The following prepared remarks are an excerpt from Synopsys' Second Quarter Fiscal Year 2010 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 earnings call in August 2010.

Certain statements included in these prepared remarks relating to Synopsys' business, products and technologies, including statements regarding projected financial results, 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 in general and weakness in the semiconductor and electronics industries; failure of customers to pay license fees as scheduled; lower-than-expected research and development spending by semiconductor and electronic systems companies; competition in the market for Synopsys' products and services; lower-than-anticipated new IC design starts; lower-than-anticipated purchases or delays in purchases of software or consulting services by Synopsys' customers, including delays in the renewal, or non-renewal, of Synopsys' license arrangements with major customers; changes in the mix of time-based licenses and upfront licenses; lower-than-expected orders; and difficulties in the integration of the products and operations of acquired companies or assets into Synopsys' products and operations.

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, 2010 and actual expenses, earnings per share, tax rate, cash flow from operations and other projections on a GAAP and non-GAAP basis for fiscal year 2010 could differ materially from the targets and guidance provided for a number of reasons, including, but not limited to, (i) a determination by Synopsys that any portion of its goodwill or intangible assets have become impaired, (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) integration and other acquisition-related expenses including amortization of intangible assets and costs formerly capitalized but now expensed due to new accounting guidance related to business combinations, (iv) changes in the anticipated amount of employee stock compensation expense recognized on 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) general economic conditions, and (ix) other risks as detailed in our SEC filings, including those described in the "Risk Factors" section in our Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2010. Furthermore, Synopsys' actual tax rates applied to income for the third quarter and fiscal year 2010 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 2010 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 19, 2010 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 or the financial supplement 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 2010 earnings release and financial supplement, each dated May 19, 2010 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 19, 2010.

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Good afternoon. I am pleased to report that in Q2 we again delivered solid results, with in-line revenue, good expense management, slightly above-target earnings, and strong cash generation. Moreover, we made good progress increasing our total available market for long-term growth. Over the past several years we have been executing on all fronts – R&D investments, global customer support, and targeted acquisitions, all resulting in very solid financials as we have emerged as a clear industry leader.

Let me first summarize last quarter's financial results. We met or exceeded all of our Q2 targets. We delivered non-GAAP earnings per share of 41 cents, with revenue of $338 million. We carefully managed expenses, and are on track to meet our operating margin target of 24% for the year. And we're heading towards meeting or beating our initial revenue, EPS and cash flow objectives for the year.

Before reporting on our strategy and execution, let me address the economic landscape that our customers are navigating, and its impact on EDA and Synopsys. While the world-wide economy is gradually recovering, the semiconductor industry has experienced a rapid increase in demand. Companies are ramping up chip production as quickly as possible. Most of our customers have reported solid results, are seeing a strong six-month outlook, and in many cases are reporting capacity shortages. Simultaneously, they do remain cautious, as there is an ongoing focus on costs throughout the supply chain. Semiconductor executives continue to reassess every part of their business, and are moving resources to the most value-added functions and projects.

Although I would continue to characterize the EDA market as challenging overall, Synopsys is well-positioned to help customers both in terms of cost and productivity focus, and also with the need to accelerate innovation and differentiation. Indeed, we continue to be the supplier of choice for many of these companies, and again in Q2, several customers chose us as their primary EDA partner, including Yamaha, a leader in audio and graphics chips.

As companies look at increased differentiation through a combination of hardware and software, they find Synopsys a ready partner to drive this emerging quest forward. Having said that, the implications of the customer landscape on near-term EDA growth are mixed. On the challenging side of the ledger we see cautious buyers, continued customer consolidation, considerable competitive pressures, and core EDA budgets that are not growing. On the positive side, however, the adoption of 40/45nm and below design nodes is accelerating, IP-reuse-based design methodologies are growing, hardware/software co-verification is becoming a necessity, and integrated design flows are demonstrating substantial productivity benefits. For Synopsys, this is good news. We continue to lead the industry in advanced designs all the way below 28nm, and our highly tuned product portfolio can handle the most difficult complexity challenges. Our IP is very strong, the interest in systems solutions is rapidly growing, and our R&D engine continues to keep us in a strong technology position. So notwithstanding the overall market challenges, we have been able to hold average run rates roughly flat, and are focusing our near-term growth efforts towards the IP and Systems adjacencies.

Consequently our strategy remains unchanged. One, maintain our technology momentum, increase our efficiency, and expand our core EDA leadership. Two, broaden our core EDA TAM by fielding adjacent products and capabilities. Three, expand our TAM beyond core EDA – by aggressively driving the emerging IP and Systems space.

Let me begin with some highlights around core EDA. Our R&D investments continue to pay off. Not only have we made outstanding progress in providing leading solutions for the most advanced nodes, but we are also innovating in how to optimize the design flows for substantial productivity improvements. Indeed, for the second year in a row, our Galaxy design platform has won the EDN Magazine Innovation Award. The driver this year was IC Validator, which integrates physical verification with IC Compiler physical design. With our in-design technology, designers can now perform physical verification checks and repairs during design, thereby reducing late-stage surprises and unnecessary iterations. Feedback from customers is strongly positive and adoption is progressing ahead of expectations. Driven by the integration of IC Validator and IC Compiler, one of the largest semiconductor companies in the world selected Synopsys to displace the incumbent.

In verification, our VCS simulator holds a large lead in customer usage for advanced designs. In addition, we’re increasingly beating the competition in more mature process nodes – with two competitive displacements in Q2 based primarily on better performance and memory efficiency.

In manufacturing, Renesas adopted our optical proximity correction for advanced 28nm development. By providing customers the best combination of accuracy and runtime performance, we can enable a shorter, more cost-effective development cycle.

Now to our efforts to broaden our core-EDA TAM. Our most notable focus has been the rapid maturing of Custom Designer, our analog mixed system design tool. We now have not only a complete solution, but also compelling differentiation in terms of ease-of-use, an open architecture, and tight integration with other Synopsys tools. The quality and size of engagement opportunities have steadily increased, yielding several customer wins. In addition, foundry process design kit – or PDK – support is growing for processes across the board, from 180 all the way to 28nm.

Another new product, Yield Explorer, is also generating notable customer interest as it accelerates yield ramp by diagnosing yield issues during design. One major semiconductor company successfully used Yield Explorer for 90 and 40nm designs, and is now broadly deploying the solution through their organization.

And finally, let me address our efforts beyond the core – up into the IP and Systems domain. This area is growing well, both organically and through acquisitions. Our strategic vision and investments of the last 10 years are coming together at exactly the right time. Today IP and Systems represents approximately 13% of our total revenue, and is rapidly approaching $200 million in annual business for us.

IP had a very strong Q2, with many large semiconductor and systems firms making purchases. The drivers for this success are the following: make vs. buy decisions have accelerated, as customers stringently evaluate their cost structures and refocus their engineering on differentiation. In addition, post-recession time-to-market pressures have increased, forcing customers to quickly move to the new connectivity standards. Since Synopsys not only provides a broad catalogue of these IP titles but also has a strong reputation for quality and performance, we're the natural choice to partner in this area. One of those titles is USB 3.0 also called SuperSpeed USB, a rapidly growing new standard that provides 10X speedup over the previous generation. Synopsys was the first IP vendor to pass compliance and certification testing for SuperSpeed USB, and our product won the EDN Innovation Award for IP this year. We are also seeing strong business in areas such as HDMI and DDR – on both the analog and digital sides. During the quarter we announced our new DDR multiPHY, which supports multiple standards on a single physical core without sacrificing power or area. Our development and porting engines are cranking, with dozens of new versions released each quarter. Synopsys is the second-largest IP provider in the world – second only to ARM – and is the #1 supplier of interface and analog IP.

Complementary to our IP focus is our systems strategy. In Q2 we bolstered our already-strong offerings in Algorithmic Design and Virtual Prototyping by closing acquisitions of VaST, a leading supplier of virtual prototypes for automotive and consumer, and CoWare, the industry's broadest and largest supplier of system-level tools. The integration of both companies is proceeding with good customer feedback and engagement. We've also further strengthened our portfolio with the introduction of our next-generation rapid prototyping. The new system doubles the size of designs that can be prototyped on a single board while increasing prototyping speed by 30%. Customer demand is very high, and we're selling these systems as fast as we can build them.

Synopsys has the most comprehensive set of solutions in the IP and Systems space, and is the clear leader in enabling our customers to accelerate software development, raise the level of design abstraction for efficient chip design, and have access to a rich set of IP and models.

In summary, Q2 was a solid quarter for Synopsys. We maintained average run rates and made progress in our broadened core EDA TAM. We executed particularly well in IP. We substantially solidified our emerging systems offering. And last, but not least, we delivered strong financial results and have a balance sheet that gives us many opportunities going forward.

With that, I'll turn the call over to Brian Beattie.
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Thanks, Aart. Good afternoon everyone. In my comments today I will summarize our financial results for the quarter and provide you with our Q3 and 2010 guidance. As a reminder, I'll be discussing certain GAAP and non-GAAP measures of our financial performance. We have provided reconciliations in the press release and financial supplement, which are posted on our website. In my discussions, all of my comparisons will be year-over-year unless I specify otherwise.

As Aart highlighted, we delivered solid Q2 results, meeting or exceeding all of the quarterly financial targets that we provided in February. Additionally, we continued our stock repurchase program, closed three acquisitions, and generated considerable operating cash flow. Let me now provide some additional detail on our financials.

Total revenue increased slightly to $338.1 million – at the high end of our target range – with greater than 90 percent of Q2 revenue coming from beginning-of-quarter backlog. Our IP and Systems business did very well this quarter, driven primarily by continued strength in our IP cores. One customer accounted for slightly more than 10 percent of second quarter revenue.

Turning to expenses, total GAAP costs and expenses were $293.1 million, which included $13.5 million of stock-based compensation, $11.8 million of amortization of intangible assets, and $6.1 million of acquisition-related costs. Total non-GAAP costs and expenses were $257.3 million – an expected year-over-year and sequential increase, and well within our target range. The year-over-year increase was due primarily to acquisitions, while the sequential increase was driven primarily by timing of quarterly expenses, that we explained last quarter.

As a result, non-GAAP operating margin was 23.9 percent for the quarter, and 25 percent for the first half of fiscal 2010. For all of 2010, we are well on track to achieving our non-GAAP operating margin target of approximately 24 percent.

Turning now to earnings, GAAP earnings were 26 cents per share. Non-GAAP earnings were 41 cents per share, slightly exceeding our target range.

Our non-GAAP tax rate was approximately 27 percent for the quarter. For modeling purposes, we think that a 27 percent non-GAAP tax rate is a reasonable estimate for the full year.

Greater than 90 percent of Q2 revenue came from beginning-of-quarter backlog, while upfront revenue was 4 percent of total, well within our target range of less than 10 percent. The average length of our renewable customer license commitments for the quarter was approximately 2.5 years, influenced by one large, two-year contract. This metric will fluctuate quarterly depending on the mix of contracts signed, but we continue to expect average duration to be approximately three years.

Now turning to our cash and balance sheet items. Our balance sheet remains very strong, with approximately $1.08 billion in cash and short-term investments, which takes into account our stock buybacks and acquisitions during the quarter. Of our total cash balance, about 50 percent is held within the United States. We generated approximately $82 million in cash from operations in the quarter, and we are raising our operating cash flow target for the year to $205 – $225 million. Capital expenditures were $6 million in the quarter and $14 million for the first half of fiscal 2010. For all of 2010, we expect capital spending to be in the range of $40 – $45 million.

At this time, let me briefly outline our current cash strategy, which outlines the following elements: maintain a high-quality, conservative risk profile for our cash portfolio; retain maximum financial flexibility; and prudently invest our cash to generate long-term shareholder value, including stock repurchases and disciplined M&A, or a combination of both. As you know, over the years we have been active in both stock repurchases and acquisitions. We used approximately $370 million during fiscal 2007 and 2008 to repurchase over 15 million shares of Synopsys stock. We were not active in repurchasing stock in 2009 based on the global economic environment. Each quarter we will evaluate the best uses of our cash. Our goal for the time being is to use stock repurchases to try and keep our share count roughly flat with first-quarter levels, and continue to look for the right acquisitions to add to our company.

During the quarter, we purchased approximately 1.1 million shares of Synopsys stock for $25 million, and have approximately $450 million remaining on our current authorization. We've also been very active on the M&A front, closing six acquisitions during the last 12 months. While we contemplated a number of acquisitions during the quarter, we closed three: CoWare, VaST, and a small company in the smart verification space, all of which were initially funded from our U.S. cash balance.

Continuing on with balance sheet items. Q2 net accounts receivable totaled $149.7 million and we maintained industry-leading DSOs of 40 days, reflecting the high quality of our current AR portfolio. Deferred revenue at the end of the quarter was $544 million, and we ended Q2 with approximately 6,000 employees. While we have selectively grown our headcount primarily through acquisitions, we continue to have more than a third of our total employees in lower-cost geographies.

Now let me address our third quarter and fiscal 2010 guidance. For the third quarter of FY10, our targets are:

- Revenue between $330 and $338 million;
- Total GAAP costs and expenses between $275 and $292 million, which includes approximately $14 million of stock-based compensation expense;
- Total non-GAAP costs and expenses between $251 and $261 million;
- Other income and expense between $0 and $3 million;
- A non-GAAP tax rate of approximately 27 percent;
- Outstanding shares between 149 and 154 million;
- GAAP earnings of $0.21 to $0.27 per share; and
- Non-GAAP earnings of $0.36 to $0.38 per share.
- We expect greater than 90 percent of the quarter's revenue to come from backlog.

Now our current fiscal 2010 outlook:

- We're slightly raising our revenue range, with our new target between $1.34 and $1.355 billion. At this time, we expect revenue from our second quarter acquisitions to be very modest, primarily reflecting the purchase accounting haircut that is applied to deferred revenue.
- Other income and expense between $4 and $8 million;
- A non-GAAP tax rate of approximately 27 percent;

- Outstanding shares between 149 and 154 million;

- GAAP earnings between $1.56 and $1.75 per share, which includes the impact of approximately $58 million in stock-based compensation expense;

- Non-GAAP earnings of $1.52 to $1.62 per share. We're maintaining our guidance range, even taking into account the small amount of dilution from our recent acquisitions.

- And as I mentioned earlier, we are targeting cash flow from operations of $205 to $225 million.

To conclude, we're pleased with another quarter of consistent execution. In addition to delivering solid financial results, we're investing in new and exciting areas that we believe will help drive the next growth cycle for Synopsys. With that, I'll turn it over to the operator for questions.