
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(MARK ONE)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2012

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 0-19807

SYNOPSYS®

SYNOPSYS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

56-1546236
(I.R.S. Employer
Identification Number)

**700 EAST MIDDLEFIELD ROAD
MOUNTAIN VIEW, CA 94043**
(Address of principal executive offices, including zip code)

(650) 584-5000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated Filer
Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of February 29, 2012, there were 145,795,657 shares of the registrant's common stock outstanding.

SYNOPSYS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE FISCAL QUARTER ENDED JANUARY 31, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SYNOPSYS, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value amounts)

	<u>January 31,</u> <u>2012</u>	<u>October 31,</u> <u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 811,339	\$ 855,077
Short-term investments	132,150	148,997
Total cash, cash equivalents and short-term investments	<u>943,489</u>	<u>1,004,074</u>
Accounts receivable, net of allowances of \$2,685 and \$2,489, respectively	213,763	203,124
Deferred income taxes	58,670	58,536
Income taxes receivable	22,369	25,545
Prepaid and other current assets	<u>51,359</u>	<u>46,776</u>
Total current assets	1,289,650	1,338,055
Property and equipment, net	157,219	159,517
Goodwill	1,295,485	1,289,286
Intangible assets, net	181,515	196,031
Long-term deferred income taxes	267,078	281,056
Other long-term assets	<u>108,053</u>	<u>103,389</u>
Total assets	<u>\$3,299,000</u>	<u>\$3,367,334</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 204,543	\$ 302,176
Accrued income taxes	6,630	3,079
Deferred revenue	<u>652,655</u>	<u>703,555</u>
Total current liabilities	863,828	1,008,810
Long-term accrued income taxes	82,203	92,940
Other long-term liabilities	111,031	108,076
Long-term deferred revenue	<u>70,133</u>	<u>56,208</u>
Total liabilities	1,127,195	1,266,034
Stockholders' equity:		
Preferred Stock, \$0.01 par value: 2,000 shares authorized; none outstanding	—	—
Common Stock, \$0.01 par value: 400,000 shares authorized; 143,943 and 143,308 shares outstanding, respectively	1,439	1,433
Capital in excess of par value	1,540,528	1,521,327
Retained earnings	1,001,409	957,517
Treasury stock, at cost: 13,321 and 13,956 shares, respectively	(347,416)	(358,032)
Accumulated other comprehensive income (loss)	<u>(24,155)</u>	<u>(20,945)</u>
Total stockholders' equity	<u>2,171,805</u>	<u>2,101,300</u>
Total liabilities and stockholders' equity	<u>\$3,299,000</u>	<u>\$3,367,334</u>

See accompanying notes to unaudited condensed consolidated financial statements.

SYNOPSYS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Three Months Ended	
	January 31,	
	<u>2012</u>	<u>2011</u>
Revenue:		
Time-based license	\$355,894	\$295,609
Upfront license	28,512	26,535
Maintenance and service	41,090	42,500
Total revenue	<u>425,496</u>	<u>364,644</u>
Cost of revenue:		
License	57,722	50,523
Maintenance and service	18,744	20,547
Amortization of intangible assets	13,388	13,235
Total cost of revenue	<u>89,854</u>	<u>84,305</u>
Gross margin	335,642	280,339
Operating expenses:		
Research and development	132,875	120,740
Sales and marketing	95,404	79,324
General and administrative	33,839	29,865
Amortization of intangible assets	3,521	3,748
Total operating expenses	<u>265,639</u>	<u>233,677</u>
Operating income	70,003	46,662
Other income (expense), net	3,826	5,670
Income before provision for income taxes	73,829	52,332
Provision (benefit) for income taxes	17,135	4,106
Net income	<u>\$ 56,694</u>	<u>\$ 48,226</u>
Net income per share:		
Basic	<u>\$ 0.39</u>	<u>\$ 0.32</u>
Diluted	<u>\$ 0.39</u>	<u>\$ 0.31</u>
Shares used in computing per share amounts:		
Basic	<u>143,882</u>	<u>149,016</u>
Diluted	<u>147,113</u>	<u>153,640</u>

See accompanying notes to unaudited condensed consolidated financial statements.

SYNOPSYS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended	
	January 31,	
	2012	2011
Cash flow from operating activities:		
Net income	\$ 56,694	\$ 48,226
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization and depreciation	31,965	31,676
Stock compensation	16,248	15,247
Allowance for doubtful accounts	497	550
Write-down of long-term investments	—	908
Deferred income taxes	14,533	3,371
Net changes in operating assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	(11,102)	10,614
Prepaid and other current assets	(8,972)	(14,786)
Other long-term assets	(3,457)	(4,920)
Accounts payable and other liabilities	(93,556)	(83,276)
Income taxes	(5,161)	(16,829)
Deferred revenue	(37,007)	(30,414)
Net cash used in operating activities	<u>(39,318)</u>	<u>(39,633)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of short-term investments	34,039	19,049
Purchases of short-term investments	(18,179)	(23,957)
Purchases of property and equipment	(11,016)	(10,217)
Cash paid for acquisitions and intangible assets, net of cash acquired	(5,623)	(2,741)
Capitalization of software development costs	(735)	(713)
Net cash used in investing activities	<u>(1,514)</u>	<u>(18,579)</u>
Cash flows from financing activities:		
Principal payments on capital leases	(1,081)	(655)
Issuances of common stock	41,106	52,464
Purchase of equity forward contract	(20,000)	—
Purchases of treasury stock	(20,000)	(64,997)
Net cash provided by (used in) financing activities	25	(13,188)
Effect of exchange rate changes on cash and cash equivalents	(2,931)	(3,395)
Net change in cash and cash equivalents	<u>(43,738)</u>	<u>(74,795)</u>
Cash and cash equivalents, beginning of year	855,077	775,407
Cash and cash equivalents, end of period	<u>\$811,339</u>	<u>\$700,612</u>

See accompanying notes to unaudited condensed consolidated financial statements.

SYNOPSYS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business

Synopsys, Inc. (Synopsys or the Company) is a world leader in supplying the electronic design automation (EDA) software that engineers use to design, create prototypes for and test integrated circuits, also known as chips. The Company also provides software and hardware used to develop the systems that incorporate integrated circuits and the software that runs on those integrated circuits. The Company's intellectual property (IP) products are pre-designed circuits that engineers use as components of larger chip designs rather than designing those circuits themselves. To complement these product offerings, the Company provides technical services to support our solutions and we help our customers develop chips and electronic systems.

Note 2. Summary of Significant Accounting Policies

The Company has prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Pursuant to these rules and regulations, the Company has condensed or omitted certain information and footnote disclosures it normally includes in its annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). In management's opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present its unaudited condensed consolidated balance sheets, results of operations and cash flows. The Company's interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in Synopsys' Annual Report on Form 10-K for the fiscal year ended October 31, 2011 as filed with the SEC on December 16, 2011.

To prepare financial statements in conformity with GAAP, management must make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates and may result in material effects on the Company's operating results and financial position.

Principles of Consolidation. The unaudited condensed consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Fiscal Year End. The Company's fiscal year generally ends on the Saturday nearest to October 31 and consists of 52 weeks, with the exception that approximately every five years, we have a 53-week year. When a 53-week year occurs, the Company includes the additional week in the first quarter to realign fiscal quarters with calendar quarters. Fiscal 2012 will be a 53-week year and will end November 3, 2012, and fiscal 2011 was a 52-week year and ended on October 29, 2011. Our results of operations for the first quarters of fiscal 2012 and 2011 included 14 weeks and 13 weeks, respectively, and ended on February 4, 2012 and January 29, 2011, respectively. For simplicity of disclosure, all fiscal periods are referred to as ending on a calendar month end.

Subsequent Events. The Company has evaluated subsequent events through the date that the financial statements were issued.

Note 3. Financial Assets and Liabilities

Cash, Cash Equivalents and Investments. Short-term investments include money market funds and municipal securities and are classified as available-for-sale securities. Cash, cash equivalents and investments are detailed as follows:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses Less Than 12 Months (in thousands)</u>	<u>Gross Unrealized Losses 12 Months or Longer</u>	<u>Estimated Fair Value(1)</u>
Balance at January 31, 2012					
Classified as current assets:					
Non-interest bearing cash					
(U.S. and International)	\$164,802	\$ —	\$ —	\$ —	\$164,802
Money market funds (U.S.)	27,662	—	—	—	27,662
Cash deposits and money market funds					
(International)	618,875	—	—	—	618,875
Municipal securities	<u>131,855</u>	<u>330</u>	<u>(35)</u>	<u>—</u>	<u>132,150</u>
	943,194	330	(35)	—	943,489
Classified as non-current assets:					
Strategic investments	<u>3,982</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,982</u>
Total	<u>\$947,176</u>	<u>\$ 330</u>	<u>\$ (35)</u>	<u>\$ —</u>	<u>\$947,471</u>

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses Less Than 12 Months (in thousands)</u>	<u>Gross Unrealized Losses 12 Months or Longer</u>	<u>Estimated Fair Value(1)</u>
Balance at October 31, 2011					
Classified as current assets:					
Non-interest bearing cash (U.S. and International)	\$ 149,998	\$ —	\$ —	\$ —	\$ 149,998
Money market funds (U.S.)	55,267	—	—	—	55,267
Cash deposits and money market funds (International)	649,812	—	—	—	649,812
Municipal securities	148,850	296	(149)	—	148,997
	<u>1,003,927</u>	<u>296</u>	<u>(149)</u>	<u>—</u>	<u>1,004,074</u>
Classified as non-current assets:					
Strategic investments	3,982	—	—	—	3,982
Total	<u>\$1,007,909</u>	<u>\$ 296</u>	<u>\$ (149)</u>	<u>\$ —</u>	<u>\$1,008,056</u>

(1) See Note 4 for further discussion of fair values.

As of January 31, 2012, the stated maturities of the Company's short-term investments are:

	<u>Fair Value (in thousands)</u>
Due in 1 year or less	\$ 83,365
Due in 1–5 years	22,332
Due in 6–10 years	11,602
Due after 10 years	14,851
Total	<u>\$ 132,150</u>

Actual maturities may differ from the stated maturities because borrowers may have the right to call or prepay certain obligations. These investments are classified as available-for-sale and are recorded on the balance sheet at fair market value with unrealized gains or losses, net of tax, reported as a component of accumulated other comprehensive income (loss), or OCI. The cost of securities sold is based on the specific identification method, and realized gains and losses are included in other income (expense), net. Realized gains and losses on sales of short-term investments have not been material in any period presented.

Derivatives. In accordance with ASC 815, *Derivatives and Hedging*, the Company recognizes derivative instruments as either assets or liabilities in the unaudited condensed consolidated financial statements at fair value and provides qualitative and quantitative disclosures about such derivatives. The Company operates internationally and is exposed to potentially adverse movements in foreign currency exchange rates. The Company enters into hedges in the form of foreign currency forward contracts to reduce its exposure to foreign currency rate changes on non-functional currency denominated forecasted transactions and balance sheet positions including: (1) certain assets and liabilities, (2) shipments forecasted to occur within approximately one month, (3) future billings and revenue on previously shipped orders, and (4) certain future intercompany invoices denominated in foreign currencies.

The duration of forward contracts ranges from one month to 21 months, the majority of which are short term. The Company does not use foreign currency forward contracts for speculative or trading purposes. The Company enters into foreign exchange forward contracts with high credit quality financial institutions that are rated 'A' or above and to date has not experienced nonperformance by counterparties. Further, the Company anticipates continued performance by all counterparties to such agreements.

The assets or liabilities associated with the forward contracts are recorded at fair value in other current assets or other current liabilities in the unaudited condensed consolidated balance sheet. The accounting for gains and losses resulting from changes in fair value depends on the use of the foreign currency forward contract and whether it is designated and qualifies for hedge accounting.

Cash Flow Hedging Activities

Certain foreign exchange forward contracts are designated and qualify as cash flow hedges. These contracts have durations of 21 months or less. Certain forward contracts are rolled over periodically to capture the full length of exposure to the Company's foreign currency risk, which can be up to three years. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on the hedged transactions. The effective portion of gains or losses resulting from changes in fair value of these hedges is initially reported, net of tax, as a component of accumulated other comprehensive income (loss), in stockholders' equity and reclassified into revenue or operating expenses, as appropriate, at the time the hedged transactions affect earnings. We expect most of the hedge balance in OCI to be reclassified to the statements of operations within the next twelve months.

Hedging effectiveness is evaluated monthly using spot rates, with any gain or loss caused by hedging ineffectiveness recorded in other income (expense), net. The premium/discount component of the forward contracts is recorded to other income (expense), net, and is not included in evaluating hedging effectiveness.

Non-designated Hedging Activities

The Company's foreign exchange forward contracts that are used to hedge non-functional currency denominated balance sheet assets and liabilities are not designated as hedging instruments. Accordingly, any gains or losses from changes in the fair value of the forward contracts are recorded in other income (expense), net. The gains and losses on these forward contracts generally offset the gains and losses associated with the underlying assets and liabilities, which are also recorded in other income (expense), net. The duration of the forward contracts for hedging the Company's balance sheet exposure is approximately one month.

The Company also has certain foreign exchange forward contracts for hedging certain international revenues and expenses that are not designated as hedging instruments. Accordingly, any gains or losses from changes in the fair value of the forward contracts are recorded in other income (expense), net. The gains and losses on these forward contracts generally offset the gains and losses associated with the foreign currency in operating income. The duration of these forward contracts is usually less than one year. The overall goal of the Company's hedging program is to minimize the impact of currency fluctuations on its net income over its fiscal year.

The effects on the changes in the fair values of non-designated forward contracts for the first quarter of fiscal years 2012 and 2011 are summarized as follows:

	Three Months ended January 31,	
	2012	2011
	(in thousands)	
Gain (loss) recorded in other income (expense), net	\$ (199)	\$ 2,168

Foreign currency forward contracts outstanding are as follows:

	As of January 31, 2012	As of October 31, 2011
	(in thousands)	
Total gross notional amount	\$ 533,485	\$ 599,844
Net fair value	\$ (15,112)	\$ (14,695)

The notional amounts for derivative instruments provide one measure of the transaction volume outstanding as of January 31, 2012 and October 31, 2011, respectively, and do not represent the amount of the Company's exposure to market gain or loss. The Company's exposure to market gain or loss will vary over time as a function of currency exchange rates. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

The following represents the unaudited condensed consolidated balance sheet location and amount of derivative instrument fair values segregated between designated and non-designated hedge instruments:

	Fair Values of derivative instruments designated as hedging instruments	Fair Values of derivative instruments not designated as hedging instruments
	(in thousands)	
As of January 31, 2012		
Other current assets	\$ 1,202	\$ 180
Other current liabilities	\$ 16,433	\$ 61
As of October 31, 2011		
Other current assets	\$ 2,161	\$ —
Other current liabilities	\$ 16,827	\$ 29

The following table represents the unaudited condensed consolidated statement of operations location and amount of gains and losses on derivative instrument fair values for designated hedge instruments, net of tax:

	Location of gain (loss) recognized in OCI on derivatives	Amount of gain (loss) recognized in OCI on derivatives (effective portion)	Location of gain (loss) reclassified from OCI	Amount of gain (loss) reclassified from OCI (effective portion)
		(in thousands)		
Three months ended January 31, 2012				
Foreign exchange contracts	Revenue	\$ 416	Revenue	\$ (1,610)
Foreign exchange contracts	Operating expenses	(5,100)	Operating expenses	(1,843)
Total		<u>\$ (4,684)</u>		<u>\$ (3,453)</u>
Three months ended January 31, 2011				
Foreign exchange contracts	Revenue	\$ 1,361	Revenue	\$ (2,926)
Foreign exchange contracts	Operating expenses	(502)	Operating expenses	(732)
Total		<u>\$ 859</u>		<u>\$ (3,658)</u>

The following table represents the ineffective portions and portions excluded from effectiveness testing of the hedge gains (losses) for derivative instruments designated as hedging instruments, which are recorded in other income (expense), net:

	Amount of gain (loss) recognized in income statement on derivatives (ineffective portion)(1)	Amount of gain (loss) recognized in income statement on derivatives (excluded from effectiveness testing)(2)
	(in thousands)	
For the three months ended January 31, 2012		
Foreign exchange contracts	\$ 76	\$ 401
For the three months ended January 31, 2011		
Foreign exchange contracts	\$ (40)	\$ (284)

(1) The ineffective portion includes forecast inaccuracies.

(2) The portion excluded from effectiveness includes the discount earned or premium paid for the contracts.

Note 4. Fair Value Measures

ASC 820-10, *Fair Value Measurements and Disclosures*, defines fair value, establishes guidelines and enhances disclosure requirements for fair value measurements.

The accounting guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The accounting guidance also establishes a fair value hierarchy based on the independence of the source and objective evidence of the inputs used. There are three fair value hierarchies based upon the level of inputs that are significant to fair value measurement:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical instruments in active markets;

Level 2—Observable inputs other than quoted prices included in Level 1 for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-driven valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3—Unobservable inputs to the valuation derived from fair valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

On a recurring basis, the Company measures the fair value of certain of its assets and liabilities, which include cash equivalents, short-term investments, non-qualified deferred compensation plan assets, foreign currency derivative contracts and contingent consideration associated with business combinations.

The Company's cash equivalents and short-term investments are classified within Level 1 or Level 2 because they are valued using quoted market prices in an active market or alternative independent pricing sources and models utilizing market observable inputs.

The Company's non-qualified deferred compensation plan assets consist of money market and mutual funds invested in domestic and international marketable securities that are directly observable in active markets and are therefore classified within Level 1.

The Company's foreign currency derivative contracts are classified within Level 2 because these contracts are not actively traded and the valuation inputs are based on quoted prices and market observable data of similar instruments.

The Company's liabilities for contingent consideration are classified within Level 3 because these valuations are based on management assumptions including discount rates and estimated probabilities of achievement of certain milestones which are unobservable in the market. The Company recorded a reduction of \$2.3 million and \$0.2 million during the three months ended January 31, 2012 and January 31, 2011, respectively, in research and development expenses due to the change in fair value of the liability for the contingent consideration. As of January 31, 2012 and October 31, 2011, the fair value of the liabilities for contingent consideration was estimated at \$2.8 million and \$4.3 million, respectively. No cash has been paid related to these liabilities as of January 31, 2012.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below as of January 31, 2012:

Description	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
Assets				
Cash equivalents:				
Money market funds	\$515,617	\$ 515,617	\$ —	\$ —
Short-term investments:				
Municipal securities	132,150	—	132,150	—
Prepaid and other current assets:				
Foreign currency derivative contracts	1,382	—	1,382	—
Other long-term assets:				
Deferred compensation plan assets	93,946	93,946	—	—
Total assets	\$743,095	\$ 609,563	\$ 133,532	\$ —
Liabilities				
Accounts payable and accrued liabilities:				
Foreign currency derivative contracts	\$ 16,494	\$ —	\$ 16,494	\$ —
Contingent consideration(1)	1,416	—	—	1,416
Other long-term liabilities:				
Contingent consideration(1)	1,336	—	—	1,336
Total liabilities	\$ 19,246	\$ —	\$ 16,494	\$ 2,752

(1) Includes addition of contingent consideration of \$0.7 million arising from a business combination completed during fiscal 2012 which is payable over 2 years.

Assets and liabilities measured at fair value on a recurring basis are summarized below as of October 31, 2011:

Description	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
Assets				
Cash equivalents:				
Money market funds	\$543,770	\$ 543,770	\$ —	\$ —
Short-term investments:				
Municipal securities	148,997	—	148,997	—
Prepaid and other current assets:				
Foreign currency derivative contracts	2,161	—	2,161	—
Other long-term assets:				
Deferred compensation plan assets	90,060	90,060	—	—
Total assets	\$784,988	\$ 633,830	\$ 151,158	\$ —
Liabilities				
Accounts payable and accrued liabilities:				
Foreign currency derivative contracts	\$ 16,856	\$ —	\$ 16,856	\$ —
Contingent consideration	2,096	—	—	2,096
Other long-term liabilities:				
Contingent consideration	2,200	—	—	2,200
Total liabilities	\$ 21,152	\$ —	\$ 16,856	\$ 4,296

Equity investments in privately-held companies are accounted for under the cost method of accounting. These equity investments (also called non-marketable equity securities) are classified within Level 3 as they are valued using significant unobservable inputs or data in an inactive market, and the valuation requires management judgment due to the absence of market price and inherent lack of liquidity. The non-marketable equity securities are measured and recorded at fair value when an event or circumstance which impacts the fair value of these securities indicates an other-than-temporary decline in value has occurred. As of January 31, 2012, the carrying value of these investments was \$4.0 million.

The following non-marketable equity securities were measured and recorded at fair value within other long-term assets on a non-recurring basis. The losses on these securities were recorded in other (expense) income, net.

	Balance as of January 31, 2011	Significant Unobservable Inputs (Level 3) (in thousands)	Total (losses) during three months ended January 31, 2011
Non-marketable equity securities	\$ 92	\$ 92	\$ (908)

The Company did not recognize any impairment during the three months ended January 31, 2012.

Note 5. Business Combinations

During the three months ended January 31, 2012, the Company completed an acquisition for an initial cash consideration of \$5.6 million, net of cash acquired, and preliminarily allocated the total purchase consideration to the assets and liabilities acquired based on their respective fair values at the acquisition date. This acquisition is not considered material individually to the Company's unaudited condensed consolidated balance sheet and results of operations. The unaudited condensed consolidated financial statements include the operating results of the acquired business from the date of acquisition.

Note 6. Goodwill and Intangible Assets

Goodwill as of January 31, 2012 consisted of the following:

	(in thousands)
Balance at October 31, 2011	\$ 1,289,286
Addition(1)	5,458
Adjustment(2)	741
Balance at January 31, 2012	<u>\$ 1,295,485</u>

(1) Addition relates to an acquisition in the current quarter.

(2) Adjustment relates to achievement of certain milestones relating to a contingent consideration for an acquisition that closed prior to fiscal 2010.

Intangible assets as of January 31, 2012 consisted of the following:

	Gross Assets(1)	Accumulated Amortization(1) (in thousands)	Net Assets
Core/developed technology	\$228,328	\$ 115,766	\$112,562
Customer relationships	80,838	34,451	46,387
Contract rights intangible	33,400	21,808	11,592
Covenants not to compete	2,530	2,176	354
Trademarks and trade names	6,400	2,816	3,584
In-process research and development (IPR&D)(2)	3,725	—	3,725
Capitalized software development costs	11,980	8,669	3,311
Total	<u>\$367,201</u>	<u>\$ 185,686</u>	<u>\$181,515</u>

(1) During the first quarter of fiscal 2012, the Company acquired \$2.4 million of additional intangible assets.

(2) IPR&D is reclassified to Core/developed technology upon completion.

Intangible assets as of October 31, 2011 consisted of the following:

	<u>Gross Assets</u>	<u>Accumulated Amortization (in thousands)</u>	<u>Net Assets</u>
Core/developed technology	\$ 226,928	\$ 104,391	\$122,537
Customer relationships	80,238	31,250	48,988
Contract rights intangible	33,300	19,801	13,499
Covenants not to compete	2,530	2,105	425
Trademarks and trade names	6,400	2,561	3,839
In-process research and development (IPR&D)(1)	3,425	—	3,425
Capitalized software development costs	11,245	7,927	3,318
Total	<u>\$ 364,066</u>	<u>\$ 168,035</u>	<u>\$196,031</u>

(1) IPR&D is reclassified to Core/developed technology upon completion.

Amortization expense related to intangible assets consisted of the following:

	<u>Three Months Ended January 31,</u>	
	<u>2012</u>	<u>2011</u>
	<u>(in thousands)</u>	
Core/developed technology	\$11,376	\$11,318
Customer relationships	3,201	3,193
Contract rights intangible	2,007	2,167
Covenants not to compete	70	50
Trademarks and trade names	255	255
Capitalized software development costs(1)	742	739
Total	<u>\$17,651</u>	<u>\$17,722</u>

(1) Amortization of capitalized software development costs is included in cost of license revenue in the unaudited condensed consolidated statements of operations.

The following table presents the estimated future amortization of intangible assets:

<u>Fiscal Year</u>	<u>(in thousands)</u>
Remainder of fiscal 2012	\$ 49,281
2013	54,065
2014	33,688
2015	19,105
2016	13,458
2017 and thereafter	8,193
IPR&D(1)	3,725
Total	<u>\$ 181,515</u>

(1) IPR&D projects are estimated to be completed within two years as of January 31, 2012. Amortization will begin upon project completion or the asset will be written off upon abandonment.

Note 7. Liabilities

Accounts payable and accrued liabilities consist of:

	<u>January 31, 2012</u>	<u>October 31, 2011</u>
	<u>(in thousands)</u>	
Payroll and related benefits	\$142,482	\$238,691
Other accrued liabilities	48,381	53,173
Accounts payable	9,254	6,956
Acquisition-related costs	4,426	3,356
Total	<u>\$204,543</u>	<u>\$302,176</u>

Other long-term liabilities consist of:

	January 31, 2012	October 31, 2011
	(in thousands)	
Deferred compensation liability	\$ 93,946	\$ 90,060
Other long-term liabilities	17,085	18,016
Total	<u>\$111,031</u>	<u>\$108,076</u>

Note 8. Credit Facility

On October 14, 2011, the Company entered into a five-year, \$350.0 million senior unsecured revolving credit facility providing for loans to the Company and its foreign subsidiaries. The facility replaces the Company's previous \$300.0 million senior unsecured facility, which was terminated effective October 14, 2011. The facility contains financial covenants requiring the Company to operate within a maximum leverage ratio and specified levels of cash, as well as other non-financial covenants. The facility terminates on October 14, 2016. Borrowings under the facility bear interest at a floating rate based on a margin over the Company's choice of base rates as defined in the credit agreement. In addition, commitment fees are payable on the facility at rates between 0.150% and 0.300% per year based on the Company's leverage ratio. As of January 31, 2012, the Company had no outstanding borrowings under this credit facility and was in compliance with all covenants. Also, see Note 18, Subsequent Events.

Note 9. Comprehensive Income

The following table presents the components of comprehensive income:

	Three Months Ended January 31,	
	2012	2011
	(in thousands)	
Net income	\$56,694	\$48,226
Change in unrealized (loss) gain on investments, net of tax of \$(59) and \$168, respectively	90	(153)
Deferred gain (loss) on cash flow hedges, net of tax of \$929 and \$79, respectively	(4,706)	998
Reclassification adjustment on deferred loss (gain) on cash flow hedges, net of tax of \$(988) and \$(861), respectively	3,453	3,698
Foreign currency translation adjustment	(2,047)	(1,959)
Total	<u>\$53,484</u>	<u>\$50,810</u>

Note 10. Stock Repurchase Program

The Company's Board of Directors (Board) previously approved a stock repurchase program pursuant to which the Company was authorized to purchase up to \$500.0 million of its common stock, and has periodically replenished the stock repurchase program to such amount. The Board replenished the stock repurchase program up to \$500.0 million on May 25, 2011. The Company repurchases shares to offset dilution caused by ongoing stock issuances from existing plans for equity compensation awards, acquisitions, and when management believes it is a good use of cash. Repurchases are transacted in accordance with Rule 10b-18 of the Securities Exchange Act of 1934 (Exchange Act) and may be made through any means including, but not limited to, open market purchases, plans executed under Rule 10b5-1(c) of the Exchange Act and structured transactions. As of January 31, 2012, \$272.4 million remained available for further repurchases under the program.

On September 30, 2011, the Company entered into an accelerated share repurchase agreement (the "September 2011 ASR") to repurchase an aggregate of \$75.0 million of the Company's common stock. Pursuant to the September 2011 ASR, the Company made a prepayment of \$75.0 million and received an initial share delivery of 1,710,376 shares of the Company's common stock. The initial share delivery was valued at \$41.7 million and was recorded as treasury stock in the consolidated balance sheet as of October 31, 2011. The remaining balance of \$33.3 million was recorded as an equity forward contract, which is included in "Capital in excess of par value" in the consolidated balance sheet as of October 31, 2011. The equity forward contract was settled with 1,105,457 shares of the Company's common stock during the first quarter of fiscal 2012.

On January 6, 2012, the Company entered into an additional accelerated share repurchase agreement (the “January 2012 ASR”) to repurchase an aggregate of \$40.0 million of the Company’s common stock. Pursuant to the January 2012 ASR, the Company made a prepayment of \$40.0 million and received an initial share delivery of 744,325 shares of the Company’s common stock. The initial share delivery was valued at \$20.0 million and was recorded as treasury stock in the unaudited condensed consolidated balance sheet as of January 31, 2012. The remaining balance of \$20.0 million was recorded as an equity forward contract, which is included in “Capital in excess of par value” in the unaudited condensed consolidated balance sheet as of January 31, 2012. Under the terms of the January 2012 ASR, the specific number of shares that the Company ultimately repurchases will be based on the volume weighted average share price of the Company’s common stock during the repurchase period, less a discount.

Stock repurchase activities are as follow:

	Three Months Ended January 31,	
	2012	2011
	(in thousands, except per share price)	
Shares repurchased	1,850	2,419
Average purchase price per share	\$ 28.83	\$ 26.87
Aggregate purchase price(1)	\$ 53,335	\$ 64,997
Reissuance of treasury stock	2,485	3,186

(1) Includes \$33.3 million from the settlement of the September 2011 ASR equity forward contract. Does not include \$20.0 million from the January 2012 ASR referenced above.

Note 11. Stock Compensation

The compensation cost recognized in the unaudited condensed consolidated statements of operations for the Company’s stock compensation arrangements was as follows:

	Three Months Ended January 31,	
	2012	2011
	(in thousands)	
Cost of license	\$ 1,755	\$ 1,493
Cost of maintenance and service	446	354
Research and development expense	7,553	7,842
Sales and marketing expense	3,291	2,638
General and administrative expense	3,203	2,920
Stock compensation expense before taxes	16,248	15,247
Income tax benefit	(3,560)	(4,465)
Stock compensation expense after taxes	<u>\$12,688</u>	<u>\$10,782</u>

As of January 31, 2012, there was \$107.6 million of unamortized share-based compensation expense, which is expected to be amortized over a weighted-average period of approximately 2.8 years.

The intrinsic value of equity awards exercised during the periods below is as follows:

	Three Months Ended January 31,	
	2012	2011
	(in thousands)	
Intrinsic value of awards exercised	\$17,969	\$15,049

Note 12. Net Income per Share

The Company computes basic net income per share by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share reflects the dilution from potential common shares outstanding, such as stock options and unvested restricted stock units and awards, during the period using the treasury stock method.

The table below reconciles the weighted-average common shares used to calculate basic net income per share with the weighted-average common shares used to calculate diluted net income per share.

	Three Months Ended January 31,	
	2012	2011
	(in thousands)	
Numerator:		
Net income	\$ 56,694	\$ 48,226
Denominator:		
Weighted-average common shares for basic net income per share	143,882	149,016
Dilutive effect of potential common shares from equity-based compensation	<u>3,231</u>	<u>4,624</u>
Weighted-average common shares for diluted net income per share	<u>147,113</u>	<u>153,640</u>
Net income per share:		
Basic	\$ 0.39	\$ 0.32
Diluted	\$ 0.39	\$ 0.31
Anti-dilutive employee stock-based awards excluded(1)	3,876	3,561

(1) These stock options and unvested restricted stock units and restricted stock awards were anti-dilutive for the respective periods and are excluded in calculating diluted net income per share. While such awards were anti-dilutive for the respective periods, they could be dilutive in the future.

Note 13. Segment Disclosure

ASC 280, *Segment Reporting*, requires disclosures of certain information regarding operating segments, products and services, geographic areas of operation and major customers. Segment reporting is based upon the “management approach,” i.e., how management organizes the Company’s operating segments for which separate financial information is (1) available and (2) evaluated regularly by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources and in assessing performance. Synopsys’ CODMs are the Company’s Chief Executive Officer and Chief Operating Officer.

The Company provides software and hardware products and consulting services in the EDA software industry. The Company operates in a single segment. In making operating decisions, the CODMs primarily consider consolidated financial information, accompanied by disaggregated information about revenues by geographic region. Specifically, the CODMs consider where individual “seats” or licenses of the Company’s products are used in allocating revenue to particular geographic areas. Revenue is defined as revenues from external customers. Goodwill is not allocated since the Company operates in one reportable operating segment.

The following table presents the revenues related to operations by geographic areas:

	Three Months Ended January 31,	
	2012	2011
	(in thousands)	
Revenue:		
United States	\$197,682	\$166,700
Europe	54,616	49,329
Japan	77,121	66,601
Asia Pacific and Other	<u>96,077</u>	<u>82,014</u>
Consolidated	<u>\$425,496</u>	<u>\$364,644</u>

Geographic revenue data for multi-region, multi-product transactions reflect internal allocations and is therefore subject to certain assumptions and to the Company’s methodology.

One customer accounted for 10.6% and 10.9% of the Company's unaudited condensed consolidated revenue in the three months ended January 31, 2012 and 2011, respectively.

Note 14. Other Income (Expense), net

The following table presents the components of other income (expense), net:

	Three Months Ended January 31,	
	2012	2011
	(in thousands)	
Interest income	\$ 478	\$ 614
Gain (loss) on assets related to deferred compensation plan	2,620	3,238
Foreign currency exchange gain (loss)	25	2,611
Write-down of long-term investments	—	(908)
Other, net	703	115
Total	<u>\$3,826</u>	<u>\$5,670</u>

Note 15. Taxes

Effective Tax Rate

The Company estimates its annual effective tax rate at the end of each fiscal quarter. The Company's estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and the Company's interpretations of tax laws and possible outcomes of audits.

The following table presents the provision for income taxes and the effective tax rates:

	Three Months Ended January 31,	
	2012	2011
	(in thousands)	
Income before income taxes	\$73,829	\$52,332
Provision for income tax	\$17,135	\$ 4,106
Effective tax rate	23.2%	7.8%

The Company's effective tax rate for the three months ended January 31, 2012 is lower than the statutory federal income tax rate of 35% primarily due to the lower tax rates applicable to its non-U.S. operations as well as the U.S. federal R&D tax credit, partially offset by non-deductible stock compensation. The effective tax rate increased in the three months ended January 31, 2012, as compared to the same period in fiscal 2011, primarily due to the extension of the U.S. federal R&D credit in fiscal 2011, which resulted in an additional tax credit for ten months of fiscal 2010 as well as a full year credit for fiscal 2011, compared to only two months of credit in fiscal 2012 as a result of the expiration of the credit on December 31, 2011. The Company files income tax returns in the U.S. and various state and local jurisdictions. Its subsidiaries file tax returns in various foreign jurisdictions, including Ireland, Hungary, Taiwan and Japan. The Company remains subject to income tax examinations in the United States for fiscal years after 2009. The Company's subsidiaries in Taiwan and Hungary remain subject to tax examinations for fiscal years after 2005 and the subsidiaries in Japan and Ireland remain subject to tax examinations for fiscal years after 2006. See *IRS Examinations* below for the status of our current federal income tax audits.

The timing of the resolution of income tax examinations is highly uncertain as well as the amounts and timing of various tax payments that are part of the settlement process. This could cause large fluctuations in the balance sheet classification of current and non-current assets and liabilities. The Company believes that in the coming 12 months, it is reasonably possible that either certain audits will conclude or the statute of limitations on certain state and foreign income and withholding taxes will expire, or both. Given the uncertainty as to ultimate settlement terms, the timing of payment and the impact of such settlements on other uncertain tax positions, the range of the estimated potential decrease in underlying unrecognized tax benefits is between \$0 and \$178 million.

IRS Examinations

The Company is regularly audited by the IRS. In fiscal 2011, the Company reached a final settlement with the Examination Division of the IRS for its audits of fiscal years 2006 through 2009. As a result of the settlement, the Company's unrecognized tax benefits decreased by \$35.9 million and the impact to other balance sheet tax accounts was not material. The net tax benefit resulting from the settlement was \$32.8 million.

The audit of certain returns filed by Synplicity, Inc. prior to its acquisition by the Company in May 2008 was finalized in the first quarter of fiscal 2011, which resulted in a decrease in unrecognized tax benefits of \$4.0 million.

Non-U.S. Examinations

The Company's subsidiaries are being audited in a number of jurisdictions, including Taiwan (for fiscal 2008 and 2010) and Hungary (for fiscal years after 2005). The Company believes that it has adequately provided for potential tax adjustments in both jurisdictions, including interest. The Hungarian tax authorities have disallowed the Company's claim to tax benefits with respect to certain intercompany charges, which would result in additional tax and interest for the years under examination and for subsequent years. In addition, Hungarian tax rules provide for penalties of up to 50% of the amount of additional tax, which may be abated if certain requirements are met, and are subject to further administrative appeal. The Company believes that it has meritorious defenses against the imposition of significant penalties and accordingly has not provided for such penalties in its financial statements.

Note 16. Contingencies

On November 30, 2011, the Company entered into a definitive agreement pursuant to which the Company, through its wholly owned subsidiary, agreed to acquire 100% of the outstanding common stock of Magma Design Automation, Inc. (Magma) in exchange for cash. Subsequent to the end of the quarter, the Company completed the Magma acquisition; also, see Note 18, Subsequent Events.

The Company is subject to routine legal proceedings, as well as demands, claims and threatened litigation, which arise in the normal course of its business. The ultimate outcome of any litigation is uncertain and unfavorable outcomes could have a negative impact on the Company's financial position and results of operations.

In connection with the Company's definitive merger agreement to acquire Magma, four putative stockholder class actions were filed against Magma, Magma's board of directors, Synopsys and the Synopsys merger subsidiary on December 5, 2011, December 9, 2011, December 13, 2011, and December 19, 2011, in state court in California and Delaware (collectively, the Magma Lawsuits). The Magma Lawsuits allege, among other things, that Magma and its directors breached their fiduciary duties to Magma's stockholders in negotiating and entering into the definitive merger agreement and by agreeing to sell Magma at an unfair price, and that Magma and Synopsys aided and abetted these alleged breaches of fiduciary duties. Subsequent to the end of the quarter, the parties to the Magma Lawsuits entered into a memorandum of understanding; also, see Note 18, Subsequent Events.

On December 5, 2011, plaintiff Dynetix Design Solutions, Inc. filed a patent infringement lawsuit against the Company. The lawsuit alleges, among other things, that the Company's VCS functional verification tool, and more specifically its VCS multicore technology and VCS Cloud product, infringes Dynetix's United States Patent No. 6,466,898, and that such infringement is willful. The lawsuit seeks, among other things, compensatory damages and a permanent injunction.

Note 17. Effect of New Accounting Pronouncements

The effect of recent accounting pronouncements has not changed from the Company's Annual Report on the Form 10-K for the fiscal year ended October 31, 2011.

Note 18. Subsequent Events

On February 10, 2012, the parties to the Magma Lawsuits entered into a memorandum of understanding (MOU) in which they agreed on the terms of a proposed settlement of the lawsuits, which would include the dismissal with prejudice of all claims against all of the defendants. Pursuant to the MOU, Magma agreed to make certain additional disclosures concerning Magma's acquisition by Synopsys, which supplemented the information provided in Magma's proxy statement filed with the Securities and Exchange Commission on January 10, 2012, and to pay certain legal fees and expenses of plaintiffs' counsel. The MOU contemplates that the parties will enter into a stipulation of settlement. The stipulation of settlement will be subject to customary conditions, including court approval following notice to Magma's stockholders.

On February 17, 2012, the Company entered into an amended and restated credit agreement with several lenders (the "Credit Agreement") providing for (i) a \$350.0 million senior unsecured revolving credit facility and (ii) a \$150.0 million senior unsecured term loan facility. The Credit Agreement amends and restates the Company's previous credit agreement providing for the credit facility referred to in Note 8, in order to add a new term loan facility to finance a portion of the purchase price for the acquisition of Magma on February 22, 2012. Other than the inclusion of the new term loan facility, the terms and conditions of the Credit Agreement are substantially similar to the previous credit agreement. The Credit Agreement terminates on October 14, 2016. Subject to obtaining additional commitments from lenders, the principal amount of the loans provided under the Credit Agreement may be increased by the Company by up to an additional \$150.0 million. The Credit Agreement contains financial covenants requiring the Company to operate within a maximum leverage ratio and maintain specified levels of cash, as well as other non-financial covenants. Borrowings bear interest at a floating rate based on a margin over the Company's choice of base rates as defined in the Credit Agreement. In addition, commitment fees are payable on the revolving credit facility at rates between 0.150% and 0.300% per year based on the Company's leverage ratio on the daily amount of the revolving commitment. The Company has drawn down \$100.0 million under the revolving credit facility and \$150.0 million under the term loan facility as of March 6, 2012. The Company expects its borrowings under the Credit Agreement will fluctuate from quarter to quarter.

On February 22, 2012, the Company completed its previously-announced acquisition of Magma. Pursuant to the merger agreement governing the acquisition, each share of Magma common stock issued and outstanding immediately prior to the acquisition was converted into the right to receive \$7.35 in cash, without interest, on the terms and subject to the conditions set forth in the merger agreement. In addition, certain equity awards held by employees of Magma were converted into cash or assumed and converted into the Company's equity awards per the terms of the merger agreement. The total merger consideration was approximately \$523.1 million, net of cash acquired. The Company funded the acquisition with existing cash and borrowings under the Credit Agreement. The initial accounting for this acquisition is incomplete due to the limited amount of time between the date of the acquisition and the filing of the financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q, and in particular the following discussion, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements can, in some cases, be identified by the use of terms such as "may," "will," "could," "would," "should," "anticipate," "expect," "intend," "believe," "estimate," "project" or "continue," the negatives of such terms, or other comparable terminology. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Without limiting the foregoing, forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements concerning the expected growth in the semiconductor industry, our positive business outlook, the ability of our prior acquisitions, including Magma, to drive revenue growth, the percent of revenue with which we expect to enter each quarter, our expectations with respect to organic and inorganic growth opportunities, our ability to make adjustments to our business as market conditions change and to successfully compete in the electronic design automation industry, our ability to successfully execute our strategies, the sufficiency of our cash, cash equivalents and short-term investments and cash generated from operations, and our future liquidity requirements.

These statements involve certain known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those identified below in Part II, Item 1A. Risk Factors of this Form 10-Q. The information included herein is given as of the filing date of this Form 10-Q with the Securities and Exchange Commission (SEC) and future events or circumstances could differ significantly from these forward-looking statements. Accordingly, we caution readers not to place undue reliance on these statements. Unless required by law, we undertake no obligation to update publicly any forward-looking statements. All subsequent written or oral forward-looking statements attributable to Synopsys or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Readers are urged to carefully review and consider the various disclosures made in this report and in other documents we file from time to time with the SEC that attempt to advise interested parties of the risks and factors that may affect our business.

The following summary of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements and the related notes thereto contained in Part I, Item 1. of this report and with our audited consolidated financial statements and the related notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011, as filed with the SEC on December 16, 2011.

Overview

Business Summary

Synopsys is a world leader in providing technology solutions used to develop electronics and electronic systems. We supply the electronic design automation (EDA) software that engineers use to design, create prototypes for and test integrated circuits, also known as chips. We also supply software and hardware used to develop the systems that incorporate integrated circuits and the software that runs on those integrated circuits. Our intellectual property (IP) products are pre-designed circuits that engineers use as components of larger chip designs rather than redesigning those circuits themselves. To complement these product offerings, we provide technical services to support our solutions and we help our customers develop chips and electronic systems.

Our customers are generally large semiconductor and electronics manufacturers. Our solutions help them overcome the challenge of developing increasingly advanced electronics products while reducing their design and manufacturing costs. While our products are an important part of our customers' development process, our customers' research and development budget and spending decisions may be impacted by their business outlook and their willingness to invest in new and increasingly complex chip designs.

Despite recent global economic uncertainty, we have maintained profitability and positive cash flow on an annual basis in recent years. We achieved these results not only because of our solid execution, leading technology and strong customer relationships, but also because of our recurring revenue business model. Under this model, a substantial majority of our customers pay for their licenses over time and we typically recognize this recurring revenue over the life of the contract, which averages approximately three years. Recurring revenue generally represents more than 90% of our total revenue. The revenue we recognize in a particular period generally results from selling efforts in prior periods rather than the current period. We typically enter each quarter with greater than 90% of our revenue for that particular quarter already committed from our customers, providing for stability and predictability of results. Due to our business model, decreases as well as increases in customer spending do not immediately affect our revenues in a significant way.

Even with the continued instability of the global markets, our business outlook remains strong based on our business model, strong financials, diligent expense management, and acquisition strategy. In addition, consumer demand for electronics has been solid, particularly the demand for mobile devices. Through our recent acquisitions, we have enhanced our technology and expanded our product portfolio and our total addressable market, especially in IP and system-level solutions, which we believe will help drive revenue growth. On February 22, 2012, we completed our acquisition of Magma Design Automation, Inc. (Magma). We expect the acquisition of Magma will enable us to accelerate delivery of state-of-the art technology to our customers. We believe that the combination of our solid financials, leading technology and strong customer relationships will help us to continue to successfully execute our strategies.

Fiscal Year End

Our fiscal year generally ends on the Saturday nearest to October 31 and consists of 52 weeks, with the exception that approximately every five years, we have a 53-week year. When a 53-week year occurs, we include the additional week in the first quarter to realign fiscal quarters with calendar quarters. Fiscal 2012 will be a 53-week year and will end on November 3, 2012, which will impact our revenue, expenses and operating results. Fiscal 2011 was a 52-week year and ended on October 29, 2011.

Our results of operations for the first quarters of fiscal 2012 and 2011 included 14 weeks and 13 weeks, respectively, and ended on February 4, 2012 and January 29, 2011, respectively. The extra week in the first quarter of fiscal 2012 resulted in approximately \$26 million of additional revenue, related primarily to time-based licenses, and approximately \$16 million of additional expenses.

For presentation purposes, this Form 10-Q, including the unaudited condensed consolidated financial statements and accompanying notes, refers to the applicable calendar month ends of January 31, 2012 and 2011 as the ends of the first quarters of fiscal 2012 and 2011, respectively.

Financial Performance Summary for the Three Months Ended January 31, 2012

- We continue to derive more than 90% of our revenue from time-based licenses, maintenance and services.
- Our total revenue of \$425.5 million was up by \$60.9 million, or 17%, from \$364.6 million in the same period of fiscal 2011. The increase in the current quarter was attributable to our overall growth, primarily in our time-based license revenue, and to an extra week in the first quarter of fiscal 2012.
- Our cost of revenue and operating expenses of \$355.5 million increased by \$37.5 million, or 12%, compared to the same period of fiscal 2011 primarily due to an increase in employee-related costs driven by increased headcount, including those from acquisitions, and due to an extra week in the first quarter of fiscal 2012.
- Net income of \$56.7 million was up by \$8.5 million, or 18%, from \$48.2 million in the same period of fiscal 2011. The increase was primarily due to the improved performance during the quarter and the positive impact of the additional week in fiscal 2012 as explained above, but was offset partly by increased tax expense.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial results under the heading “Results of Operations” below are based on our unaudited condensed consolidated financial statements, which we have prepared in accordance with GAAP. In preparing these financial statements, we make assumptions, judgments and estimates that can affect the reported amounts of assets, liabilities, revenues and expenses and net income. On an on-going basis, we evaluate our estimates based on historical experience and various other assumptions we believe are reasonable under the circumstances. Our actual results may differ from these estimates.

The accounting policies that most frequently require us to make assumptions, judgments and estimates, and therefore are critical to understanding our results of operations, are:

- Revenue recognition;
- Valuation of stock compensation;
- Valuation of intangible assets; and
- Income taxes.

We describe our revenue recognition policy below. Our remaining critical accounting policies and estimates are discussed in Part II, Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K for the fiscal year ended October 31, 2011, filed with the SEC on December 16, 2011.

Revenue Recognition

Software license revenue consists of fees associated with the licensing of our software. Maintenance and service revenue consists of maintenance fees associated with perpetual and term licenses and professional services fees. Hardware revenue consists of Field Programmable Gate Array (FPGA) board-based products.

With respect to software licenses, we utilize three license types:

- Technology Subscription Licenses (TSLs). TSLs are time-based licenses for a finite term, and generally provide the customer limited rights to receive, or to exchange certain quantities of licensed software for, unspecified future technology. We bundle and do not charge separately for post-contract customer support (maintenance) for the term of the license.

- Term licenses. Term licenses are also for a finite term, but do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually for the balance of the term. The annual maintenance fee is typically calculated as a percentage of the net license fee.
- Perpetual licenses. Perpetual licenses continue as long as the customer renews maintenance plus an additional 20 years. Perpetual licenses do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually.

For the three software license types, we recognize revenue as follows:

- TSLs. We typically recognize revenue from TSL fees (which include bundled maintenance) ratably over the term of the license period, or as customer installments become due and payable, whichever is later. Revenue attributable to TSLs is reported as “time-based license revenue” in the unaudited condensed consolidated statements of operations.
- Term licenses. We recognize revenue from term licenses in full upon shipment of the software if payment terms require the customer to pay at least 75% of the license fee and 100% of the maintenance fee within one year from shipment and all other revenue recognition criteria are met. Revenue attributable to these term licenses is reported as “upfront license revenue” in the unaudited condensed consolidated statements of operations. For term licenses in which less than 75% of the license fee and 100% of the maintenance fee is payable within one year from shipment, we recognize revenue as customer payments become due and payable. Such revenue is reported as “time-based license revenue” in the unaudited condensed consolidated statements of operations.
- Perpetual licenses. We recognize revenue from perpetual licenses in full upon shipment of the software if payment terms require the customer to pay at least 75% of the license fee and 100% of the maintenance fee within one year from shipment and all other revenue recognition criteria are met. Revenue attributable to these perpetual licenses is reported as “upfront license revenue” in the unaudited condensed consolidated statements of operations. For perpetual licenses in which less than 75% of the license fee and 100% of the maintenance fee is payable within one year from shipment, we recognize revenue as customer installments become due and payable. Such revenue is reported as “time-based license revenue” in the unaudited condensed consolidated statements of operations.

We also enter into arrangements in which portions of revenue are contingent upon the occurrence of uncertain future events, for example, royalty arrangements. We refer to this revenue as “contingent revenue.” Contingent revenue is recognized if and when the applicable event occurs. Such revenue is reported as “time-based revenue” in the unaudited condensed consolidated statements of operations. Historically, these arrangements have not been material to our total revenue.

We recognize revenue from hardware sales in full upon shipment if all other revenue recognition criteria are met. Revenue attributable to these hardware sales is reported as “upfront license revenue” in the unaudited condensed consolidated statements of operations. Hardware sales have not been material to our total revenue.

We infrequently enter into multiple-element arrangements that contain both software and non-software deliverables such as hardware. On a prospective basis beginning in the first quarter of fiscal 2011, we applied accounting guidance for revenue arrangements with multiple deliverables to these contracts. Such arrangements have not had a material effect on our unaudited condensed consolidated financial statements and are not expected to have a material effect on subsequent periods.

We have determined that the software and non-software deliverables in our contracts are separate units of accounting. Accordingly, we allocate the arrangement consideration to separate units of accounting based on estimated standalone selling prices (ESP) because we do not have objective evidence of standalone selling prices. We estimate the standalone selling prices of our separate units of accounting considering both market conditions and our own specific conditions. For hardware deliverables, we determine ESP using gross margin because we have consistent pricing practices and gross margins for these products. Determining the ESP for software deliverables requires significant judgment. We determine ESP for software deliverables after considering customer geographies, market demand and competition at the time of contract negotiation, gross margin objectives, existing portfolio pricing practices, contractually stated prices and prices for similar historical transactions.

We recognize revenue for the separate units of accounting when all revenue recognition criteria are met. Revenue allocated to hardware units of accounting is recognized upon delivery when all other revenue recognition criteria are met. Revenue allocated to software units of accounting is recognized according to the methods described above depending on the software license type (TSL, term license or perpetual license).

We recognize revenue from maintenance fees ratably over the maintenance period to the extent cash has been received or fees become due and payable, and recognize revenue from professional services and training fees as such services are performed and accepted by the customer. Revenue attributable to maintenance, professional services and training is reported as “maintenance and service revenue” in the unaudited condensed consolidated statements of operations.

We also enter into arrangements to deliver software products, either alone or together with other products or services that require significant modification, or customization of the software. We account for such arrangements using the percentage of completion method as we have the ability to make reasonably dependable estimates that relate to the extent of progress toward completion, contract revenues and costs. We measure the progress towards completion using the labor hours incurred to complete the project. Revenue attributable to these arrangements is reported as maintenance and service revenue in the unaudited condensed consolidated statements of operations.

We determine the fair value of each element in multiple element software arrangements that contain only software and software related deliverables based on VSOE. We limit our assessment of VSOE of fair value for each element to the price charged when such element is sold separately. We have analyzed all of the elements included in our multiple-element software arrangements and have determined that we have sufficient VSOE to allocate revenue to the maintenance components of our perpetual and term license products and to professional services. Accordingly, assuming all other revenue recognition criteria are met, we recognize license revenue from perpetual and term licenses upon delivery using the residual method, recognize revenue from maintenance ratably over the maintenance term, and recognize revenue from professional services as services are performed and accepted by the customer. We recognize revenue from TSLs ratably over the term of the license, assuming all other revenue recognition criteria are met, since there is not sufficient VSOE to allocate the TSL fee between license and maintenance services.

We make significant judgments related to revenue recognition. Specifically, in connection with each transaction involving our products, we must evaluate whether: (1) persuasive evidence of an arrangement exists, (2) delivery of software or services has occurred, (3) the fee for such software or services is fixed or determinable, and (4) collectability of the full license or service fee is probable. All four of these criteria must be met in order for us to recognize revenue with respect to a particular arrangement. We apply these revenue recognition criteria as follows:

- **Persuasive Evidence of an Arrangement Exists.** Prior to recognizing revenue on an arrangement, our customary policy is to have a written contract, signed by both the customer and by us or a purchase order from those customers that have previously negotiated a standard end-user license arrangement or purchase agreement.
- **Delivery Has Occurred.** We deliver our products to our customers electronically or physically. For electronic deliveries, delivery occurs when we provide access to our customers to take immediate possession of the software through downloading it to the customer’s hardware. For physical deliveries, the standard transfer terms are typically FOB shipping point. We generally ship our products or license keys promptly after acceptance of customer orders. However, a number of factors can affect the timing of product shipments and, as a result, timing of revenue recognition, including the delivery dates requested by customers and our operational capacity to fulfill product orders at the end of a fiscal quarter.
- **The Fee is Fixed or Determinable.** Our determination that an arrangement fee is fixed or determinable depends principally on the arrangement’s payment terms. Our standard payment terms for perpetual and term licenses require 75% or more of the license fee and 100% of the maintenance fee to be paid within one year. If the arrangement includes these terms, we regard the fee as fixed or determinable, and recognize all license revenue under the arrangement in full upon delivery (assuming all other revenue recognition criteria are met). If the arrangement does not include these terms, we do not consider the fee to be fixed or determinable and generally recognize revenue when customer installments are due and payable. In the case of a TSL, because of the right to exchange products or receive unspecified future technology and because VSOE for maintenance services does not exist for a TSL, we recognize revenue ratably over the term of the license, but not in advance of when customers’ installments become due and payable.
- **Collectability is Probable.** We judge collectability of the arrangement fees on a customer-by-customer basis pursuant to our credit review policy. We typically sell to customers with whom we have a history of successful collection. For a new customer, or when an existing customer substantially expands its commitments, we evaluate the customer’s financial position and ability to pay and typically assign a credit limit based on that review. We increase the credit limit only after we have established a successful collection history with the customer. If we determine at any time that collectability is not probable under a particular arrangement based upon our credit review process or the customer’s payment history, we recognize revenue under that arrangement as customer payments are actually received.

Results of Operations

Revenue Background

We generate our revenue from the sale of software licenses, maintenance and professional services and to a small extent, hardware products. Under current accounting rules and policies, we recognize revenue from orders we receive for software licenses, services and hardware products at varying times. In most instances, we recognize revenue on a TSL software license order over the license term and on a term or perpetual software license order in the quarter in which the license is delivered. Substantially all of our current time-based licenses are TSLs with an average license term of approximately three years. Revenue on contracts requiring significant modification or development is accounted for using the percentage of completion method over the period of the development. Revenue on hardware product orders is generally recognized in full at the time the product is shipped. Contingent revenue is recognized if and when the applicable event occurs.

Revenue on maintenance orders is recognized ratably over the maintenance period (normally one year). Revenue on professional services orders is generally recognized after services are performed and accepted by the customer.

Our revenue in any fiscal quarter is equal to the sum of our time-based license, upfront license, maintenance and professional services and hardware revenue for the period. We derive time-based license revenue in any quarter largely from TSL orders received and delivered in prior quarters and to a smaller extent due to contracts in which revenue is recognized as customer installments become due and payable and from contingent revenue arrangements. We derive upfront license revenue directly from term and perpetual license and hardware product orders mostly booked and shipped during the quarter. We derive maintenance revenue in any quarter largely from maintenance orders received in prior quarters since our maintenance orders generally yield revenue ratably over a term of one year. We also derive professional services revenue primarily from orders received in prior quarters, since we recognize revenue from professional services as those services are delivered and accepted, not when they are booked. Our license revenue is sensitive to the mix of TSLs and perpetual or term licenses delivered during a reporting period. A TSL order typically yields lower current quarter revenue but contributes to revenue in future periods. For example, a \$120,000 order for a three-year TSL delivered on the last day of a quarter typically generates no revenue in that quarter, but \$10,000 in each of the twelve succeeding quarters. Conversely, perpetual and term licenses with greater than 75% of the license fee due within one year from shipment typically generate current quarter revenue but no future revenue (e.g., a \$120,000 order for a perpetual license generates \$120,000 in revenue in the quarter the product is delivered, but no future revenue). Additionally, revenue in a particular quarter may also be impacted by perpetual and term licenses in which less than 75% of the license fees and 100% of the maintenance fees are payable within one year from shipment as the related revenue will be recognized as revenue in the period when customer payments become due and payable.

Our customer arrangements are complex, involving hundreds of products and various license rights, and our customers bargain with us over many aspects of these arrangements. For example, they often demand a broader portfolio of solutions, support and services and seek more favorable terms such as expanded license usage, future purchase rights and other unique rights at an overall lower total cost. No single factor typically drives our customers' buying decisions, and we compete on all fronts to serve customers in a highly competitive EDA market. Customers generally negotiate the total value of the arrangement rather than just unit pricing or volumes.

Total Revenue

	January 31,		\$ Change	% Change
	2012	2011		
Three months ended	\$425.5	\$364.6	\$ 60.9	17%

Our revenues are subject to fluctuations, primarily due to customer requirements, including payment terms, the timing and value of contract renewals and the sale of products associated with prior-year acquisitions.

The increase in total revenue for the three months ended January 31, 2012 compared to the same period in fiscal 2011 was due to our overall growth, primarily in time-based license revenue, and due to the first quarter of fiscal 2012 having an extra week, compared to fiscal 2011, which resulted in additional revenue of approximately \$26 million.

Time-Based License Revenue

	January 31,		<u>\$ Change</u>	<u>% Change</u>
	<u>2012</u>	<u>2011</u>		
	(dollars in millions)			
Three months ended	\$355.9	\$295.6	\$ 60.3	20%
Percentage of total revenue	84%	81%		

The increase in time-based license revenue for the three months ended January 31, 2012 compared to the same period in fiscal 2011 was primarily attributable to increases in TSL license revenue from arrangements booked in prior periods, the extra week in the first quarter of fiscal 2012 compared to fiscal 2011, and to a lesser extent, higher contingent revenue from royalties.

Upfront License Revenue

	January 31,		<u>\$ Change</u>	<u>% Change</u>
	<u>2012</u>	<u>2011</u>		
	(dollars in millions)			
Three months ended	\$28.5	\$26.5	\$ 2.0	8%
Percentage of total revenue	7%	7%		

Changes in upfront license revenue are generally attributable to normal fluctuations in customer requirements which can drive the amount of upfront orders and revenue in any particular period. The increase in upfront license revenue for the three months ended January 31, 2012 compared to the same period in fiscal 2011 was primarily attributable to the increase in sales of our hardware products.

Maintenance and Service Revenue

	January 31,		<u>\$ Change</u>	<u>\$ Change</u>
	<u>2012</u>	<u>2011</u>		
	(dollars in millions)			
Three months ended				
Maintenance revenue	\$17.8	\$19.9	\$ (2.1)	(11)%
Professional services and other revenue	23.3	22.6	0.7	3%
Total maintenance and service revenue	<u>\$41.1</u>	<u>\$42.5</u>	<u>\$ (1.4)</u>	(3)%
Percentage of total revenue	10%	12%		

Maintenance revenue decreased in the three months ended January 31, 2012 compared to the same period in fiscal 2011. The fluctuation in maintenance revenue was generally attributable to the timing of renewals of maintenance contracts, partially offset by the additional revenue recognized in the first quarter of fiscal 2012 due to an extra week compared to fiscal 2011.

Professional services and other revenue marginally increased in the three months ended January 31, 2012 compared to the same period in fiscal 2011, due to an increase in consulting contracts.

Cost of Revenue

	January 31,		<u>\$ Change</u>	<u>% Change</u>
	<u>2012</u>	<u>2011</u>		
	(dollars in millions)			
Three months ended				
Cost of license revenue	\$57.7	\$50.5	\$ 7.2	14%
Cost of maintenance and service revenue	18.8	20.6	(1.8)	(9)%
Amortization of intangible assets	13.4	13.2	0.2	2%
Total	<u>\$89.9</u>	<u>\$84.3</u>	<u>\$ 5.6</u>	7%
Percentage of total revenue	21%	23%		

We divide cost of revenue into three categories: cost of license revenue, cost of maintenance and service revenue, and amortization of intangible assets. We segregate expenses directly associated with consulting and training services from cost of license revenue associated with internal functions providing license delivery and post-customer contract support services. We then allocate these group costs between cost of license revenue and cost of maintenance and service revenue based on license and maintenance and service revenue reported.

Cost of license revenue. Cost of license revenue includes costs related to products sold and software licensed, allocated operating costs related to product support and distribution costs, royalties paid to third party vendors, and the amortization of capitalized research and development costs associated with software products which have reached technological feasibility.

Cost of maintenance and service revenue. Cost of maintenance and service revenue includes operating costs related to maintaining the infrastructure necessary to operate our services and training organization, and costs associated with the delivery of our consulting services, such as hotline and on-site support, production services and documentation of maintenance updates.

Amortization of intangible assets. Amortization of intangible assets, which are amortized to cost of revenue and operating expenses, includes the amortization of the contract rights associated with certain contracts and the amortization of core/developed technology, trademarks, trade names, customer relationships, covenants not to compete and other intangibles related to acquisitions.

The increase in cost of revenue in the three months ended January 31, 2012 compared to the same period in fiscal 2011 was primarily due to an increase of \$3.1 million in personnel-related costs as a result of headcount increases, an increase of \$2.2 million in hardware costs, and one additional week of costs of approximately \$2.2 million in fiscal 2012 compared with fiscal 2011. The increases were partially offset by a decrease of \$1.2 million in maintenance and support services.

As a percentage of revenue, cost of revenue marginally decreased in the three months ended January 31, 2012 compared to the same period in fiscal 2011 due to an increase in time-based revenue as a percentage of total revenue.

Operating Expenses

Research and Development

	<u>January 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2012</u>	<u>2011</u>		
	(dollars in millions)			
Three months ended	\$132.9	\$120.7	\$ 12.2	10%
Percentage of total revenue	31%	33%		

The increase in research and development expenses in the three months ended January 31, 2012 compared to the same period in fiscal 2011 was primarily due to an increase of \$6.6 million in personnel-related costs, and one additional week of expenses of approximately \$7.5 million in fiscal 2012. The increases were partially offset by a \$2.3 million decrease in our contingent consideration liability related to a fiscal 2010 acquisition.

Sales and Marketing

	<u>January 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2012</u>	<u>2011</u>		
	(dollars in millions)			
Three months ended	\$95.4	\$79.3	\$ 16.1	20%
Percentage of total revenue	22%	22%		

The increase in sales and marketing expenses in the three months ended January 31, 2012 compared to the same period in fiscal 2011 was primarily due to an increase of \$8.2 million for personnel-related costs and training conferences, an increase of \$3.4 million in variable compensation due to higher shipments and one additional week of expenses of approximately \$4.9 million in fiscal 2012.

General and Administrative

	January 31,		\$ Change	% Change
	2012	2011		
	(dollars in millions)			
Three months ended	\$33.8	\$29.9	\$ 3.9	13%
Percentage of total revenue	8%	8%		

The increase in general and administrative expenses for the three months ended January 31, 2012 compared to the same period in fiscal 2011 was primarily due to an increase of \$2.5 million in professional services, an increase of \$2.0 million in personnel-related costs and one additional week of expenses of approximately \$1.6 million in fiscal 2012. The increases were partially offset by a decrease of \$1.3 million in functionally allocated expenses as a result of increased headcount in other functional areas.

Amortization of Intangible Assets

	January 31,		\$ Change	% Change
	2012	2011		
	(dollars in millions)			
Three months ended				
Included in cost of revenue	\$13.4	\$13.2	\$ 0.2	2%
Included in operating expenses	3.5	3.7	(0.2)	(5)%
Total	\$16.9	\$16.9	\$ 0.0	0%
Percentage of total revenue	4%	5%		

Amortization of intangible assets for the three months ended January 31, 2012 remained flat compared to the same period in fiscal 2011. See Note 6 of the *Notes to Unaudited Condensed Consolidated Financial Statements* for a schedule of future amortization amounts.

Other Income (Expense), net

	Three Months Ended January 31,		\$ Change	% Change
	2012	2011		
	(dollars in millions)			
Interest income	\$ 0.5	\$ 0.6	\$ (0.1)	(17)%
Gain (loss) on assets related to deferred compensation plan	2.6	3.3	(0.7)	(21)%
Foreign currency exchange gain (loss)	0.0	2.6	(2.6)	(100)%
Write-down of long-term investments	—	(0.9)	0.9	(100)%
Other, net	0.7	0.1	0.6	600%
Total	\$ 3.8	\$ 5.7	\$ (1.9)	(33)%

The decrease in other income (expense), net in the three months ended January 31, 2012 compared to the same period in fiscal 2011 was primarily due to foreign currency exchange fluctuations.

Taxes

Our effective tax rate for the three months ended January 31, 2012 as compared to the three months ended January 31, 2011 was higher principally due to the extension of the U.S. federal R&D credit in fiscal 2011, which resulted in an additional tax credit for ten months of fiscal 2010 as well as a full year credit for fiscal 2011, compared to only two months of credit in fiscal 2012 as a result of the expiration of the credit on December 31, 2011. See Note 15 of the *Notes to Unaudited Condensed Consolidated Financial Statements*.

Liquidity and Capital Resources

Our sources of cash, cash equivalents and short-term investments are funds generated from our business operations and funds that may be drawn down under our credit agreement.

As of January 31, 2012, we held an aggregate of \$195.1 million in cash, cash equivalents and short-term investments in the United States and an aggregate of \$748.4 million in our foreign subsidiaries. Funds held in our foreign subsidiaries are generated from revenue outside North America. At present, such foreign funds are considered to be indefinitely reinvested in foreign countries to the extent of indefinitely reinvested foreign earnings. However, in the event funds from foreign operations are indefinitely needed to fund cash needs in the United States and if U.S. taxes have not already been previously accrued, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

The following sections discuss changes in our balance sheet and cash flows, and other commitments of our liquidity and capital resources during the three months ended January 31, 2012.

Cash, Cash Equivalents and Short-Term Investments

	<u>January 31,</u> <u>2012</u>	<u>October 31,</u> <u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
	(dollars in millions)			
Cash and cash equivalents	\$ 811.3	\$ 855.1	\$ (43.8)	(5)%
Short-term investments	132.2	149.0	(16.8)	(11)%
Total	\$ 943.5	\$ 1,004.1	\$ (60.6)	(6)%

Our cash used in operating activities was \$39.3 million in the first quarter of fiscal 2012.

Other cash activities were (1) proceeds from issuances of common stock of \$41.1 million partially offset by share repurchases of \$20.0 million and an equity forward contract purchase of \$20.0 million, (2) purchases of property and equipment of \$11.0 million, (3) payments for acquisitions, net of cash acquired, of \$5.6 million, and (4) net proceeds from sales and purchases of short-term investments of \$15.9 million.

Between February 13, 2012 and February 21, 2012, we sold our municipal bond portfolio, which had a market value of \$132.2 million on January 31, 2012, in preparation for the funding of the acquisition of Magma.

Cash Flows

	<u>January 31,</u> <u>2012</u>	<u>January 31,</u> <u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
	(dollars in millions)			
Three months ended				
Cash used in operating activities	\$(39.3)	\$(39.6)	\$ 0.3	(1)%
Cash used in investing activities	(1.5)	(18.6)	17.1	(92)%
Cash provided by (used in) financing activities	0.0	(13.2)	13.2	(100)%

We expect cash from our operating activities to fluctuate in future periods as a result of a number of factors, including the timing of our billings and collections, our operating results, the timing and amount of tax and other liability payments. Cash provided by our operations is dependent primarily upon the payment terms of our license agreements. We generally receive cash from upfront license revenue much sooner than from time-based license revenue as such payment terms are generally extended and the license fee is typically paid either quarterly or annually over the term of the license.

Cash used in operating activities. Cash used in operating activities was relatively flat.

Cash used in investing activities. Cash used in investing activities for the three months ended January 31, 2012 was lower compared to the same period in fiscal 2011 primarily due to an increase in net proceeds from purchases and sales of short term investments in fiscal 2012.

Cash provided by financing activities. Cash provided by financing activities for the three months ended January 31, 2012 was higher compared to the same period in fiscal 2011 primarily due to lower repurchases made under our stock repurchase program, partially offset by a decrease in proceeds from issuances of common stock. See Note 10 of *Notes to Unaudited Condensed Consolidated Financial Statements* for details of our stock repurchase program.

Accounts Receivable, net

January 31, 2012	October 31, 2011	\$ Change	% Change
(dollars in millions)			
\$213.8	\$203.1	\$10.7	5%

Our accounts receivable and Days Sales Outstanding (DSO) are primarily driven by our billing and collections activities. Our DSO was 46 days at January 31, 2012, and 47 days at October 31, 2011. DSO remained relatively flat primarily due to the high quality of our accounts receivable portfolio.

Working Capital. Working capital is comprised of current assets less current liabilities, as shown on our consolidated balance sheets:

	January 31, 2012	October 31, 2011	\$ Change	% Change
(dollars in millions)				
Current assets	\$ 1,290.0	\$ 1,338.1	\$ (48.1)	(4)%
Current liabilities	863.8	1,008.8	(145.0)	(14)%
Working capital	<u>\$ 426.2</u>	<u>\$ 329.3</u>	<u>\$ 96.9</u>	<u>29%</u>

Changes in our working capital were primarily due to: (1) a \$10.6 million increase in accounts receivable, (2) a \$97.6 million decrease in accounts payable and accrued liabilities, which include bonuses and variable compensation typically paid during the first quarter of our fiscal year as compared to the remaining periods in the year, (3) a \$50.9 million decrease in deferred revenue due to timing of our billings and (4) a \$4.6 million increase in prepaid and other current assets primarily related to the timing of payments of annual maintenance contracts. These changes in working capital were partially offset by a \$60.6 million decrease in cash, cash equivalents and short-term investments and a \$3.2M decrease in tax receivable balances.

Other Commitments—Revolving Credit Facility. On October 14, 2011, we entered into a five-year, \$350.0 million senior unsecured revolving credit facility providing for loans to us and our foreign subsidiaries. The facility replaces our previous \$300.0 million senior unsecured facility, which was terminated effective October 14, 2011. As of January 31, 2012, we had no outstanding borrowings under this credit facility and were in compliance with all covenants.

On February 17, 2012, we entered into an amended and restated credit agreement with several lenders (the "Credit Agreement") providing for (i) a \$350.0 million senior unsecured revolving credit facility and (ii) a \$150.0 million senior unsecured term loan facility. The Credit Agreement amends and restates our previous credit agreement providing for the credit facility referred to in the paragraph above, in order to add a new term loan facility to finance a portion of the purchase price for the acquisition of Magma on February 22, 2012. Other than the inclusion of the new term loan facility, the terms and conditions of the Credit Agreement are substantially similar to the previous credit agreement. The Credit Agreement terminates on October 14, 2016. Subject to obtaining additional commitments from lenders, we may increase the principal amount of the loans provided under the Credit Agreement by up to an additional \$150.0 million. The Credit Agreement contains financial covenants requiring us to operate within a maximum leverage ratio and maintain specified levels of cash, as well as other non-financial covenants. Borrowings bear interest at a floating rate based on a margin over our choice of base rates as defined in the Credit Agreement. In addition, commitment fees are payable on the revolving credit facility at rates between 0.150% and 0.300% per year based on our leverage ratio on the daily amount of the revolving commitment. We have drawn down \$100.0 million under the revolving credit facility and \$150.0 million under the term loan facility as of March 6, 2012. We expect our borrowings under the Credit Agreement will fluctuate from quarter to quarter.

Acquisition of Magma Design Automation. On February 22, 2012, we completed our previously-announced acquisition of Magma. Pursuant to the merger agreement governing the acquisition, each share of Magma common stock issued and outstanding immediately prior to the acquisition was converted into the right to receive \$7.35 in cash, without interest, on the terms and subject to the conditions set forth in the merger agreement. In addition, certain equity awards held by employees of Magma were converted into cash or assumed and converted into our equity awards per terms of the merger agreement. The total merger consideration was approximately \$523.1 million, net of cash acquired. We funded the acquisition with existing cash and borrowings under the Credit Agreement.

Other

Our cash equivalent and short-term investment portfolio as of January 31, 2012, consists of investment grade municipal bonds, tax-exempt money market mutual funds and taxable money market mutual funds. We follow an established investment policy and set of guidelines to monitor, manage and limit our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer. As of January 31, 2012, we had no direct holdings in structured investment vehicles, sub-prime mortgage-backed securities or collateralized debt obligations and no exposure to these financial instruments through our indirect holdings in money market mutual funds. During the three months ended January 31, 2012 and 2011, we had no impairment charge associated with our short-term investment portfolio. While we cannot predict future market conditions or market liquidity, we regularly review our investments and associated risk profiles, which we believe will allow us to effectively manage the risks of our investment portfolio.

As a result of the challenging conditions in the financial markets, we proactively manage our cash and cash equivalents and investments balances and closely monitor our capital and stock repurchase expenditures to ensure ample liquidity. Additionally, we believe the overall credit quality of our portfolio is strong, with our global excess cash, and our cash equivalents and fixed income portfolio invested in banks and securities with a weighted-average credit rating exceeding AA. The majority of our investments are classified as Level 1 or Level 2 investments, as measured under fair value guidance. See Notes 3 and 4 of the *Notes to Unaudited Condensed Consolidated Financial Statements*.

Between February 13, 2012 and February 21, 2012, we sold our municipal bond portfolio, which had a market value of \$132.2 million on January 31, 2012, in preparation for the funding of the acquisition of Magma. We believe that our current cash, cash equivalents, short-term investments, cash generated from operations, and available credit under our credit facility will satisfy our routine business requirements for at least the next twelve months.

Effect of New Accounting Pronouncements

See Note 17 of the *Notes to Unaudited Condensed Consolidated Financial Statements*.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of January 31, 2012, our exposure to market risk has not changed materially since October 31, 2011. The average yield at purchase for our short-term investment portfolio remains approximately the same as of October 31, 2011. For more information on financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to Item 7A. *Quantitative and Qualitative Disclosure About Market Risk* contained in Part II of our Annual Report on Form 10-K for the fiscal year ended October 31, 2011, filed with the SEC on December 16, 2011.

ITEM 4. CONTROLS AND PROCEDURES

- (a) *Evaluation of Disclosure Controls and Procedures.* As of January 31, 2012 (the Evaluation Date), Synopsys carried out an evaluation under the supervision and with the participation of Synopsys' management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Synopsys' disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives. Our Chief Executive Officer and Chief Financial Officer have concluded that, as of January 31, 2012, (1) Synopsys' disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, and (2) Synopsys' disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports Synopsys files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required, and that such information is accumulated and communicated to Synopsys' management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding its required disclosure.
- (b) *Changes in Internal Control Over Financial Reporting.* There were no changes in Synopsys' internal control over financial reporting during the three months ended January 31, 2012, that have materially affected, or are reasonably likely to materially affect, Synopsys' internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate outcome of any litigation is uncertain and unfavorable outcomes could have a negative impact on our results of operations and financial condition. Regardless of outcome, litigation can have an adverse impact on Synopsys because of the defense costs, diversion of management resources and other factors.

In connection with our definitive merger agreement to acquire Magma, four putative stockholder class actions were filed against Magma, Magma's board of directors, Synopsys and the Synopsys merger subsidiary on December 5, 2011, December 9, 2011, December 13, 2011, and December 19, 2011, in state court in California and Delaware (collectively, the Magma Lawsuits). The Magma Lawsuits allege, among other things, that Magma and its directors breached their fiduciary duties to Magma's stockholders in negotiating and entering into the definitive merger agreement and by agreeing to sell Magma at an unfair price, and that Magma and Synopsys aided and abetted these alleged breaches of fiduciary duties. On February 10, 2012, the parties entered into a memorandum of understanding (MOU) in which they agreed on the terms of a proposed settlement of the lawsuits, which would include the dismissal with prejudice of all claims against all of the defendants. Pursuant to the MOU, Magma agreed to make certain additional disclosures concerning Magma's acquisition by Synopsys, which supplemented the information provided in Magma's proxy statement filed with the Securities and Exchange Commission on January 10, 2012, and to pay certain legal fees and expenses of plaintiffs' counsel. The MOU contemplates that the parties will enter into a stipulation of settlement. The stipulation of settlement will be subject to customary conditions, including court approval following notice to Magma's stockholders.

On December 5, 2011, plaintiff Dynetix Design Solutions, Inc. filed a patent infringement lawsuit against Synopsys in federal district court in the Northern District of California. The lawsuit alleges, among other things, that our VCS functional verification tool, and more specifically our VCS multicore technology and VCS Cloud product, infringes Dynetix's United States Patent No. 6,466,898, and that such infringement is willful. The lawsuit seeks, among other things, compensatory damages and a permanent injunction.

ITEM 1A. RISK FACTORS

We describe our risk factors below.

The continued uncertainty in the global economy, and its potential impact on the semiconductor and electronics industries in particular, may negatively affect our business, operating results and financial condition.

As a result of the recent global recession, the global economy experienced significant uncertainty, stock market volatility, tightened credit markets, concerns about both deflation and inflation, reduced demand for products, lower consumer confidence, reduced capital spending, liquidity concerns and business insolvencies. Further declines, and uncertainty about future economic conditions, could negatively impact our customers' businesses, reducing demand for our products and adversely affecting our business.

The recent global recession adversely affected the semiconductor industry. Semiconductor companies generally remain cautious and focused on their costs, including their research and development budgets which capture spending on EDA products and services. These factors could among other things limit our ability to maintain or increase our sales or recognize revenue from committed contracts and in turn adversely affect our business, operating results and financial condition.

Under our business model, we generally expect more than 90% of our total revenue to be recurring revenue, as a substantial majority of our customers pay for licenses over a three-year period. However, the turmoil and uncertainty caused by recent economic conditions caused some of our customers to postpone their decision-making, decrease their spending and/or delay their payments to us. Future periods of decreased committed average annual revenue, customer bankruptcies, or consolidation among our customers, could adversely affect our year-over-year revenue growth.

The recent global recession also adversely affected the banking and financial industry. If the global economy continues to experience uncertainty, our ability to obtain credit on favorable terms could be jeopardized. Furthermore, we rely on several large financial institutions to act as counterparties under our foreign currency forward contracts, provide credit and banking transactions and deposit services worldwide. Should any of our banking partners declare bankruptcy or otherwise default on their obligations, it could adversely affect our financial results and our business.

We cannot predict if or when global economic confidence will be restored. Accordingly, our future business and financial results are subject to considerable uncertainty, and our stock price is at risk of volatile change. If economic conditions deteriorate in the future, or, in particular, if the semiconductor industry does not continue to grow, our future revenues and financial results could be adversely affected. Conversely, in the event of future improvements in economic conditions for our customers, the positive impact on our revenues and financial results may be deferred due to our business model.

The growth of our business depends on the semiconductor and electronics industries.

The growth of the EDA industry as a whole, and our business in particular, is dependent on the semiconductor and electronics industries. A substantial portion of our business and revenue depends upon the commencement of new design projects by semiconductor manufacturers and their customers. The increasing complexity of designs of SoCs and ICs, and customers' concerns about managing costs, have previously led and in the future could lead to a decrease in design starts and design activity in general, with some customers focusing more on one discrete phase of the design process. Demand for our products and services could decrease and our financial condition and results of operations could be adversely affected if the semiconductor and electronics industries do not continue to grow, or grow at a slower rate. Additionally, as the EDA industry matures, consolidation has increased competition for a greater share of our customers' EDA spending. This increased competition may cause our revenue growth rate to decline and exert downward pressure on our operating margins, which may have an adverse effect on our business and financial condition.

We may not be able to realize the potential financial or strategic benefits of the acquisitions we complete, or find suitable target businesses and technology to acquire, which could hurt our ability to grow our business, develop new products or sell our products.

Acquisitions are an important part of our growth strategy. We have completed a significant number of acquisitions in recent years, including the acquisitions of Magma and Virage Logic Corporation.

We expect to make additional acquisitions in the future, but we may not find suitable acquisition targets or we may not be able to consummate desired acquisitions due to unfavorable credit markets or other risks, which could harm our operating results. Acquisitions are difficult, time consuming, and pose a number of risks, including:

- Potential negative impact on our earnings per share;
- Failure of acquired products to achieve projected sales;
- Problems in integrating the acquired products with our products;
- Difficulties entering into new market segments in which we are not experienced;
- Potential downward pressure on operating margins due to lower operating margins of acquired businesses, increased headcount costs and other expenses associated with adding and supporting new products;
- Difficulties in retaining and integrating key employees;
- Failure to realize expected synergies or cost savings;
- Dilution of our current stockholders through the issuance of common stock, a substantial reduction of our cash resources and/or the incurrence of debt;
- Assumption of unknown liabilities, including tax and litigation, and the related expenses and diversion of resources;
- Disruption of ongoing business operations, including diversion of management's attention;
- Potential negative impact on our relationships with customers, distributors and business partners; and
- Negative impact on our earnings resulting from the application of ASC 805, *Business Combinations*.

If we do not manage these risks, the acquisitions that we complete may have an adverse effect on our business and financial condition. For instance, if we are unable to successfully integrate Magma products and technology, we may not be able to achieve the anticipated revenue growth from our Magma acquisition. The integration process may involve significant management time and create uncertainty for employees and customers, and delays in the process could have a material adverse effect on our revenues, expenses, operating results and financial condition. Additionally, if we determine we cannot use or sell the acquired products or technology, we will be required to write down the associated intangible assets, which would negatively impact our operating results.

Consolidation among our customers, as well as within the industries in which we operate, may negatively impact our operating results.

A number of business combinations, including mergers, asset acquisitions and strategic partnerships, among our customers and in the semiconductor and electronics industries have occurred recently, and more could occur in the future. Consolidation among our customers could lead to fewer customers or the loss of customers, increased customer bargaining power, or reduced customer spending on software and services. Moreover, business combinations within the industries in which we compete may result in stronger competition from companies that are better able to compete as sole source vendors to customers. The loss of customers or reduced customer spending could adversely affect our business and financial condition.

In addition, we and our competitors from time to time acquire business and technologies to complement and expand our respective product offerings. If any of our competitors consolidate or acquire businesses and technologies which we do not offer, they may be able to offer a larger technology portfolio, a larger support and service capability, or lower prices, which could negatively impact our business and operating results.

Changes in accounting principles or standards, or in the way they are applied, could result in unfavorable accounting charges or effects and unexpected financial reporting fluctuations, and could adversely affect our reported operating results.

We prepare our consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP). These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles and guidance. A change in existing principles or guidance can have a significant effect on our reported results and may retroactively affect previously reported results. Additionally, proposed accounting standards could have a significant impact on our operational processes, revenues and expenses, and could cause unexpected financial reporting fluctuations.

For example, the Financial Accounting Standards Board (FASB) is currently working together with the International Accounting Standards Board (IASB) to converge certain accounting principles and facilitate more comparable financial reporting between companies that are required to follow GAAP and those that are required to follow International Financial Reporting Standards (IFRS). These efforts may result in different accounting principles under GAAP, which may have a material impact on the way in which we report financial results in areas including, but not limited to, revenue recognition, lease accounting, and financial statement presentation. We expect the SEC to make a determination in the near future regarding the incorporation of IFRS into the financial reporting system for U.S. companies. A change in accounting principles from GAAP to IFRS may have a material impact on our financial statements and may retroactively adversely affect previously reported transactions.

Our operating results may fluctuate in the future, which may adversely affect our stock price.

Our operating results are subject to quarterly and annual fluctuations, which may adversely affect our stock price. Our historical results should not be viewed as indicative of our future performance due to these periodic fluctuations. Many factors may cause our revenue or earnings to fluctuate, including:

- Changes in demand for our products due to fluctuations in demand for our customers' products and due to constraints in our customers' budgets for research and development and EDA products and services;
- Product competition in the EDA industry, which can change rapidly due to industry or customer consolidation and technological innovation;
- Our ability to innovate and introduce new products and services or effectively integrate products and technologies that we acquire;
- Failures or delays in completing sales due to our lengthy sales cycle;
- Cancellations or changes to levels of license orders or the mix between upfront and time-based license revenue;
- Our ability to implement effective cost control measures;
- Delay of one or more orders for a particular period, particularly orders generating upfront revenue;
- Our dependence on a relatively small number of large customers for a large portion of our revenue;
- Changes in or challenges to our revenue recognition model;
- Amendments or renewals of customer contracts which provide discounts or require the deferral of revenue to later periods;
- Expenses related to our acquisition and integration of businesses and technology;
- Delays, increased costs or quality issues resulting from our reliance on third parties to manufacture our hardware products; and
- General economic and political conditions that affect the semiconductor and electronics industries.

These factors, or any other factors or risks discussed herein, could negatively impact our revenue or earnings and cause our stock price to decline.

We operate in highly competitive industries, and if we do not continue to meet our customers' demand for innovative technology at lower costs, our business and financial condition will be harmed.

We compete against EDA vendors that offer a variety of products and services, such as Cadence Design Systems, Inc. and Mentor Graphics Corporation. We also compete with other EDA vendors, including frequent new entrants to the marketplace, that offer products focused on one or more discrete phases of the IC design process, as well as vendors of IP products and system-level solutions. Moreover, our customers internally develop design tools and capabilities that compete with our products.

The industries in which we operate are highly competitive and the demand for our products and services is dynamic and depends on a number of factors, including demand for our customers' products, design starts and our customers' budgetary constraints. Technology in these industries evolves rapidly and is characterized by frequent product introductions and improvements and changes in industry standards and customer requirements. Semiconductor device functionality requirements continually increase while feature widths decrease, substantially increasing the complexity, cost and risk of chip design and manufacturing. At the same time, our customers and potential customers continue to demand an overall lower total cost of design, which can lead to the consolidation of their purchases with one vendor. In order to succeed in this environment, we must successfully meet our customers' technology requirements and increase the value of our products, while also striving to reduce their overall costs and our own operating costs.

We compete principally on the basis of technology, product quality and features (including ease-of-use), license or usage terms, post-contract customer support, interoperability among products, and price and payment terms. Specifically, we believe the following competitive factors affect our success:

- Our ability to anticipate and lead critical development cycles, innovate rapidly and efficiently, improve our existing products, and successfully develop or acquire new products;
- Our ability to offer products that provide both a high level of integration into a comprehensive platform and a high level of individual product performance;
- Our ability to enhance the value of our offering through more favorable terms such as expanded license usage, future purchase rights, price discounts and other unique rights, such as multiple tool copies, post-contract customer support, and the ability to purchase pools of technology; and
- Our ability to compete on the basis of payment terms.

If we fail to successfully manage these competitive factors, fail to successfully balance the conflicting demands for innovative technology and lower overall costs, or fail to address new competitive forces, our business and financial condition will be adversely affected.

If we fail to protect our proprietary technology our business will be harmed.

Our success depends in part upon protecting our proprietary technology. Our efforts to protect our technology may be costly and unsuccessful. We rely on agreements with customers, employees and others and on intellectual property laws worldwide to protect our proprietary technology. These agreements may be breached, and we may not have adequate remedies for any breach. Additionally, despite our measures to prevent piracy, other parties may attempt to illegally copy or use our products, which could result in lost revenue. Some foreign countries do not currently provide effective legal protection for intellectual property and our ability to prevent the unauthorized use of our products in those countries is therefore limited. Our trade secrets may also otherwise become known or be independently developed by competitors.

We may need to commence litigation or other legal proceedings in order to:

- Assert claims of infringement of our intellectual property;
- Defend our products from piracy;
- Protect our trade secrets or know-how; or
- Determine the enforceability, scope and validity of the propriety rights of others.

If we do not obtain or maintain appropriate patent, copyright or trade secret protection, for any reason, or cannot fully defend our intellectual property rights in some jurisdictions, our business and operating results would be harmed. In addition, intellectual property litigation is lengthy, expensive and uncertain and legal fees related to such litigation will increase our operating expenses and may reduce our net income.

Unfavorable tax law changes, an unfavorable government review of our tax returns or changes in our geographical earnings mix or forecasts of foreign source income could adversely affect our effective tax rate and our operating results.

Our operations are subject to income and transaction taxes in the United States and in multiple foreign jurisdictions. A change in the tax law in the jurisdictions in which we do business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, could result in a material increase in our tax expense. Currently, a substantial portion of our revenue is generated from customers located outside the United States, and a substantial portion of our assets, including employees, are located outside the United States. United States income taxes and foreign withholding taxes have not been provided on undistributed earnings for certain non-United States subsidiaries to the extent such earnings are considered to be indefinitely reinvested in the operations of those subsidiaries. A number of proposals for broad reform of the corporate tax system in the U.S. are under evaluation by various legislative and administrative bodies, including *The President's Framework for Business Tax Reform*, released by the Obama Administration and the U.S. Treasury Department on February 22, 2012, but it is not possible to determine accurately the overall impact of such proposals on our effective tax rate at this time.

Our tax filings are subject to review or audit by the Internal Revenue Service and state, local and foreign taxing authorities. We exercise judgment in determining our worldwide provision for income taxes and, in the ordinary course of our business, there may be transactions and calculations where the ultimate tax determination is uncertain. We are also liable for potential tax liabilities of businesses we acquire. Although we believe our tax estimates are reasonable, we can provide no assurance that any final determination in an audit will not be materially different than the treatment reflected in our historical income tax provisions and accruals. An assessment of additional taxes as a result of an audit could adversely affect our income tax provision and net income in the period or periods for which that determination is made.

We have operations both in the United States and in multiple foreign jurisdictions with a wide range of statutory tax rates. Therefore, any changes in our geographical earnings mix in various tax jurisdictions, including those resulting from transfer pricing adjustments, could materially increase our effective tax rate. Furthermore, we maintain significant deferred tax assets related to federal research credits and foreign tax credits and certain state tax credits. Our ability to use these credits is dependent upon having sufficient future taxable income, including foreign source income in the United States, as well as sufficient taxable income in certain states. Changes in our forecasts of future income could result in an adjustment to the deferred tax asset and a related charge to earnings which could materially affect our financial results.

We may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively affect our operating results.

We devote substantial resources to research and development. New competitors, technological advances by existing competitors, our acquisitions, our entry into new markets, or other competitive factors may require us to invest significantly greater resources than we anticipate. If we are required to invest significantly greater resources than anticipated without a corresponding increase in revenue, our operating results could decline. Additionally, our periodic research and development expenses may be independent of our level of revenue which could negatively impact our financial results.

The global nature of our operations exposes us to increased risks and compliance obligations which may adversely affect our business.

We derive more than half of our revenue from sales outside the United States, and we expect our orders and revenue to continue to depend on sales to customers outside the United States. In addition, we have expanded our non-U.S. operations significantly in the past several years. This strategy requires us to recruit and retain qualified technical and managerial employees, manage multiple, remote locations performing complex software development projects and ensure intellectual property protection outside of the United States. Our international operations and sales subject us to a number of increased risks, including:

- International economic and political conditions, such as political tensions between countries in which we do business;
- Difficulties in adapting to cultural differences in the conduct of business;
- Ineffective legal protection of intellectual property rights;
- Financial risks such as longer payment cycles and difficulty in collecting accounts receivable;
- Inadequate local infrastructure that could result in business disruptions;
- Additional taxes and penalties; and
- Other factors beyond our control such as natural disasters, terrorism, civil unrest, war and infectious diseases.

If any of the foreign economies in which we do business deteriorate or if we fail to effectively manage our global operations, our business and results of operations will be harmed.

In addition, our global operations are subject to numerous U.S. and foreign laws and regulations, including those related to anti-corruption, tax, corporate governance, imports and exports, financial and other disclosures, privacy and labor relations. These laws and regulations are complex and may have differing or conflicting legal standards, making compliance difficult and costly. If we violate these laws and regulations we could be subject to fines, penalties or criminal sanctions, and may be prohibited from conducting business in one or more countries. Although we have implemented policies and procedures to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors or agents will not violate these laws and regulations. Any violation individually or in the aggregate could have a material adverse effect on our operations and financial condition.

Our financial statements are also affected by fluctuations in foreign currency exchange rates. A weakening U.S. dollar relative to other currencies increases expenses of our foreign subsidiaries when they are translated into U.S. dollars in our consolidated statement of operations. Likewise, a strengthening U.S. dollar relative to other currencies, especially the Japanese yen, reduces revenue of our foreign subsidiaries upon translation and consolidation. Exchange rates are subject to significant and rapid fluctuations, and therefore we cannot predict the prospective impact of exchange rate fluctuations. Although we engage in foreign currency hedging activity, we may be unable to hedge all of our foreign currency risk, which could have a negative impact on our results of operations.

Liquidity requirements in our U.S. operations may require us to raise cash in uncertain capital markets, which could negatively affect our financial condition.

In February 2012, we incurred debt as we drew down on our revolving credit facility and term loan facility in an aggregate amount of \$250.0 million in order to help fund our acquisition of Magma. We also sold our municipal bond portfolio in February 2012, which had a market value of \$132.2 million on January 31, 2012, in preparation for the funding of the Magma acquisition. Most of our worldwide cash, cash equivalents and short term investments balance is held in subsidiary accounts outside the United States – approximately 79% as of January 31, 2012. In addition, typically about half of our operating cash flow is received by our overseas subsidiaries. Should our cash spending needs in the United States rise and exceed our existing U.S. balances, available credit under our revolving credit and term loan facilities, and future U.S. cash flows, we may be required to incur additional debt at higher than anticipated interest rates or access other funding sources, which could negatively affect our results of operations, capital structure and/or the market price of our common stock.

From time to time we are subject to claims that our products infringe on third party intellectual property rights.

We are from time to time subject to claims alleging our infringement of third party intellectual property rights, including patent rights. For example, in December 2011, a patent infringement lawsuit was filed against us by Dynetix Design Solutions, Inc., which seeks, among other things, compensatory damages and a permanent injunction. Further information regarding this lawsuit is contained in Part II, Item 1, *Legal Proceedings*. In addition, under our customer agreements and other license agreements, we agree in many cases to indemnify our customers if our products infringe a third party's intellectual property rights. We have recently defended some of our customers against claims that their use of one of our products infringes on a patent held by a Japanese electronics company. Although we were successful in that case, there can be no assurances that we will prevail in defending against any current or future claims of infringement. In addition, these types of claims can result in costly and time-consuming litigation, require us to enter into royalty arrangements, subject us to damages or injunctions restricting our sale of products, invalidate a patent or family of patents, require us to refund license fees to our customers or to forgo future payments or require us to redesign certain of our products, any one of which could harm our business and operating results.

Product errors or defects could expose us to liability and harm our reputation and we could lose market share.

Software products frequently contain errors or defects, especially when first introduced, when new versions are released or when integrated with technologies developed by acquired companies. Product errors could affect the performance or interoperability of our products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance or perception of our products. In addition, allegations of IC manufacturability issues resulting from use of our IP products could, even if untrue, adversely affect our reputation and our customers' willingness to license IP products from us. Any such errors or delays in releasing new products or new versions of products or allegations of unsatisfactory performance could cause us to lose customers, increase our service costs, subject us to liability for damages and divert our resources from other tasks, any one of which could materially and adversely affect our business and operating results.

Customer payment defaults or related issues could harm our operating results.

The majority of our revenue backlog consists of customer payment obligations not yet due that are attributable to software we have already delivered. A significant portion of the revenue we recognize in any period comes from backlog and is dependent upon our receipt of cash from customers. We will not achieve expected revenue and cash flow if customers default, declare bankruptcy, or otherwise fail to pay amounts owed. Moreover, existing customers may seek to renegotiate pre-existing contractual commitments due to adverse changes in their own businesses. Our customers' financial condition, and in turn their ability or willingness to fulfill their contractual and financial obligations, could be adversely affected by current economic conditions. If payment defaults by our customers significantly increase or we experience significant reductions in existing contractual commitments, our operating results would be harmed.

We may be subject to litigation proceedings that could harm our business.

We may be subject to legal claims or regulatory matters involving stockholder, consumer, competition, and other issues on a global basis. Litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or, in cases for which injunctive relief is sought, an injunction prohibiting us from manufacturing or selling one or more products. If we were to receive an unfavorable ruling on a matter, our business and results of operations could be materially harmed.

In connection with our definitive agreement to acquire Magma, purported Magma stockholders filed shareholder class action lawsuits in December 2011 against Magma, Magma's directors, Synopsys and, in certain instances, Synopsys' merger subsidiary. Further information regarding these lawsuits is contained in Part II, Item 1, *Legal*

Proceedings.

If we fail to timely recruit and retain senior management and key employees our business may be harmed.

We depend in large part upon the services of key members of our senior management team to drive our future success. If we were to lose the services of any member of our senior management team, our business could be adversely affected.

To be successful, we must also attract and retain key technical, sales and managerial employees, including those who join Synopsys in connection with acquisitions. There are a limited number of qualified EDA and IC design engineers, and competition for these individuals is intense and has increased. Our employees are often recruited aggressively by our competitors and our customers. Any failure to recruit and retain key technical, sales and managerial employees could harm our business, results of operations and financial condition. Additionally, efforts to recruit and retain qualified employees could be costly and negatively impact our operating expenses.

We issue stock options and restricted stock units and maintain employee stock purchase plans as a key component of our overall compensation. We face pressure to limit the use of such equity-based compensation due to its dilutive effect on stockholders. In addition, we are required under GAAP to recognize compensation expense in our results from operations for employee share-based equity compensation under our equity grants and our employee stock purchase plan, which has increased the pressure to limit equity-based compensation. These factors may make it more difficult for us to grant attractive equity-based packages in the future, which could adversely impact and limit our ability to attract and retain key employees.

Our business is subject to evolving corporate governance and public disclosure regulations that have increased both our compliance costs and the risk of noncompliance, which could have an adverse effect on our stock price.

We are subject to changing rules and regulations promulgated by a number of governmental and self-regulated organizations, including the SEC, the NASDAQ Stock Market, and the FASB. These rules and regulations continue to evolve in scope and complexity and many new requirements have been created in response to laws enacted by Congress, making compliance more difficult and uncertain. For example, Congress recently passed the Dodd-Frank Wall Street Reform and Consumer Protection Act. Our efforts to comply with the Dodd-Frank Act and other new regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

There are inherent limitations on the effectiveness of our controls.

Regardless of how well designed and operated it is, a control system can provide only reasonable assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Failure of our control systems to prevent error or fraud could have a material adverse impact on our business.

Our investment portfolio may be impaired by deterioration of the capital markets.

Our cash equivalent and short-term investment portfolio currently consists of tax-exempt money market mutual funds, taxable money market mutual funds and bank deposits. Our investment portfolio carries both interest rate risk and credit risk. Fixed rate debt securities may have their market value adversely impacted due to a credit downgrade or a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall or a credit downgrade occurs. As a result of current adverse financial market conditions, capital pressures on certain banks, especially in Europe, and the continuing low interest rate environment, some of our financial instruments may become impaired. Our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. In addition, we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in the issuer's credit quality or changes in interest rates.

Security breaches could compromise sensitive information belonging to us or our customers and could harm our business and reputation.

We store sensitive data, including intellectual property, our proprietary business information and that of our customers, and confidential employee information, in our data centers and on our networks. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions that could result in unauthorized disclosure or loss of sensitive information. Any such security breach could cause us to be non-compliant with applicable laws or regulations, subject us to legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence in our products and services, any of which could adversely affect our business.

Catastrophic events may disrupt our business and harm our operating results.

Due to the global nature of our business, our operating results may be negatively impacted by catastrophic events throughout the world. We rely on a global network of infrastructure applications, enterprise applications and technology systems for our development, marketing, operational, support and sales activities. A disruption or failure of these systems in the event of a major earthquake, fire, telecommunications failure, cybersecurity attack, terrorist attack, or other catastrophic event could cause system interruptions, delays in our product development and loss of critical data and could prevent us from fulfilling our customers' orders. Moreover, our corporate headquarters, a significant portion of our research and development activities, our data centers, and certain other critical business operations are located in California, near major earthquake faults. A catastrophic event that results in the destruction or disruption of our data centers or our critical business or information technology systems would severely affect our ability to conduct normal business operations and, as a result, our operating results would be adversely affected.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Our Board of Directors previously approved a stock repurchase program pursuant to which we were authorized to purchase up to \$500.0 million of our common stock, and has periodically replenished the stock repurchase program to such amount. Our Board replenished the stock repurchase program up to \$500.0 million on May 25, 2011. Funds are available until expended or until the program is suspended by our Chief Financial Officer or Board of Directors. As of January 31, 2012, \$272.4 million remained available for future repurchases under the program.

On September 30, 2011, we entered into an accelerated share repurchase agreement (the "September 2011 ASR") to repurchase an aggregate of \$75.0 million of the Company's common stock. Pursuant to the September 2011 ASR, we made a prepayment of \$75.0 million and received an initial share delivery of 1,710,376 shares of our common stock. The initial share delivery was valued at \$41.7 million and was recorded as treasury stock in the consolidated balance sheet as of October 31, 2011. The remaining balance of \$33.3 million was recorded as an equity forward contract, which is included in "Capital in excess of par value" in the consolidated balance sheet as of October 31, 2011. The equity forward contract was settled with 1,105,457 shares of our common stock during the first quarter of fiscal 2012.

On January 6, 2012, we entered into an additional accelerated share repurchase agreement (the "January 2012 ASR") to repurchase an aggregate of \$40.0 million of our common stock. Pursuant to the January 2012 ASR, we made a prepayment of \$40.0 million and received an initial share delivery of 744,325 shares of the Company's common stock. The initial share delivery was valued at \$20.0 million and was recorded as treasury stock in the unaudited consolidated balance sheet as of January 31, 2012. The remaining balance of \$20.0 million was recorded as an equity forward contract, which is included in "Capital in excess of par value" in the unaudited condensed consolidated balance sheet as of January 31, 2012. Under the terms of the January 2012 ASR, the specific number of shares that we ultimately repurchase will be based on the volume weighted average share price of our common stock during the repurchase period, less a discount.

The table below sets forth information regarding repurchases of Synopsys' common stock by Synopsys during the three months ended January 31, 2012.

Period(1)	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum dollar value of shares that may yet be purchased under the programs
Month #1				
October 30, 2011 through December 3, 2011	—	\$ —	—	\$345,713,042(2)
Month #2				
December 4, 2011 through January 7, 2012	1,105,457	\$ 30.16	1,105,457	\$312,377,801
Month #3				
January 8, 2012 through February 4, 2012	744,325	\$ 26.87	744,325	\$292,377,801(3)
Total	<u>1,849,782</u>	<u>\$ 28.83</u>	<u>1,849,782</u>	<u>\$292,377,801(3)</u>

(1) All months shown are Synopsys' fiscal months.

(2) Excludes \$33.3 million from the settlement of the September 2011 ASR equity forward contract.

(3) Excludes \$20.0 million from the January 2012 ASR equity forward contract referenced above. As of January 31, 2012, \$272.4 million remained available for future repurchases under the stock repurchase program.

See Note 10 of *Notes to Unaudited Condensed Consolidated Financial Statements* for further information regarding our stock repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Agreement and Plan of Merger among Synopsys, Inc., Magma Design Automation, Inc. and Lotus Acquisition Corp. dated November 30, 2011	8-K	000-19807	2.1	12/1/11	
3.1	Amended and Restated Certificate of Incorporation	10-Q	000-19807	3.1	09/15/03	
3.2	Restated Bylaws	8-K	000-19807	3.2	06/03/09	
4.1	Specimen Common Stock Certificate	S-1	33-45138	4.3	02/24/92 (effective date)	
31.1	Certification of Principal Executive Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
31.2	Certification of Principal Financial Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
32.1	Certification of Principal Executive Officer and Principal Financial Officer furnished pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code					X
101.INS*	XBRL Instance Document					X
101.SCH*	XBRL Taxonomy Extension Schema Document					X
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document					X

* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYNOPSIS, INC.

Date: March 6, 2012

By: _____ /s/ **BRIAN M. BEATTIE**
Brian M. Beattie
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
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* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

CERTIFICATION

I, Aart J. de Geus, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Synopsys, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2012

/s/ Aart J. de Geus

Aart J. de Geus
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Brian M. Beattie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Synopsys, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2012

/s/ Brian M. Beattie

Brian M. Beattie
Chief Financial Officer
(Principal Financial Officer)

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 1350, Chapter 63 of Title 18 of the United States Code (18 U.S.C-§1350), each of Aart J. de Geus, Chief Executive Officer of Synopsys, Inc., a Delaware corporation (the "Company"), and Brian M. Beattie, Chief Financial Officer of the Company, does hereby certify, to such officer's knowledge that:

The Quarterly Report on Form 10-Q for the fiscal quarter ended January 31, 2012 (the "Form 10-Q") to which this Certification is attached as Exhibit 32.1 fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 6th day of March, 2012.

/s/ Aart J. de Geus

Aart J. de Geus
Chief Executive Officer

/s/ Brian M. Beattie

Brian M. Beattie
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not deemed filed with the Securities and Exchange Commission as part of the Form 10-Q or as a separate disclosure document and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.