The following prepared remarks are an excerpt from Synopsys’ Third Quarter of 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 fourth quarter and fiscal year 2015 earnings call in December 2015.

These prepared remarks contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Any statements that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding Synopsys’ business, acquisitions, products, technologies, business model, new markets, customer demand for our technology, and projected financial results and business objectives. These statements involve known and unknown risks, uncertainties and other factors that could cause our actual results, time frames or achievements to differ materially from those expressed or implied in our forward-looking statements. Accordingly, we caution stockholders and prospective investors not to place undue reliance on these statements. Such risks, uncertainties, and factors include, but are 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 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, which could result in possible delays in customer orders, potential loss of customers, key employees, partners or vendors, uncertain customer demand and support obligations for product offerings, and disruption of ongoing business operations and diversion of management attention;
• 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 Oct. 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 latest Quarterly Report on Form 10-Q. Furthermore, Synopsys' actual tax rates applied to income for the fourth 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, tax law changes, and actions by government authorities. Finally, Synopsys’ targets for outstanding shares in the fourth 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 targets and the information contained in these prepared remarks represent Synopsys’ expectations and beliefs as of August 19, 2015. Although these prepared remarks will remain available on Synopsys’ website through the date of the earnings results call for the fourth quarter and fiscal year 2015, their continued availability through such date does not mean that Synopsys is reaffirming or confirming their continued validity. Furthermore, Synopsys is under no 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 third quarter fiscal year 2015 earnings release and financial supplement, each dated Aug. 19, 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 Aug. 19, 2015.

Good afternoon. I’m happy to report that our third quarter results were very strong, as we achieved revenue of $556 million, non-GAAP earnings per share of 63 cents and $275 million in cash flow from operations. In addition, we closed several key acquisitions, as we continue to strengthen and evolve the company for long-term growth. As a result, we are again raising our annual revenue guidance.
Characterizing the customer environment around us, the semiconductor and systems industry results and outlook remain mixed. Customer growth rates appear more challenged than three months ago as some customers thrive while others struggle. Consequently, consolidation continues, be it through asset purchases or full company combinations. While consolidations overall are somewhat of a headwind for EDA, our customers continue to invest heavily in designing highly advanced chips. They seek long-term relationships with trusted suppliers to meet the very demanding time-to-market expectations of their customers. In addition, our expansion into the software quality and security space has broadened our long-term opportunity to grow well beyond traditional EDA.

Thus, Synopsys continues to be well-positioned as partner of choice for electronic design and software development. Ranging from silicon to software, our multi-year strategy has three pillars: First, continue to build on our EDA leadership by providing state-of-the-art design and verification platforms with best-in-class support; Second, offer high-impact productivity solutions such as outsourced IP and extremely fast hardware/software prototyping, enabling customers to beat their relentless time-to-market constraints; And third, invest in – and grow – our software quality and security solutions. Software complexity is escalating in both electronic systems and in the broader application space, and security vulnerabilities are visibly creating ever-greater challenges. Let me provide some product and customer highlights that demonstrate our progress.

Throughout our entire history, Synopsys has endeavored to be the technology leader in the highest impact areas of EDA. The investments we’ve made – both internally and through acquisitions – continue to bear fruit in terms of: new, game-changing products; clear leadership in advanced node enablement; amazing customer design successes, and, the resulting customer wins.

While I’m sure it’s difficult for you to sort through the many claims of leadership in advanced designs, we are confident in our position and momentum. Let me provide some color and data points. The number of FinFET designs continues to grow rapidly, as leading-edge companies race to take advantage of significant power efficiencies. The number of active FinFET designs and tape-outs to date continues to grow quickly – now reaching almost 240. Synopsys is relied on for 95% of these.

Technology differentiation matters, and customers and partners count on us. For example, in June, we announced Intel Custom Foundry certification for Synopsys design tools for 14nm FinFET production. During the quarter, we achieved certification from multiple standards organizations for our IP portfolio for TSMC 16nm FinFET-Plus; And in June, we announced an expanded collaboration with UMC on embedded memory and test solutions for their 14nm FinFET process.
In physical design, our game-changing new product, IC Compiler II, continues to gain traction with rapidly growing adoption. Customers are seeing 10X improvement in throughput, and are using ICC II in designs throughout the process spectrum: During the Design Automation Conference in June, AMD, ARM, MediaTek, SocioNext and Samsung spoke to a standing-room-only crowd about their successes and deployment plans for ICC II; TSMC signed off on ICC II certification for their latest 16nm FinFET-Plus process. Demand is very strong and broad-based, as evidenced by the fastest ramp-up in bookings for any product in our history. As customers move rapidly from ICC I to ICC II, so does our support. We have transitioned a majority of our dedicated application engineers to ICC II, a further indication of its momentum. We are already serving 38 different customer logos with well over 100 production designs and tape-outs – a significant increase over last quarter.

Now to verification, where requirements have exploded as designs have become much, much more complex. Here, too, our Verification Continuum platform is truly a next-generation solution with both breadth and depth of technology. Approximately 80% of advanced designs already use Synopsys as the primary simulator, and over the past year we have steadily introduced many enhancements and a whole different level of integration throughout the platform. Propelled by multi-year collaborations with some of the hardest-driving semiconductor companies in the world, our Verification Continuum now integrates all the critical software and hardware verification tools onto a common infrastructure. As a result, Q3 was another strong quarter for verification, particularly in emulation, where growing demand is benefitting the entire EDA industry. At the Design Automation Conference, Altera, ARM, Cavium, AMD and Freescale spoke at a customer luncheon about their verification challenges and how Synopsys is helping them achieve success. On the analog/mixed-signal side – a technically challenging area – we introduced significant advances in our CustomSim product, which delivers a 2X speed-up.

Finally, earlier this month we closed the acquisition of Atrenta, a recognized leader in static and formal verification. Its SpyGlass product is an anchor technology in the industry that effectively addresses verification and power challenges early in the design cycle. The Atrenta technologies further enhance both our Verification Continuum platform and our implementation solution. While we’re in the early stages of integration, customer and employee reactions have been very positive.

Let me now move to IP, where our optimized solutions for the Automotive and Internet-of-Things market segments continue to strengthen. About six months ago, we launched a major initiative to robustly address the automotive space by augmenting our product portfolio to include automotive-grade IP. In June, we rolled-out a broad set of IP optimized for automotive chip development. The portfolio now meets key safety, reliability and quality requirements while continually being enhanced to address new
emerging standards. We also have worked with industry leaders such as Freescale, Infineon and Renesas to create Automotive Centers of Excellence with our virtual prototyping products, enabling our mutual customers to accelerate software development. Clearly, semiconductor content in automotive systems will grow significantly over the next 5-6 years. With this offering, we are expanding our influence in this important vertical market segment.

For the Internet of Things, the ability to connect multiple “smart” devices to the cloud and to each other is fueling great application innovation, ranging from wearable devices to machine-to-machine markets. Synopsys provides a comprehensive portfolio of IoT-ready IP, ranging from interfaces, to memory and logic, to power-efficient processors, to pre-validated subsystems. During the quarter we announced a collaboration with TSMC to develop an integrated IoT platform for TSMC’s 40nm ultra-low-power process. We also acquired Bluetooth Smart IP from Silicon Vision, for key low-power “smart home,” “portable health,” and industrial applications that require on-chip wireless integration. Lastly, and second only to connectivity, security of these devices is paramount. Through the acquisition of Elliptic Technologies, we added proven security IP solutions for identification, authentication, data encryption and content protection.

Which brings me naturally to our Software Quality and Security products. While security in the cyber world has been an issue for years, the combination of increasing connectivity and highly publicized breaches – including recently in the automotive domain – are spurring an intense security focus on the entire electronics and software applications space. Our entry into Software Quality and Security comes at just the right time, and Q3 was significant for our promising business unit.

As a refresher, last year’s Coverity acquisition expanded both our total available market and our customer base. It’s a compelling combination of technical, customer and channel adjacency to our existing business, as well as a significant TAM broadening into a new, higher-growth space that truly differentiates us as a company and investment.

During the quarter, we bolstered our security presence significantly with two acquisitions that are already showing great promise. The first is cyber security company Codenomicon, a leader in the area of dynamic security analysis, and well-known for independently discovering the infamous Heartbleed bug. We also acquired key assets from Quotium: specifically, the well-regarded Seeker product, a leader in application security testing. While we're in the early stages of building and scaling our presence in this space, we're already making a notable impact – evident earlier in the month at the Black Hat security conference - a conference renowned for its hacker, and security company attendees. For example, at a
standing-room-only Synopsys event that featured speakers from Underwriter's Laboratories and the Department of Homeland Security, UL spoke about its developing Cybersecurity Assurance Program and the collaboration with Synopsys to drive it forward. It’s designed to help companies manage security risks via a "certification" process, similar to what they have been doing for years for electrical hardware devices. UL's program, which is still under development, is expected to provide a baseline for cyber security assurance. Initially focused on medical devices, industrial control systems, and networking and telecom equipment, it would utilize technology from a number of key suppliers, including Synopsys.

Finally, reflecting the growing brand recognition in this space, we were named by Gartner as a “visionary” in their application security testing’s “Magic Quadrant.” This is a big deal – out of hundreds of companies in the application security testing space, only 19 are identified in this market-making group. Stay tuned as we evolve our software quality and security strategy in the coming months and quarters.

In summary, we delivered strong Q3 results and expect to exit the year with approximately 10% non-GAAP earnings per share growth. Our new products are driving excellent customer design successes and adoption momentum. And, lastly, we closed several key acquisitions, strengthening our technology and evolving Synopsys towards promising higher-growth market segments. Let me now turn the call over to Trac Pham.

Thanks, Aart. Good afternoon everyone. As you heard from Aart, we're seeing good momentum in the business. Our internal investments and key acquisitions are paying off in terms of broadening our portfolio with new technology and expanding our TAM with new growth opportunities. Our results reflect a business that is not only strong today, but also well positioned for future opportunities. Our excellent Q3 performance and Q4 outlook solidify another year of increased growth and profitability. In fact, we're raising our annual revenue outlook again, reflecting the strength of our business. We continue to execute very well, and we are committed to maximizing long-term shareholder value.

Now to the numbers. As I talk through Q3 results and targets for the rest of the year, all comparisons will be year-over-year unless I specify otherwise.

Total revenue increased 6.5 percent to $556 million. Greater than 90 percent of Q3 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, and we expect duration for the full year to be about 2.7 years.

Total GAAP costs and expenses were $494 million and total non-GAAP costs and expenses were $432 million, at the lower end of our target range. Non-GAAP operating margin was 22.4 percent for the quarter and 24.2 percent for the first three quarters of 2015. Because of the technical complexity inherent in our customers' design processes, it's critical that we prioritize leading edge product development. Nonetheless, we continue to drive global operational efficiency in order to deliver solid non-GAAP operating margin in the mid-20s range.

GAAP earnings per share were 35 cents and non-GAAP earnings per share were 63 cents.

Turning to cash flow, we generated $275 million of operating cash flow for the quarter. We are reiterating our full year target of approximately $450 million. Cash flows to date have been strong and we are able to offset the net outflows related to acquisitions. We ended Q3 with cash, cash equivalents and short-term investments of $1.1 billion - with 31 percent onshore - and total debt of $213 million. We have since funded the Atrenta acquisition from that U.S. cash, so would expect it to be lower at the end of Q4.

Over the years we have utilized our balance sheet very effectively, for both stock repurchases and M&A. Since 2010, we have repurchased more than $1.1 billion dollars of Synopsys stock. We have simultaneously made a number of important acquisitions to enter new higher-growth areas, most recently software quality and security, and prioritized P&L investments to expand our technology leadership. We believe this ongoing strategy will create significant value for our shareholders.

We closed several acquisitions in Q3, as well as Atrenta earlier this month. In addition, we completed the $180 million accelerated share repurchase plan initiated in Q1, in which we bought back a total of 4 million shares. For the trailing four quarters we've spent $220 million buying back more than 5 million shares, and have $200 million remaining on our share repurchase authorization.

Finally, DSO was 50 days, and we ended Q3 with approximately 9,835 employees, with more than one third in lower-cost geographies.

Now to our fourth quarter and fiscal 2015 guidance, which excludes the impact of any future acquisitions.
For the fourth quarter, our targets are:

- Revenue between $570 and $585 million, a wider range than we have provided in the past, to reflect increased variability due to lumpiness of hardware and consulting revenue;
- Total GAAP costs and expenses between $503 and $521 million;
- Total non-GAAP costs and expenses between $450 and $460 million;
- Other income between $0 and $2 million;
- A non-GAAP tax rate of 19 to 20 percent;
- Outstanding shares between 155 and 159 million;
- GAAP earnings of 31 to 38 cents per share; and
- Non-GAAP earnings of 65 to 67 cents per share.

For fiscal 2015:

- Revenue of $2.225 to $2.240 billion, a growth rate of approximately 8 to 9 percent;
- Other income between $10 and $12 million;
- A non-GAAP tax rate of 19 to 20 percent;
- Outstanding shares between 155 and 159 million;
- GAAP earnings of $1.43 to $1.50 per share, which includes the impact of approximately $87 million in stock-based compensation expense;
- Non-GAAP earnings of $2.76 to $2.78 per share, which reflects slight dilution from our recent acquisitions, largely offset by operational overachievement.
- Capital expenditures of approximately $100 million;
- And cash flow from operations of approximately $450 million.

While we continue to expect a revenue model that is approximately 90 percent time-based, going forward we will expand our quarterly guidance ranges to better reflect the variability inherent in hardware deals, for which revenue is recognized up-front, along with timing of consulting projects.

In summary, we're seeing good momentum in the business. Our internal investments and key acquisitions are paying off, with game-changing new technology and a brand new TAM. We continue to deliver strong results and are well-positioned for future opportunities. And our excellent Q3 performance and Q4 outlook solidify another year of strong cash flow and increased growth and profitability. With that, I'll turn it over to the operator for questions.