software, and thus expand our traditional TAM. In addition, our global teams are focused on exceptional customer relationships and differentiated technology support.

Building on this vision, last year we launched a multi-year market strategy based on three pillars: First, build on our leadership in EDA by providing the state-of-the-art toolset required to design the next generation of chips. Second, grow our IP offering as one of the highest-impact productivity mechanisms available to design highly complex chips under unrelenting time-to-market constraints. And third, invest in and grow our Software Quality and Security solutions, as embedded software expands massively into next-generation electronic systems, and the security vulnerabilities of application software create more and more challenges in our day-to-day lives.

Let me provide some highlights on each of these, starting with EDA. The technical challenges facing semiconductor and systems companies are driving substantial investments in the most advanced, as well as more established, process geometries. The number of designs using power-efficient FinFET transistors at sizes as small as 16, 14, and 10nm is growing rapidly, as leading-edge companies race forward. The number of active FinFET designs and tape-outs to date again grew almost 15% in just the last quarter, to well over 200. Synopsys is relied on for approximately 95% of these, and our momentum continues, as more and more enterprises commit to FinFET and count on us for success. For example, last month, we announced TSMC certification for Synopsys design tools for 16nm FinFET+ production, and for 10nm early design starts. And during the quarter, we displaced a competitor at one of its traditional Asian stronghold accounts for advanced 14/16nm nodes.

While leading-edge designs are moving as fast as possible to FinFET, many advanced designs continue to be on 28nm, which is expected to have a long life cycle. Our innovations pioneered for advanced FinFET designs are also bringing remarkable benefits to 28nm circuits, as well as to more established nodes such as 40, 65, and 90nm. Our custom design solution is also gaining strength, and in fact we successfully displaced the incumbent at a global medical device company, who is now using a complete Synopsys digital-and-custom flow.
Relevant here, and a year after its announcement, it’s worth reporting on our new flagship place and route product: IC Compiler II. In a word, it’s doing great! IC Compiler II has proven to be a true game-changer for a fast-growing group of customers, and we can report tremendous demand and excellent business momentum. We are currently already serving 32 customers with more than 70 in-progress design efforts. This is up 40% from last quarter. With more than 90 production designs and tape-outs, IC Compiler II is used on numerous process nodes – from 40/28 to the most advanced 16/14 and 10nm. These are production designs – not test chips. Customers report that IC Compiler II is dramatically faster than any tool on the market today, including “next generation” offerings touted by competitors. In a number of cases, we take half to just a quarter of the time of competitor tools – with run times of hours versus days. These runtimes are achieved while the quality of results reported by users is superior as well. In March, for example, Toshiba cited “unprecedented runtime speedup and superior quality of results” by IC Compiler II, as experienced on in its 40nm SoC tape out. At our recent User Group meeting here in Silicon Valley, customers including Toshiba, Renesas, Mediatek and ARM spoke about their successes with the tool. From a business perspective, demand is very high, even in these early stages. And over the last three quarters, we’ve seen the fastest-ever ramp-up in orders for a new product. With our June release, which includes further enhanced functionality, ICC II will be available to all customers.

Now moving to verification, where approximately 80% of advanced designs rely on the Synopsys solution as their primary simulator. Q2 was a record quarter for our verification tools, reflecting early momentum for our Verification Continuum Platform, with particularly strong results for our emulation system. Verification is the biggest bottleneck in chip design today. To address this, our Verification Continuum platform contains all of the key capabilities, from our franchise VCS functional simulator, to static and formal analysis, to verification IP, to emulation and prototyping – all aligned on a common infrastructure, with best-in-class debugging. The platform was developed and continues to evolve in close collaboration with key customers. It has already been integral to large renewals and competitive wins. We introduced the first components last year, including Verification Compiler – which integrates many of the software elements. Customer interest is high, as evidenced by adoption not only by chip companies, but also by several very large systems companies in the quarter. Here too, high-value additional features and further integration will roll out through the rest of the year.
Let me now move to our second strategic priority of growing our IP and Prototyping product lines. The Synopsys IP value proposition is compelling. We are the #1 supplier of interface, analog, memory, and physical semiconductor IP, with a reputation for highest quality, reliability, and technical excellence. The business continues to grow, with our IP being used in the most complex chips in the world, from advanced FinFET processes to those targeting automotive, industrial and Internet of Things applications. Based on our very broad availability of proven FinFET IP, we have established clear leadership in FinFET IP development. This quarter, for example, we announced immediate availability of our silicon-proven IP in TSMC’s 16nm FinFET+ processes. We also closed a significant agreement with another major foundry to enable broad Synopsys IP on multiple FinFET and 28nm processes. Development of our 10nm IP portfolio is in full swing with multiple customers and partners. We’ve had a number of important customer wins, including Broadcom, which extended its license agreement providing access to Synopsys’ ARC processors for an expanded range of advanced multimedia and networking designs.

Meanwhile, electronics are getting smarter, enabling us to run our lives from wherever we are, at any time. Synopsys is at the forefront of delivering IP optimized for “smart everything” applications. For example, we announced a new embedded vision processor that enables designers to efficiently include capabilities such as object detection, gesture recognition and video surveillance in their products. Our sensor subsystem is showing momentum, with multiple wins in the quarter with high-profile customers. To address this growing complexity, our prototyping tools enable accelerated software development, hardware/software integration, and validation of the entire system. We’re seeing good repeat orders of our HAPS FPGA prototyping system by companies developing leading-edge mobile SoCs, as well as adoption of our software-based solution in the automotive space.

Turning now to Strategic Priority number 3: Grow our TAM by building a new adjacent business in software quality and security. A year after acquiring and integrating Coverity, we’ve learned the following: Coverity was a great acquisition – a compelling combination of the familiar and the new, and a platform we can build on. Specifically, we acquired excellent technology, an expanded customer base, and a brand new TAM. In order to scale the operations to a grander level, it’ll take ongoing investments in sales and marketing, as well as in R&D. We’re confident in the opportunity in front of us, and understand how to leverage Synopsys’ experience in scaling the business and thus evolve a new growth engine.
Our strategy is to build a compelling and differentiated platform through mainly organic investments in the quality space, and a combination of organic and M&A investments in the security space. To that end, we’re expanding our position in software security with the acquisition of Codenomicon, a leader in the area of dynamic security analysis, and well-known for independently discovering the infamous Heartbleed bug. With this acquisition, which is expected to close during Q3, Synopsys can deliver a more comprehensive security offering for the software development lifecycle.

To reflect our expanded presence, we’ve given the business group a new name – Software Integrity Group – which conveys our focus on software quality and security to help our customers develop complex software with rock solid integrity. We expect the Software Integrity Group to be slightly dilutive in the second half of the year. Nonetheless, we are raising our overall guidance, reflecting strength in our overall business.

In summary, Q2 was a strong quarter which solidifies our outlook for the year. Financially, we delivered excellent results and are raising our annual revenue midpoint and non-GAAP EPS guidance range. We see clear momentum with our new implementation and verification products, where we’re still in the early stages of a multi-year upgrade cycle. And our acquisition in the software security space will expand our presence in this highly important area. Let me now turn the call over to Trac Pham.

Thanks, Aart. Good afternoon everyone. As reflected in our excellent Q2 financial results, we are seeing good momentum and strong execution in our business. We met or exceeded all quarterly financial targets provided last quarter. We delivered growth in revenue and non-GAAP earnings and generated considerable cash flow. Based on the strength of the first half and our confidence in the rest of the year, we are raising our 2015 outlook for revenue and non-GAAP earnings and reaffirming operating cash flow.

Now to the numbers. As I talk through Q2 results and targets for the rest of the year, all comparisons will be year-over-year unless I specify otherwise.

Total revenue increased 8 percent to $557 million, reflecting solid organic and acquired-company growth. Greater than 90 percent of Q2 revenue came from beginning-of-quarter backlog, and one customer accounted for more than 10 percent.
The weighted average duration of our renewable customer license commitments was about 2.5 years. Duration will vary depending on customer requirements. We expect full year duration to be close to 3 years.

Total GAAP costs and expenses were $481 million. Total non-GAAP costs and expenses were $420 million, at the lower end of our target range, due largely to some delayed hiring.

Non-GAAP operating margin was 24.7 percent. Aligning with the multi-year strategy Aart outlined, we'll continue to drive company-wide operational discipline in order to fund our higher-growth initiatives.

GAAP earnings per share were 35 cents and non-GAAP earnings per share were 68 cents.

Turning to cash flow. We generated $155 million of operating cash flow and continue to target approximately $450 million for the year. We ended the quarter with total debt of $220 million. This includes $160 million from our revolver, which we used to fund the $180 million accelerated share repurchase in Q1, and $60 million from our term loan. As a reminder, the ASR is expected to be completed this quarter when the final shares are delivered. We ended the quarter with cash, cash equivalents and short-term investments of $1 billion, with 15 percent onshore.

Yesterday, we renewed and expanded our credit facility to $500 million. The revolver, which may be increased by an additional $150 million, provides excellent flexibility to support our strategy and business operations. We'll continue to optimize the use of cash to generate maximum long-term shareholder value. Each quarter we will evaluate our M&A, buyback and debt reduction options to determine the best balance.

DSO was 55 days and we ended Q2 with approximately 9,450 employees, with more than one third in lower-cost geographies.

Now to our third quarter and fiscal 2015 guidance, which excludes the impact of any future acquisitions.

For the third quarter, our targets are:

- Revenue between $550 and $560 million;
- Total GAAP costs and expenses between $481 and $501 million;
- Total non-GAAP costs and expenses between $430 and $440 million;
- Other income between $0 and $2 million;
• A non-GAAP tax rate of 21 to 22 percent;
• Outstanding shares between 155 and 159 million;
• GAAP earnings of 23 to 30 cents per share; and
• Non-GAAP earnings of 58 to 60 cents per share.

For Fiscal 2015:

• Revenue between $2.21 to $2.235 billion, a growth rate of approximately 7 to 9 percent;
• Other income between $6 and $10 million;
• A non-GAAP tax rate of 19 to 20 percent;
• Outstanding shares between 155 and 159 million;
• GAAP earnings of $1.39 to $1.49 per share, which includes the impact of approximately $85 million in stock-based compensation expense;
• Non-GAAP earnings of $2.76 to $2.81 per share. We've raised our guidance range while taking into account the slight dilution we expect from our Software Integrity Group in the second half of the year;
• Capital expenditures of approximately $100 million;
• And cash flow from operations of approximately $450 million.

In summary, Q2 was another strong quarter. We delivered excellent financial results, highlighted by top- and bottom-line growth, solid execution across our business lines, and strong cash flow generation. We are also increasing 2015 revenue and non-GAAP EPS guidance, reflecting strong momentum in the first half and our confidence in the rest of the year. With that, I'll turn it over to the operator for questions.