The following prepared remarks are an excerpt from Synopsys' Second Quarter Fiscal Year 2016 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 2016 earnings call in May 2016.

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, projected business results, business objectives, acquisitions, products, technologies, business model, new markets, customer demand for our technology, and our planned stock repurchase activity. These statements involve known and unknown risks, uncertainties and other factors that could cause our actual results 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: uncertainty in the growth of the semiconductor and electronics industry; consolidation among our customers; continued uncertainty in the global economy; our ability to realize the potential financial or strategic benefits of acquisitions we complete; changes in accounting principles or standards; fluctuation of our operating results; our highly competitive industries and our ability to meet our customers' demand for innovative technology at lower costs; our ability to protect our proprietary technology; application of the actual consolidated GAAP tax rate, or our decision to change our non-GAAP normalized tax rate, as a result of a number of factors, including the actual geographic mix of revenue during the quarter and year, tax law changes, actions by government authorities, or judgment by management, based upon the status of pending audits and settlements, to increase or decrease an income tax asset or liability; investments of more resources in research and development than anticipated; risks and compliance obligations relating to the global nature of our operations; cybersecurity threats or other security breaches; liquidity requirements in our U.S. operations; claims that our products infringe on third-party intellectual property rights; product errors or defects; litigation; the ability to obtain licenses to third-party software and intellectual property on reasonable terms or at all; the ability to timely recruit and retain senior management and key employees; evolving corporate governance and public disclosure regulations; the inherent limitations on the effectiveness of our controls and compliance programs; the impairment of our investment portfolio by the deterioration of capital markets and the change in the fair value of our non-qualified deferred compensation obligations; the accuracy of certain assumptions, judgments and estimates that affect amounts reported in our financial statements; and the impact of catastrophic events. More information on potential risks, uncertainties and other factors that could affect Synopsys' results is included in filings it makes with the Securities and Exchange Commission from time to time, including in the sections entitled "Risk Factors" in its Annual Report on Form 10-K for the fiscal year ended October 31, 2015 and in its Form 10-Q for the fiscal quarter ended April 30, 2016, to be filed with the SEC. The information provided herein is as of May 18, 2016. Although these prepared remarks are expected to remain available on Synopsys' website through the date of the earnings results call for the third quarter of fiscal year 2016, their continued availability through such date does not mean that Synopsys is reaffirming or confirming their continued validity. Synopsys undertakes no duty, and does not intend, to update any forward-looking statement, whether as a result of new information, future events or otherwise, unless 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 2016 earnings release and financial supplement, each dated May 18, 2016 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 18, 2016.

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Good afternoon. I am happy to report that our second quarter results were strong, and further solidify our outlook for the full year. We delivered revenue of $605 million and non-GAAP earnings per share of 81 cents. We completed our $200 million accelerated share buyback; and we are raising our annual revenue and operating cash flow targets, as well as the midpoint of EPS guidance. Trac will discuss these in more detail shortly.

Before reporting on our products, let me briefly comment on the landscape around us. We serve three types of customers: semiconductor companies, system houses, and, as of the last two years, software developers in multiple industries.

When looking at the semiconductor industry, both maturation and rejuvenation are readily apparent as the industry is gearing up for the age of “Smart Everything.” By linking “IoT cloud connectivity” with big data analysis and digital intelligence, companies are readying for the next wave of impact. To get there, customers are both restructuring their business and accelerating investments in advanced technology nodes capable of dealing with the performance and low power requirements of “Smart Everything” computation. While the semi consolidations of the last 18 months are working their way through the system, Synopsys has executed well. In some cases, we’ve even been able to broaden our business and position of trust with consolidating customers, contributing to our strong results. Simultaneously, our chip design tools are enabling a generation of Silicon that is amazingly, measured in single-digit nanometers.

Reviewing the system houses, we see an equally intense drive towards leveraging the coming opportunities of 5G mobile networks, cloud-based data mining, virtual and augmented reality, and digital intelligence applications. While system houses rely on the semiconductor industry or on their internal semi teams for the chips, their value and differentiation is amplified at the intersection of chips and software. One only has to look at the progress made in automated driving to realize that a whole new innovation age is not only technically possible, but is now on the threshold of becoming economically viable. In other words, the race is on, and readying software in the context of the silicon hardware is on the critical path to market. Here too, Synopsys is both well-placed, and our hardware/software Verification Continuum is changing the game for system houses under time-to-market pressure and slowed by software readiness.

Which brings me to our third set of customers: software developers. The advances I just mentioned are triggering a whole new wave of applications in every industry segment, including financial institutions, medical, industrial, energy, and so on. Software complexity is increasing considerably and with it, quality lapses and security vulnerabilities are growing to untenable levels. Here as well, Synopsys expects to play a major enablement role. In the last 24 months, we've assembled a great set of quality and security technologies, and this year we're delivering the first "Software Sign-Off" platform aimed at code quality and security certification.

So, while semiconductors and electronics are going through a transition with both churn and flat growth, we're in a promising position to continue delivering on short-term expectations while balancing investments towards long-term growth. We accomplish this by first and foremost, being absolutely committed to our customers' success via both technology and engineering support. Second, aligning our products on where the technology is going. Third, balancing our short-term and long-term focus to ensure sustainable success. And finally, by executing, executing, and executing.

Let me now provide some highlights from the quarter, beginning with our semiconductor customers. No matter what the economic state of the industry, the push towards bringing smaller, faster, low-power chips to market sooner is unabated. FinFET technology continues to advance towards still higher density and lower power. Our FinFET-proven flow, beginning with the earliest TCAD models, all the way to mask synthesis and yield optimization, is leading the way. Customers are clearly counting on us. Of the more than 300 FinFET designs either in progress or completed thus far, 95% rely on Synopsys digital tools.

Our fastest-ramping product ever, IC Compiler II, continues its rapid adoption. This quarter alone, we added 32 new active customers. And design tape-outs increased by a third, now totaling over 60. The benefits of the new architecture are steadily rolling out, with the latest release delivering even better quality of results for performance-critical designs. These improvements, coupled with excellent turnaround time, led HiSilicon/Huawei and Movidius to standardize on IC Compiler II for their next-generation SoCs. In March, NVIDIA, HiSilicon, Socionext and Qualcomm spoke about their successes with IC Compiler II at a standing-room only Silicon Valley User Group luncheon. Toshiba selected IC Compiler II for performance-critical designs across its groups, expanding its use and making it the predominant place & route flow at Toshiba for internal and external designs.

On the analog-mixed-signal side, we've introduced a brand new product: Custom Compiler. The result of several years of development and integration of best-in-class technologies, Custom Compiler accelerates a number of tedious tasks from weeks to days. While custom design is very manual and does not automate the same way that digital design does, Synopsys has pioneered a novel set of interactive assistance techniques with great productivity impact. Custom Compiler is tuned for leading FinFET designs, and TSMC has already certified the product for its advanced 10 and 7nm technologies. Rolled out in March, it has immediately generated enthusiasm and engagements in a field that's been stagnant for over a decade. ST Microelectronics has already deployed the product, and both GSI Technology and Asahi Kasei Microdevices have switched to our Custom Compiler solution from their previous flows.

Now to the systems space, where verification challenges are rapidly growing at the intersection of hardware and software. We continue to roll out innovations in our Verification Continuum platform, which integrates all key software and hardware elements critical to robust verification. In March we unveiled Cheetah – a breakthrough simulation innovation that drives massive parallelism to speed up our franchise VCS simulation product. Q2 was also strong from a hardware perspective. Emulation continues to do well, with more logos and repeat orders, as customers adopt the fastest emulation system in the market today. Physical prototyping – which is focused on early software development and system validation – also had a strong quarter.

Interestingly, as automotive is dramatically accelerating digital intelligence techniques and thus software content in cars, early adoption of functional verification and virtual prototyping is increasing, and our company-wide automotive solution is gaining traction. We delivered virtual prototyping to a leading supplier of driver assistance systems, enabling software development 15 months prior to silicon. During the quarter, we acquired WinterLogic, the leader in fault simulation, a key technology needed for compliance testing of that same standard. This technology fits well with our growing automotive portfolio. In addition, our verification solution was certified for the most stringent level of automotive safety measures defined by the ISO 26262 safety standard.

Semiconductor IP blocks are also a key part of our automotive strategy and portfolio. During the quarter, we announced a broad set of IP for TSMC's 16-nm FinFET Compact process, which is in high demand for automotive and many other applications. We also enhanced our portfolio of ARC processors optimized for automotive applications such as sensor processing and embedded control, by achieving ASIL-D Ready certification on an extended range of products. As our customer base tied to automotive expands to include new semiconductor entrants as well as companies such as Continental, Delphi and Bosch, we see this market segment growing for us over time.

More broadly, in Q2 we saw strong demand across our IP product lines – from logic libraries, to memories, to embedded security, to interfaces, and low power processors. As a key member of many standards bodies, we consistently enable early customer adoption of new interfaces. For example, we are the only IP company with USB 3.1 certification, and our solution is already embedded in many of the initial designs using this standard. We're also doing well with our security IP. We're engaged in multiple collaborations around our encryption cores, reflecting growing interest in an age of increased security concerns.

This brings me to the software developers across many industry segments. As the web of interconnected devices expands, and with it increasing software impact – but also complexity, developers are looking for tools to find vulnerabilities at the root of development. In other words: quality and security are no longer desirable characteristics, but an absolute necessity. They're also highly intertwined: quality is the foundation for security; security is the foundation for safety. Our vision is to deliver the "Software Sign-Off Platform" that enables systematic testing during development and security certification to the entire software supply chain. Just last month, we announced that Underwriters Laboratories – or UL for short – a well-known, global safety science organization, evaluated and selected Synopsys security tools for use in the newly launched UL Cybersecurity Assurance Program. This certification program provides an independent third-party security assessment of network-connectable devices, and is the culmination of a multi-year collaboration.

In summary, Q2 results were very strong. We're increasing our annual revenue and cash flow targets, as well as raising the midpoint of our EPS guidance range. We continue to execute well as an expanding customer base relies increasingly on our technology and support during a time of transition. And finally, our objective is to deliver long-term shareholder value by managing a portfolio of solutions and investments addressing near-, medium- and long-term waves of opportunity. We're solidly on-track to doing so. Let me now turn the call over to Trac.

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Thanks, Aart. Good afternoon everyone. In Q2, we closed another excellent quarter and continued to execute very well, even in the context of a challenging semiconductor environment. Our results reflect solid growth in revenue and non-GAAP earnings, strong business levels and significant cash flow generation. Based on our performance in the first half and visibility to the rest of the year, we are raising our 2016 outlook for revenue and operating cash flow, and raising the midpoint of non-GAAP earnings per share guidance.

Now to the numbers: As I talk through Q2 results and 2016 targets, all comparisons will be year-over-year unless I specify otherwise.

Total revenue increased 9 percent to $605 million. Growth was solid across all product platforms, with particular strength in hardware. Over 90 percent of revenue came from beginning-of-quarter backlog, and one customer accounted for more than 10 percent of revenue.

The weighted average duration of customer license commitments was approximately 2.3 years, which reflects normal quarterly fluctuation based on the mix of agreements. We expect the average for the full year to be approximately 3 years.

Total GAAP costs and expenses were $518 million, and total non-GAAP costs and expenses were $452 million - within our target range. Non-GAAP operating margin was 25 percent.

GAAP earnings per share were 45 cents, and non-GAAP earnings per share were 81 cents – at the high end of our target range.

We generated $222 million of operating cash flow. Collections were strong, including a few large payments that came in earlier than expected. Based on the strength of our first half results and outlook for the year, we are raising our 2016 operating cash flow target to a range of $510 to $530 million.

We ended the quarter with cash, cash equivalents and short-term investments of $960 million – with 14 percent onshore – and total debt of $250 million. We completed the $200 million accelerated share repurchase plan initiated in Q1 and bought back 4.5 million shares. As we've previously communicated, we plan to increase buybacks this year to reduce the share count. We have $300 million remaining on our share repurchase authorization. In addition, we closed a couple of small acquisitions, adding products and technology to augment our internal development in key areas.

DSO was 45 days, down from 57 in Q1, due largely to strong collections. We ended Q2 with 10,360 employees, with nearly half in lower-cost geographies. The increase in headcount was due to acquisitions and planned hiring.

Now to third quarter and fiscal 2016 guidance, which excludes the impact of any future acquisitions.

For Q3, the targets are:

- Revenue between $595 and $610 million. As we've previously communicated, we expect more variability in quarterly revenue driven by factors such as our growing hardware business, which generates upfront revenue, along with the timing of our consulting business;
- Total GAAP costs and expenses between $517 and $536 million;
- Total non-GAAP costs and expenses between $463 and $473 million;
- Other income between $0 and $2 million;
- A non-GAAP normalized tax rate of 19 percent;
- Outstanding shares between 153 and 156 million;
- GAAP earnings of 42 to 51 cents per share; and
- Non-GAAP earnings of 72 to 75 cents per share.

For 2016:

- We are raising our revenue target to $2.36 to $2.4 billion;
- Other income between $4 and $6 million;
- A non-GAAP normalized tax rate of 19 percent;
- Outstanding shares between 153 and 156 million;
- GAAP earnings of $1.67 to $1.79 per share;
- Non-GAAP earnings of $2.95 to $3.00 per share;
- Capital expenditures of approximately $80 million;
- And cash flow from operations of $510 to $530 million.

In summary, our Q2 results were excellent, highlighted by solid top- and bottom-line growth and significant cash flow generation. Our priorities remain centered on managing the business to maximize long-term shareholder value, with solid execution, a disciplined approach to managing expenses, and our continued emphasis on investments to drive sustainable growth and profitability. With that, I'll turn it over to the operator for questions.