

SYNOPSIS INC
Form 10-Q
June 04, 2012
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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 APRIL 30, 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

SYNOPSIS, INC.

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(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 May 29, 2012, there were 147,089,645 shares of the registrant's common stock outstanding.

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SYNOPSIS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE FISCAL QUARTER ENDED APRIL 30, 2012

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SYNOPSYS, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value amounts)

	April 30, 2012	October 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 796,594	\$ 855,077
Short-term investments		148,997
Total cash, cash equivalents and short-term investments	796,594	1,004,074
Accounts receivable, net of allowances of \$3,116 and \$2,489, respectively	236,314	203,124
Deferred income taxes	61,144	58,536
Income taxes receivable and prepaid taxes	28,858	25,545
Prepaid and other current assets	50,631	46,776
Total current assets	1,173,541	1,338,055
Property and equipment, net	157,792	159,517
Goodwill	1,630,415	1,289,286
Intangible assets, net	364,113	196,031
Long-term prepaid taxes	24,541	1,510
Long-term deferred income taxes	280,259	281,056
Other long-term assets	113,821	103,389
Total assets	\$ 3,744,482	\$ 3,368,844
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 258,820	\$ 302,176
Accrued income taxes	8,329	4,589
Deferred revenue	676,068	703,555
Short-term debt	130,000	
Total current liabilities	1,073,217	1,010,320
Long-term accrued income taxes	78,029	92,940
Long-term deferred revenue	59,819	56,208
Long-term debt	120,000	
Other long-term liabilities	123,441	108,076
Total liabilities	1,454,506	1,267,544
Stockholders equity:		
Preferred Stock, \$0.01 par value: 2,000 shares authorized; none outstanding		
Common Stock, \$0.01 par value: 400,000 shares authorized; 146,950 and 143,308 shares outstanding, respectively	1,470	1,433
Capital in excess of par value	1,574,056	1,521,327

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Retained earnings	1,009,475	957,517
Treasury stock, at cost: 10,315 and 13,956 shares, respectively	(272,383)	(358,032)
Accumulated other comprehensive income (loss)	(22,642)	(20,945)
Total stockholders' equity	2,289,976	2,101,300
Total liabilities and stockholders' equity	\$ 3,744,482	\$ 3,368,844

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**SYNOPSYS, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2012	2011	2012	2011
Revenue:				
Time-based license	\$ 363,580	\$ 318,762	\$ 719,474	\$ 614,371
Upfront license	22,333	25,014	50,845	51,549
Maintenance and service	46,648	49,894	87,738	92,394
Total revenue	432,561	393,670	858,057	758,314
Cost of revenue:				
License	57,592	51,146	115,314	101,669
Maintenance and service	19,215	19,974	37,959	40,521
Amortization of intangible assets	23,699	14,908	37,087	28,143
Total cost of revenue	100,506	86,028	190,360	170,333
Gross margin	332,055	307,642	667,697	587,981
Operating expenses:				
Research and development	151,230	123,169	284,105	243,909
Sales and marketing	108,836	99,562	204,240	178,886
General and administrative	49,948	29,470	83,787	59,335
Amortization of intangible assets	4,905	3,756	8,426	7,504
Total operating expenses	314,919	255,957	580,558	489,634
Operating income	17,136	51,685	87,139	98,347
Other income (expense), net	6,353	5,574	10,179	11,244
Income before provision for income taxes	23,489	57,259	97,318	109,591
Provision (benefit) for income taxes	2,518	(23,855)	19,653	(19,749)
Net income	\$ 20,971	\$ 81,114	\$ 77,665	\$ 129,340
Net income per share:				
Basic	\$ 0.14	\$ 0.55	\$ 0.54	\$ 0.87
Diluted	\$ 0.14	\$ 0.53	\$ 0.52	\$ 0.84
Shares used in computing per share amounts:				
Basic	145,948	148,461	144,877	148,738
Diluted	149,297	152,593	148,259	153,198

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**SYNOPSIS, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

	Six Months Ended April 30,	
	2012	2011
Cash flow from operating activities:		
Net income	\$ 77,665	\$ 129,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	74,862	64,998
Stock compensation	36,853	27,914
Allowance for doubtful accounts	452	723
Write-down of long-term investments		999
Gain on sale of investments	(349)	(50)
Deferred income taxes	10,033	(939)
Net changes in operating assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	(11,516)	(28,904)
Prepaid and other current assets	(3,442)	(8,848)
Other long-term assets	(8,128)	(11,658)
Accounts payable and other liabilities	(48,391)	(69,320)
Income taxes	(8,436)	(40,890)
Deferred revenue	(32,147)	(6,510)
Net cash provided by operating activities	87,456	56,855
Cash flows from investing activities:		
Proceeds from sales and maturities of short-term investments	166,132	63,648
Purchases of short-term investments	(18,179)	(49,435)
Purchases of property and equipment	(19,585)	(20,600)
Cash paid for acquisitions and intangible assets, net of cash acquired	(564,528)	(3,520)
Capitalization of software development costs	(1,539)	(1,512)
Net cash used in investing activities	(437,699)	(11,419)
Cash flows from financing activities:		
Principal payments on capital leases	(1,888)	(1,310)
Proceeds from credit facility and term loan	250,000	
Repayment of acquired debt	(21,156)	
Issuances of common stock	111,180	108,843
Purchases of treasury stock	(40,000)	(234,985)
Net cash (used in) provided by financing activities	298,136	(127,452)
Effect of exchange rate changes on cash and cash equivalents	(6,376)	641
Net change in cash and cash equivalents	(58,483)	(81,375)
Cash and cash equivalents, beginning of year	855,077	775,407
Cash and cash equivalents, end of period	\$ 796,594	\$ 694,032

See accompanying notes to unaudited condensed consolidated financial statements.

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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, the Company has 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 is a 53-week year and will end November 3, 2012, and fiscal 2011 was a 52-week year and ended on October 29, 2011. The results of operations for the first six months of fiscal 2012 and 2011 included 27 weeks and 26 weeks, respectively. The second fiscal quarter and the first six months of fiscal 2012 and 2011, ended on May 5, 2012 and April 30, 2011, respectively. For presentation purposes, the unaudited condensed consolidated financial statements and accompanying notes refer to the closest calendar month end.

Basis of Presentation. Certain immaterial amounts on the prior period audited consolidated balance sheet have been reclassified to conform to the current period presentation.

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

Note 3. Business Combinations

Acquisition of Magma Design Automation, Inc. (Magma)

On February 22, 2012, the Company acquired all outstanding shares of Magma, a chip design software provider, at a per-share price of \$7.35. Additionally, the Company assumed unvested restricted stock units (RSUs) and stock options, collectively called equity awards. The aggregate purchase price was approximately \$550.2 million. This acquisition will enable the Company to more rapidly meet the needs of leading-edge semiconductor designers for more sophisticated design tools.

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The total purchase consideration and the preliminary purchase price allocation were as follows:

	(in thousands)
Cash paid	\$ 543,437
Fair value of assumed equity awards allocated to purchase consideration	6,797
Total purchase consideration	\$ 550,234
Goodwill	303,481
Identifiable intangibles assets acquired	184,300
Other assets acquired	115,954
Debt and liabilities assumed	(53,501)
Total purchase allocation	\$ 550,234

As of the end of the second quarter of fiscal year 2012, the Company's purchase price allocation is preliminary and has not been finalized. Goodwill of \$303.5 million, which is not deductible for tax purposes, primarily resulted from the Company's expectation of sales growth and cost synergies from the integration of Magma's technology and operations with the Company's technology and operations. Identifiable intangible assets, consisting primarily of technology, customer relationships, backlog and trademarks, were valued using the income method, and are being amortized over three to ten years.

Acquisition-related costs directly attributable to the business combination totaling \$30.2 million and \$31.8 million for the three and six month periods ended April 30, 2012, respectively, were expensed as incurred in the condensed unaudited consolidated statements of operations and consist primarily of employee separation costs, contract terminations, professional services, and facilities closure costs. Of the \$30.2 million, \$14.4 million were recorded in general and administrative expenses, \$7.9 million in sales and marketing expenses, \$6.4 million in research and development expenses and \$1.5 million in cost of revenue for the three month period ended April 30, 2012. Of the \$31.8 million costs recorded for the six month period ended April 30, 2012, \$16.0 million were recorded in general and administrative expenses, \$7.9 million in sales and marketing expenses, \$6.4 million in research and development expenses and \$1.5 million in cost of revenue.

Fair Value of Equity Awards Assumed. The Company assumed unvested restricted stock units (RSUs) and stock options with a fair value of \$22.2 million. The Black-Scholes option-pricing model was used to determine the fair value of these stock options, whereas the fair value of the RSUs was based on the market price on the grant date of the instruments. The Black-Scholes option-pricing model incorporates various subjective assumptions including expected volatility, expected term and risk-free interest rates. The expected volatility was estimated by a combination of implied and historical stock price volatility of the options.

Of the total fair value of the equity awards assumed, \$6.8 million was allocated to the purchase consideration and \$15.4 million was allocated to future services to be expensed over their remaining service periods on a straight-line basis.

Supplemental Pro Forma Information (Unaudited). The financial information in the table below summarizes the combined results of operations of the Company and Magma, on a pro forma basis, as though the companies had been combined as of the beginning of fiscal 2011.

The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place on November 1, 2010 or of results that may occur in the future.

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2012	2011	2012	2011
	(in thousands)			
Revenue	\$ 436,541(1)	\$ 431,709	\$ 900,666(1)	\$ 831,118
Net Income	\$ 29,833(2)	\$ 47,556(2)	\$ 77,476(2)	\$ 87,602(2)

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- (1) Revenues for the three and six months ended April 30, 2012 includes \$13.5 million of revenues from Magma since the acquisition date.

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- (2) 2012 supplemental pro forma net income was adjusted to exclude \$30.2 million and \$31.8 million of acquisition-related costs during the three and six months ended April 30, 2012, respectively. Corresponding periods of 2011 supplemental pro forma net income were adjusted to include these charges. Disclosure of net income of Magma since the acquisition is impracticable due to the integration of Magma with the Company's operations.

Other Fiscal 2012 Acquisitions

During the six months ended April 30, 2012, the Company completed other acquisitions for cash and preliminarily allocated the total purchase consideration of \$55.8 million to the assets acquired and liabilities assumed based on their respective fair values at the acquisition dates, resulting in total goodwill of \$36.9 million, of which \$11.8 million is expected to be deductible for tax purposes. Acquired identifiable intangible assets totaling \$26.0 million were valued using the income method and are being amortized over their respective useful lives ranging from three to eight years. For the three and six month periods ended April 30, 2012, acquisition-related costs totaling \$ 0.4 million and \$1.6 million, respectively, were expensed as incurred in the statement of operations.

The Company continues to evaluate certain assets and liabilities related to business combinations completed within 12 months from the applicable acquisition date. Additional information, which existed as of the acquisition date but is yet unknown to the Company, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Changes to amounts recorded as assets or liabilities will be recorded as retrospective adjustments to the provisional amounts recognized as of the acquisition date and may result in a corresponding adjustment to goodwill.

Note 4. 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:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months (in thousands)	Gross Unrealized Losses 12 Months or Longer	Estimated Fair Value(1)
Balance at April 30, 2012					
Classified as current assets:					
Non-interest bearing cash (U.S. and International)	\$ 194,432	\$	\$	\$	\$ 194,432
Money market funds (U.S.)	90,000				90,000
Cash deposits and money market funds (International)	512,162				512,162
	796,594				796,594
Classified as non-current assets:					
Strategic investments	4,413				4,413
Total	\$ 801,007	\$	\$	\$	\$ 801,007

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	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months (in thousands)	Gross Unrealized Losses 12 Months or Longer	Estimated Fair Value(1)
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
	1,003,927	296	(149)		1,004,074
Classified as non-current assets:					
Strategic investments	3,982				3,982
Total	\$ 1,007,909	\$ 296	\$ (149)	\$	\$ 1,008,056

(1) See Note 5 for further discussion of fair values.

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), or OCI, 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.

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The effects of the changes in the fair values of non-designated forward contracts are summarized as follows:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2012	2011	2012	2011
	(in thousands)			
Gain (loss) recorded in other income (expense), net	\$ 2,217	\$ 2,200	\$ 2,018	\$ 4,367

Foreign currency forward contracts outstanding are as follows:

	As of April 30, 2012	As of October 31, 2011
	(in thousands)	
Total gross notional amount	\$ 580,078	\$ 599,844
Net fair value	\$ (6,149)	\$ (14,695)

The notional amounts for derivative instruments provide one measure of the transaction volume outstanding as of April 30, 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 April 30, 2012		
Other current assets	\$ 3,067	\$ 871
Other current liabilities	\$ 10,008	\$ 79
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 April 30, 2012				

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Foreign exchange contracts	Revenue	\$	4,578	Revenue	\$	(24)
Foreign exchange contracts	Operating expenses		205	Operating expenses		(2,093)
Total		\$	4,783		\$	(2,117)
Three months ended April 30, 2011						
Foreign exchange contracts	Revenue	\$	361	Revenue	\$	(1,969)
Foreign exchange contracts	Operating expenses		7,505	Operating expenses		985
Total		\$	7,866		\$	(984)
Six months ended April 30, 2012						
Foreign exchange contracts	Revenue	\$	4,994	Revenue	\$	(1,634)
Foreign exchange contracts	Operating expenses		(4,895)	Operating expenses		(3,936)
Total		\$	99		\$	(5,570)
Six months ended April 30, 2011						
Foreign exchange contracts	Revenue	\$	1,803	Revenue	\$	(4,895)
Foreign exchange contracts	Operating expenses		7,003	Operating expenses		253
Total		\$	8,806		\$	(4,642)

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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)	
Three months ended April 30, 2012		
Foreign exchange contracts	\$ (22)	\$ 466
Three months ended April 30, 2011		
Foreign exchange contracts	\$ (5)	\$ 265
Six months ended April 30, 2012		
Foreign exchange contracts	\$ 54	\$ 867
Six months ended April 30, 2011		
Foreign exchange contracts	\$ (46)	\$ (19)

(1) The ineffective portion includes forecast inaccuracies.

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

Note 5. 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. During the second quarter ended April 30, 2012, the Company liquidated all of its short-term investments.

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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 borrowings under its credit and term loan facilities are classified within Level 2 because these borrowings are not actively traded and have a variable interest rate structure based upon market rates currently available to the Company for debt with similar terms and maturities. Refer to *Note 8. Credit and Term Loan Facilities*.

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 \$0.7 million and \$3.0 million during the three and six months ended April 30, 2012, respectively, in research and development expenses due to the change in fair value of the liability for contingent consideration. As of April 30, 2012, the fair value of the liability for contingent consideration was estimated at \$1.4 million.

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 April 30, 2012:

Description	Fair Value Measurement Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents:				
Money market funds	\$ 496,218	\$ 496,218	\$	\$
Prepaid and other current assets:				
Foreign currency derivative contracts	3,938		3,938	
Other long-term assets:				
Deferred compensation plan assets	98,197	98,197		
Total assets	\$ 598,353	\$ 594,415	\$ 3,938	\$
Liabilities				
Accounts payable and accrued liabilities:				
Foreign currency derivative contracts	\$ 10,087	\$	\$ 10,087	\$
Contingent consideration(1)	999			999
Other long-term liabilities:				
Contingent consideration(1)	355			355
Total liabilities	\$ 11,441	\$	\$ 10,087	\$ 1,354

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

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

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Description	Fair Value Measurement Using			
	Total	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

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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 April 30, 2012, the carrying value of these investments was \$4.4 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 income (expense), net.

	Balance as of April 30, 2011	Significant Unobservable Inputs (Level 3)	Total (losses) during three months ended April 30, 2011	Total (losses) during six months ended April 30, 2011
			(in thousands)	
Non-marketable equity securities	\$ 92	\$ 92	\$ (92)	\$ (999)

The Company did not recognize any impairment during the three and six months ended April 30, 2012.

Note 6. Goodwill and Intangible Assets

Goodwill as of April 30, 2012 consisted of the following:

	(in thousands)
Balance at October 31, 2011	\$ 1,289,286
Additions(1)	340,428
Adjustments(2)	701
Balance at April 30, 2012	\$ 1,630,415

(1) Addition relates to acquisitions in the current period.

(2) Adjustment relates to achievement of certain milestones relating to contingent consideration for an acquisition that closed prior to fiscal 2010 of \$1.8 million and effects of foreign currency fluctuations of \$(1.1) million.

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Intangible assets as of April 30, 2012 consisted of the following:

	Gross Assets(1)	Accumulated Amortization(1) (in thousands)	Net Assets
Core/developed technology	\$ 297,186	\$ 130,491	\$ 166,695
Customer relationships	132,713	38,992	93,721
Contract rights intangible	116,800	28,983	87,817
Covenants not to compete	2,530	2,246	284
Trademarks and trade names	7,300	3,116	4,184
In-process research and development (IPR&D)(2)	8,043		8,043
Capitalized software development costs	12,818	9,449	3,369
Total	\$ 577,390	\$ 213,277	\$ 364,113

(1) During the three and six months ended April 30, 2012, the Company acquired \$212.2 million and \$214.6 million of additional intangible assets, respectively. Amounts acquired are subject to foreign currency fluctuations.

(2) IPR&D is reclassified to core/developed technology upon completion or is written off upon abandonment.

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

	Gross Assets	Accumulated Amortization (in thousands)	Net Assets
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)	3,425		3,425
Capitalized software development costs	11,245	7,927	3,318
Total	\$ 364,066	\$ 168,035	\$ 196,031

Amortization expense related to intangible assets consisted of the following:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2012	2011	2012	2011
	(in thousands)			
Core/developed technology	\$ 16,520	\$ 11,658	\$ 27,896	\$ 22,976
Customer relationships	4,539	3,368	7,739	6,561
Contract rights intangible	7,175	3,333	9,182	5,500
Covenants not to compete	70	50	141	100
Trademarks and trade names	300	255	555	510
Capitalized software development costs(1)	746	741	1,488	1,480
Total	\$ 29,350	\$ 19,405	\$ 47,001	\$ 37,127

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

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

Fiscal Year	(in thousands)
Remainder of fiscal 2012	\$ 51,914
2013	94,578
2014	73,996
2015	58,750
2016	34,772
2017 and thereafter	42,060
IPR&D(1)	8,043
Total	\$ 364,113

- (1) IPR&D projects are estimated to be completed within two years of April 30, 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:

	April 30, 2012	October 31, 2011
	(in thousands)	
Payroll and related benefits	\$ 186,851	\$ 238,691
Other accrued liabilities	44,053	53,173
Accounts payable	12,854	6,956
Acquisition-related liabilities	15,062	3,356
Total	\$ 258,820	\$ 302,176

Other long-term liabilities consist of:

	April 30, 2012	October 31, 2011
	(in thousands)	
Deferred compensation liability	\$ 98,197	\$ 90,060
Other long-term liabilities	25,244	18,016
Total	\$ 123,441	\$ 108,076

Note 8. Credit and Term Loan Facilities

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 (the *Revolver*) and (ii) a \$150.0 million senior unsecured term loan facility (the *Term Loan*). The *Credit Agreement* amended and restated the Company's previous credit agreement dated October 14, 2011 in order to add a new term loan facility primarily to finance a portion of the purchase price for the acquisition of Magma on February 22, 2012. 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

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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 market observable base rates as defined in the Credit Agreement. At April 30, 2012, borrowings under the Revolver bore interest at LIBOR + 0.975% and borrowings under the Term Loan bore interest at LIBOR + 1.125%. In addition, commitment fees are payable on the Revolver 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. As of April 30, 2012, the Company had outstanding balances of \$100.0 million under the Revolver and \$150.0 million under the Term Loan, respectively, and is in compliance with all covenants. The Company had no outstanding debt balances as of October 31, 2011. Principal payments on a portion of the Term Loan are due in equal quarterly installments of \$7.5 million beginning in the third quarter of our fiscal 2012, with the remainder due in October 2016. The Company can elect to make prepayments on the Term Loan, in whole or in part, without premium or penalty. During the three months ended April 30 2012, the Company made no principal repayments under the Credit Agreement. All borrowings under the Revolver are considered short term and \$120.0 million of the borrowings under the Term Loan are classified as long term. The Company expects its borrowings under the Revolver will fluctuate from quarter to quarter.

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These borrowings under the Credit Agreement have a variable interest rate structure and are classified within Level 2 of the fair value hierarchy. The carrying amount of the short-term and long-term debt approximates the estimated fair value.

Note 9. Comprehensive Income

The following table presents the components of comprehensive income:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2012	2011	2012	2011
	(in thousands)			
Net income	\$ 20,971	\$ 81,114	\$ 77,665	\$ 129,340
Change in unrealized (losses) gains on investments, net of tax of \$117 and \$58, for the three and six months ended April 30, 2012, respectively, and of \$(54) and \$114, for the three and six months ended April 30, 2011	(179)	(24)	(88)	(177)
Deferred gains (losses) on cash flow hedges, net of tax of \$(549) and \$381, for the three and six months ended April 30, 2012, respectively, and of \$(1,941) and \$(1,862) for each of the same periods in fiscal 2011, respectively	4,586	7,776	(120)	8,815
Reclassification adjustment on deferred (gains) losses on cash flow hedges, net of tax of \$(605) and \$(1,593), for the three and six months ended April 30, 2012, respectively, and of \$(81) and \$(942) for each of the same periods in fiscal 2011, respectively	2,117	984	5,570	4,642
Foreign currency translation adjustment	(5,010)	5,082	(7,059)	3,123
Total	\$ 22,485	\$ 94,932	\$ 75,968	\$ 145,743

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 April 30, 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. The average purchase price per share for this \$75.0 million ASR was \$26.64.

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. The equity forward contract was settled with 624,291 shares of the Company's common stock during the second quarter of fiscal 2012. The average purchase price per share for this \$40.0 million ASR was \$29.23.

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Stock repurchase activities are as follows:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2012	2011	2012(1)	2011
	(in thousands, except per share price)			
Shares repurchased	624	6,191	2,474	8,609
Average purchase price per share	\$ 32.04	\$ 27.46	\$ 29.64	\$ 27.29
Aggregate purchase price	\$ 20,000	\$ 169,988	\$ 73,335	\$ 234,985
Reissuance of treasury stock	3,631	3,430	6,116	6,616

- (1) Amount includes \$20.0 million from the settlement of the January 2012 ASR equity forward contract and \$33.3 million from the settlement of the September 2011 ASR equity forward contract.

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 April 30,		Six Months Ended April 30,	
	2012	2011	2012	2011
	(in thousands)			
Cost of license	\$ 1,626	\$ 1,225	\$ 3,382	\$ 2,718
Cost of maintenance and service	390	277	835	631
Research and development expense	8,691	5,867	16,244	13,710
Sales and marketing expense	3,310	2,537	6,601	5,175
General and administrative expense	6,587	2,760	9,791	5,680
Stock compensation expense before taxes	20,604	12,666	36,853	27,914
Income tax benefit	(4,689)	(3,400)	(8,388)	(7,492)
Stock compensation expense after taxes	\$ 15,915	\$ 9,266	\$ 28,465	\$ 20,422

As of April 30, 2012, there was \$88.4 million of unamortized share-based compensation expense relating to options and restricted stock units and awards, which is expected to be amortized over a weighted-average period of approximately 2.6 years.

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2012	2011	2012	2011
	(in thousands)			
Intrinsic value of awards exercised	\$ 19,182	\$ 12,805	\$ 37,151	\$ 27,853

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 of potential common shares outstanding such as stock options and unvested restricted stock units and awards during the period using the treasury stock method.

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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 April 30,		Six Months Ended April 30,	
	2012	2011	2012	2011
(in thousands)				
Numerator:				
Net income	\$ 20,971	\$ 81,114	\$ 77,665	\$ 129,340
Denominator:				
Weighted-average common shares for basic net income per share	145,948	148,461	144,877	148,738
Dilutive effect of potential common shares from equity-based compensation	3,349	4,132	3,382	4,460
Weighted-average common shares for diluted net income per share	149,297	152,593	148,259	153,198
Anti-dilutive employee stock-based awards excluded(1)	3,123	2,518	3,312	3,288

- (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. 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 April 30,		Six Months Ended April 30,	
	2012	2011	2012	2011
(in thousands)				
Revenue:				
United States	\$ 206,985	\$ 182,615	\$ 404,668	\$ 349,315
Europe	58,224	50,133	112,840	99,462
Japan	71,932	71,698	149,053	138,299
Asia-Pacific and Other	95,420	89,224	191,496	171,238
Consolidated	\$ 432,561	\$ 393,670	\$ 858,057	\$ 758,314

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 10.1% and 10.1% of the Company's unaudited condensed consolidated revenue in the three months ended April 30, 2012 and 2011, respectively, and accounted for 10.3% and 10.5% of the Company's unaudited condensed consolidated revenue in the

six months ended April 30, 2012 and 2011, respectively.

Table of Contents**Note 14. Other Income (Expense), net**

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2012	2011	2012	2011
	(in thousands)			
Interest (expense) income, net	\$ (485)	\$ 552	\$ (205)	\$ 1,165
Gain on assets related to deferred compensation plan assets	3,800	5,381	6,420	8,619
Foreign currency exchange gain (loss)	1,961	(396)	1,986	2,215
Impairment of long-term investment		(92)		(999)
Other, net	1,077	129	1,978	244
Total	\$ 6,353	\$ 5,574	\$ 10,179	\$ 11,244

Note 15. Taxes**Effective Tax Rate**

The Company estimates its annual effective tax rate at the end of each fiscal quarter, taking 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 (benefit) for income taxes and the effective tax rates:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2012	2011	2012	2011
	(in thousands)			
Income before income taxes	\$ 23,489	\$ 57,259	\$ 97,318	\$ 109,591
Provision (benefit) for income tax	\$ 2,518	\$ (23,855)	\$ 19,653	\$ (19,749)
Effective tax rate	10.7%	(41.7)%	20.2%	(18.0)%

The Company's effective tax rate for the three months ended April 30, 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 state taxes and non-deductible stock compensation. The effective tax rate increased in the three months ended April 30, 2012, as compared to the same period in fiscal 2011, primarily due to the tax impact of an IRS settlement for fiscal years 2006 through 2009 recorded in the second quarter of fiscal 2011. The effective tax rate increased in the six months ended April 30, 2012, as compared to the same period in fiscal 2011, primarily due to the IRS settlement in the second quarter of fiscal 2011 and the extension of the U.S. federal R&D credit in the first quarter of fiscal 2011. This extension 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 subsidiary in Hungary remains subject to tax examinations for fiscal years after 2010 and the subsidiaries in Japan, Taiwan and Ireland remain subject to tax examinations for fiscal years after 2006.

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 \$35 and \$87 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.

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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 2011). The Company believes that it has adequately provided for potential tax adjustments in both jurisdictions, including interest and potential penalties. The Hungarian tax authorities have disallowed the Company's claim to tax benefits with respect to certain intercompany charges, which resulted in additional tax and interest for the years under examination and for subsequent years. On March 5, 2012, the Company reached a settlement with the Hungarian tax authorities with regard to its fiscal years 2007 and 2008. The settlement did not have a material impact on income tax expense, as the Company has adequately provided for potential tax adjustments, and resulted in a \$5.1 million cash payment. On May 10, 2012 the Company reached a settlement with the Hungarian tax authorities for fiscal years 2009 and 2010. The settlement will not have a material impact on income tax expense but will result in future cash payments of \$14.6 million. Including the cash payments above, the settlements of fiscal years 2007 through 2010 reduced unrecognized tax benefits by \$27.0 million in the second quarter of fiscal 2012 and will reduce unrecognized tax benefits by \$35.1 million in the third quarter of fiscal 2012.

Note 16. Contingencies

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. The Company reviews the status of each significant matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount is estimable, the Company accrues a liability for the estimated loss.

In connection with the Company's agreement to acquire Magma, four putative stockholder class actions were filed against Magma, Magma's board of directors, the Company and its 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 the Company aided and abetted these alleged breaches of fiduciary duties.

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 the Company, 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, which would be immaterial to Synopsys' financials. 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. (Dynetix) 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. The Company has filed a motion for leave to amend its answer to assert patent infringement counterclaims against Dynetix and its two verification products.

Note 17. Effect of New Accounting Pronouncements

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

Table of Contents**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 our acquisition of Magma Design Automation, Inc., 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 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.

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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 believe that the combination of our solid financials, leading technology and strong customer relationships will help us to continue to successfully execute our strategies.

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Acquisition of Magma

During the second quarter of fiscal 2012, we acquired all outstanding shares of Magma, a chip design software provider, at a per-share price of \$7.35, resulting in a total purchase consideration (including cash paid (gross) and the value of equity awards assumed) of approximately \$550.2 million. We believe that the acquisition of Magma will enable Synopsys to accelerate the delivery of state-of-the art technology to our customers. As further described below, a portion of our revenue growth for the second quarter of fiscal 2012 as well as the increase in our ongoing and acquisition-related expenses compared to the three-month period ended April 30, 2011, were primarily due to our acquisition of Magma.

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 is 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 six months of fiscal 2012 and 2011 included 27 weeks and 26 weeks, respectively, and ended on May 5, 2012 and April 30, 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 closest calendar month ends of April 30, 2012 and 2011 respectively.

Financial Performance Summary for the Three Months Ended April 30, 2012 (Compared to the Three Months Ended April 30, 2011)

We continue to derive more than 90% of our revenue from time-based licenses, maintenance and services.

Our total revenue increased by 10% or \$38.9 million primarily due to our continuing overall growth, including revenues from the Magma acquisition.

Total operating expense, including cost of revenue, increased by 21% or \$73.4 million primarily due to employee related costs as a result of higher headcount from acquisitions since the second quarter of fiscal 2011 and acquisition costs related to Magma of \$30.2 million.

The decrease in net income of 74% or \$60.1 million resulted primarily from higher expenses in the second quarter of fiscal 2012 due to acquisitions and from a benefit from a tax settlement in the second quarter of fiscal 2011 that did not reoccur in fiscal 2012.

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.

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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.

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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.

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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.

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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.

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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

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.

Table of Contents*Total Revenue*

	April 30, 2012	2011	Dollar Change	% Change
	(dollars in millions)			
Three months ended	\$ 432.6	\$ 393.7	\$ 38.9	10%
Six months ended	\$ 858.1	\$ 758.3	\$ 99.8	13%

Our revenues are subject to fluctuations, primarily due to customer requirements, including payment terms and the timing and value of contract renewals.

The increase in total revenue for the three months ended April 30, 2012 compared to the same period in fiscal 2011 was due to our overall growth, primarily in time-based license revenue and, to a lesser extent, revenues from the Magma acquisition. These increases were partially offset by lower upfront and maintenance revenues.

The increase in total revenue for the six months ended April 30, 2012 compared to the same period in fiscal 2011 was also attributable to the above reasons. The increase also included revenues of approximately \$26 million due to an extra week in the fiscal 2012 compared to fiscal 2011.

Time-Based License Revenue

	April 30, 2012	2011	Dollar Change	% Change
	(dollars in millions)			
Three months ended	\$ 363.6	\$ 318.8	\$ 44.8	14%
Percentage of total revenue	84%	81%		
Six months ended	\$ 719.5	\$ 614.4	\$ 105.1	17%
Percentage of total revenue	84%	81%		

The increase in time-based license revenue for the three months ended April 30, 2012 compared to the same period in fiscal 2011 was primarily attributable to increases in TSL license revenue from arrangements booked in prior periods including revenues from arrangements acquired from the Magma acquisition.

The increase in time-based revenue for the six months ended April 30, 2012 compared to the same period in fiscal 2011 was also attributable to the above reasons. The increase also included additional revenue due to an extra week in the fiscal 2012 compared to fiscal 2011.

Upfront License Revenue

	April 30, 2012	2011	Dollar Change	% Change
	(dollars in millions)			
Three months ended	\$ 22.3	\$ 25.0	\$ (2.7)	(11)%
Percentage of total revenue	5%	6%		
Six months ended	\$ 50.8	\$ 51.5	\$ (0.7)	(1)%
Percentage of total revenue	6%	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 decrease in upfront license revenue for the three months ended April 30, 2012 compared to the same period in fiscal 2011 was primarily attributable to the decrease in sales of hardware products and perpetual licenses, partly offset by modest revenues from arrangements related to the Magma acquisition.

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The marginal decrease in upfront license revenue for the six months ended April 30, 2012 compared to the same period in fiscal 2011 was primarily attributable to the decrease in sales of perpetual licenses, partly offset by an increase in sales of hardware products and modest revenues from arrangements related to the Magma acquisition.

Table of Contents*Maintenance and Service Revenue*

	2012	April 30, 2011	Dollar Change (dollars in millions)	% Change
Three months ended				
Maintenance revenue	\$ 17.5	\$ 20.4	\$ (2.9)	(14)%
Professional services and other revenue	29.1	29.5	(0.4)	(1)%
Total maintenance and services revenue	\$ 46.6	\$ 49.9	\$ (3.3)	(7)%
Percentage of total revenue	11%	13%		
Six months ended				
Maintenance revenue	\$ 35.3	\$ 40.3	\$ (5.0)	(12)%
Professional services and other revenue	52.4	52.1	0.3	1%
Total maintenance and services revenue	\$ 87.7	\$ 92.4	\$ (4.7)	(5)%

Percentage of total revenue 10% 12%

Maintenance revenue decreased in the three and six months ended April 30, 2012 compared to the same periods in fiscal 2011 primarily due to the timing of renewals of maintenance contracts, partly offset by modest revenues from arrangements related to the Magma acquisition.

Professional services and other revenue remained relatively flat for the three and six month periods ended April 30, 2012 compared to the same periods in fiscal 2011.

Cost of Revenue

	2012	April 30, 2011	Dollar Change (dollars in millions)	% Change
Three months ended				
Cost of license revenue	\$ 57.6	\$ 51.1	\$ 6.5	13%
Cost of maintenance and service revenue	19.2	20.0	(0.8)	(4)%
Amortization of intangible assets	23.7	14.9	8.8	59%
Total	\$ 100.5	\$ 86.0	\$ 14.5	17%
Percentage of total revenue	23%	22%		
Six months ended				
Cost of license revenue	\$ 115.3	\$ 101.7	\$ 13.6	13%
Cost of maintenance and service revenue	38.0	40.5	(2.5)	(6)%
Amortization of intangible assets	37.1	28.1	9.0	32%
Total	\$ 190.4	\$ 170.3	\$ 20.1	12%

Percentage of total revenue 22% 22%

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.

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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 is recorded 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.

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The increase in cost of revenue in the three months ended April 30, 2012 compared to the same period in fiscal 2011 was primarily due to an increase of \$4.0 million in personnel-related costs as a result of headcount increases primarily from our acquisitions, \$1.5 million in acquisition-related costs and an increase of \$8.8 million for amortization of intangible assets due to our acquisitions.

The increase in cost of revenue in the six months ended April 30, 2012 compared to the same period in fiscal 2011 was primarily due to an increase of \$7.1 million in personnel-related costs as a result of headcount increases primarily from our acquisitions, \$1.4 million in acquisition-related costs, one additional week of costs of approximately \$2.2 million in fiscal 2012 compared with fiscal 2011, and an increase of \$9.0 million for amortization of intangible assets due to our acquisitions. The increases were partially offset by a decrease of \$2.5 million in costs related to maintenance and support services.

As a percentage of revenue, cost of revenue remained flat in the three and six months ended April 30, 2012 compared to the same periods in fiscal 2011.

*Operating Expenses**Research and Development*

	April 30,			
	2012	2011	Dollar Change	% Change
	(dollars in millions)			
Three months ended	\$ 151.2	\$ 123.2	\$ 28.0	23%
Percentage of total revenue	35%	31%		
Six months ended	\$ 284.1	\$ 243.9	\$ 40.2	16%
Percentage of total revenue	33%	32%		

The increase in research and development expenses in the three months ended April 30, 2012 compared to the same period in fiscal 2011 was primarily due to an increase of \$14.4 million in personnel-related costs as a result of headcount increases primarily from our acquisitions, \$8.3 million in acquisition-related costs, and \$2.7 million in functionally allocated expenses as a result of headcount increases from our current year acquisitions.

The increase in research and development expenses for the six months ended April 30, 2012 compared with the same period in fiscal 2011 was primarily due to an increase of \$18.8 million in personnel-related costs as a result of headcount increases primarily from our acquisitions, \$5.5 million in acquisition-related costs, \$3.6 million in functionally allocated expenses as a result of headcount increases from our current year acquisitions, and one additional week of costs of approximately \$7.5 million in fiscal 2012 compared with fiscal 2011.

Sales and Marketing

	April 30,			
	2012	2011	Dollar Change	% Change
	(dollars in millions)			
Three months ended	\$ 108.8	\$ 99.6	\$ 9.2	9%
Percentage of total revenue	25%	25%		
Six months ended	\$ 204.2	\$ 178.9	\$ 25.3	14%
Percentage of total revenue	24%	24%		

The increase in sales and marketing expenses for the three months ended April 30, 2012 compared to the same period in fiscal 2011 was primarily attributable to an increase of \$8.7 million in acquisition-related costs.

The higher sales and marketing expenses for the six months ended April 30, 2012 compared to the same period in fiscal 2011 were due to increases in personnel-related costs of \$13.3 million primarily driven by headcount increases from our acquisitions, \$8.7 million in acquisition-related costs, and one additional week of costs of approximately \$4.9 million in fiscal 2012 compared with fiscal 2011.

Table of Contents*General and Administrative*

	April 30,			
	2012	2011	Dollar Change	% Change
	(dollars in millions)			
Three months ended	\$ 49.9	\$ 29.5	\$ 20.4	69%
Percentage of total revenue	12%	7%		
Six months ended	\$ 83.8	\$ 59.3	\$ 24.5	41%
Percentage of total revenue	10%	8%		

The increase in general and administrative expenses for the three months ended April 30, 2012 compared to the same period in fiscal 2011 was primarily due to an increase of \$5.1 million in personnel-related costs, \$2.0 million in professional services, \$14.1 million in acquisition-related costs, and \$1.5 million in facility expenses. The increases were partially offset by a decrease of \$4.1 million from allocating expenses to other functions, as a result of increased headcount in those functional areas.

The increase in general and administrative expenses for the six months ended April 30, 2012 compared to the same period in fiscal 2011 was primarily due to an increase of \$7.6 million in personnel-related costs, \$1.9 million in professional services, \$16.1 million in acquisition-related costs, and one additional week of costs of approximately \$1.6 million in fiscal 2012 compared with fiscal 2011. The increases were partially offset by a decrease of \$5.4 million from allocating expenses to other functions, as a result of increased headcount in those functional areas.

Amortization of Intangible Assets

	April 30,			
	2012	2011	Dollar Change	% Change
	(dollars in millions)			
Three months ended				
Included in cost of revenue	\$ 23.7	\$ 14.9	\$ 8.8	59%
Included in operating expenses	4.9	3.8	1.1	29%
Total	\$ 28.6	\$ 18.7	\$ 9.9	53%
Percentage of total revenue	7%	5%		
Six months ended				
Included in cost of revenue	\$ 37.1	\$ 28.1	\$ 9.0	32%
Included in operating expenses	8.4	7.5	0.9	12%
Total	\$ 45.5	\$ 35.6	\$ 9.9	28%

Percentage of total revenue

	5%	5%
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The increase in amortization of intangible assets for the three and six months ended April 30, 2012 compared to the same periods in fiscal 2011 was due to the amortization of intangible assets from our acquisitions, partially offset by certain intangible assets becoming fully amortized. See Note 6 to *Notes to Unaudited Condensed Consolidated Financial Statements* for a schedule of future amortization amounts.

Other Income (Expense), net

	April 30,			
	2012	2011	Dollar Change	% Change
	(dollars in millions)			
Three months ended				
Interest (expense) income, net	\$ (0.5)	\$ 0.6	\$ (1.1)	(183)%
	3.8	5.4	(1.6)	(30)%

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Gain on assets related to executive deferred compensation plan assets				
Foreign currency exchange gain (loss)	2.0	(0.4)	2.4	(600)%
Write-down of long-term investments		(0.1)	0.1	(100)%
Other, net	1.1	0.1	1.0	1,000%
Total	\$ 6.4	\$ 5.6	\$ 0.8	14%
Six months ended				
Interest (expense) income, net	\$ (0.2)	\$ 1.2	\$ (1.4)	(117)%
Gain on assets related to executive deferred compensation plan assets				
	6.4	8.6	(2.2)	(26)%
Foreign currency exchange gain	2.0	2.2	(0.2)	(9)%
Write-down of long-term investments		(1.0)	1.0	(100)%
Other, net	2.0	0.2	1.8	900%
Total	\$ 10.2	\$ 11.2	\$ (1.0)	(9)%

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Other income (expense), net in the three and six months ended April 30, 2012 compared to the same periods in fiscal 2011 remained relatively flat.

Taxes

Our effective tax rate for the three and six months ended April 30, 2012 as compared to the three and six months ended April 30, 2011 was higher principally due to the benefit of an IRS settlement in the second quarter of fiscal 2011 and the extension of the U.S. federal R&D credit in the first quarter of fiscal 2011. This extension 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. On February 22, 2012 the Company completed its acquisition of Magma which increased our deferred tax assets and liabilities and uncertain tax positions. 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 revolving credit and term loan facilities.

As of April 30, 2012, we held an aggregate of \$147.3 million in cash and cash equivalents in the U.S. and an aggregate of \$649.3 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 were needed to fund cash needs in the U.S. 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 fiscal 2012.

Cash, Cash Equivalents and Short-Term Investments

	April 30, 2012	October 31, 2011	Dollar Change	% Change
	(dollars in millions)			
Cash and cash equivalents	\$ 796.6	\$ 855.1	\$ (58.5)	(7)%
Short-term investments		149.0	(149.0)	(100)%
Total	\$ 796.6	\$ 1,004.1	\$ (207.5)	(21)%

During the six months ended April 30, 2012, our primary sources and uses of cash consisted of (1) cash provided by operating activities of \$87.5 million, (2) proceeds from liquidation of our short-term investments portfolio of \$166.1 million, (3) cash paid for acquisitions and intangible assets, net of cash received, of \$564.5 million (4) proceeds from credit facilities of \$250.0 million (4) purchases of investments of \$18.2 million, (5) cash paid for purchases of property and equipment of \$19.6M, (6) proceeds from the issuance of common stock of \$111.2 million for stock awards and (6) repurchases of common stock of \$40.0 million.

Cash Flows

	April 30, 2012	April 30, 2011	Dollar Change	% Change
	(dollars in millions)			
Six months ended				
Cash provided by operating activities	\$ 87.4	\$ 56.9	\$ 30.5	54%
Cash used in investing activities	(437.7)	(11.4)	(426.3)	3,739%
Cash provided by (used in) financing activities	298.1	(127.5)	425.6	(334)%

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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. In contrast, payment terms for TSLs are generally extended and the license fee is typically paid either quarterly or annually over the term of the license.

Cash provided by operating activities. Cash provided by operations is dependent primarily upon the payment terms of our license agreements. To be classified as upfront revenue, we require that 75% of a term or perpetual license fee be paid within the first year. Conversely, payment terms for TSLs are generally extended and the license fee is typically paid either quarterly or annually in even increments over the term of the license. Accordingly, we generally receive cash from upfront license revenue much sooner than from time-based license revenue.

Cash provided by operating activities increased in the six months ended April 30, 2012 compared to the same period in fiscal 2011, primarily due to an increase in collections from customers, lower payments to vendors and favorable changes in tax balances, partly offset by changes in deferred revenue balances based on timing of release.

Cash used in investing activities. The increase in cash used in investing activities in the six months ended April 30, 2012 compared to the same period in fiscal 2011 is due to cash used for acquisitions in fiscal 2012, partially offset by higher net proceeds from short-term investments activity in fiscal 2012.

Cash provided by (used in) financing activities. The increase in cash provided by financing activities in the six months ended April 30, 2012 compared to the same period in fiscal 2011 primarily relates to proceeds from credit facilities obtained to finance our acquisitions and lower common stock repurchases under our stock repurchase program, partially offset by repayment of debt, acquired as part of our acquisitions during 2012. See Note 10 of *Notes to Unaudited Condensed Consolidated Financial Statements* for details of our stock repurchase program.

Accounts Receivable, net

	April 30, 2012	October 31, 2011	Dollar Change (dollars in millions)	% Change
	\$236.3	\$203.1	\$33.2	16%

Our accounts receivable and Days Sales Outstanding (DSO) are primarily driven by our billing and collections activities. Our DSO was 50 days at April 30, 2012, and 47 days at October 31, 2011. The increase in DSO and in net accounts receivable primarily relates to the timing of billings to customers during fiscal 2012.

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

	April 30, 2012	October 31, 2011	Dollar Change (dollars in millions)	% Change
Current assets	\$ 1,173.5	\$ 1,338.1	\$ (164.6)	(12)%
Current liabilities	1,073.2	1,010.3	62.9	6%
Working capital	\$ 100.3	\$ 327.8	\$ (227.5)	(69)%

Changes in our working capital were primarily due to (1) a \$207.5 million decrease in cash, cash equivalents and short-term investments primarily due to our current period acquisitions, (2) an increase of \$130.0 million in short-term debt obligations, (3) a \$27.5 million decrease in deferred revenue due to timing of our billings, (4) a \$33.2 million increase in accounts receivable, and (5) a net \$49.3 million increase due to movements in other current assets, accounts payable and accrued balances primarily related to changes in tax balances, movements in foreign exchange contract fair values, timing of payments of annual maintenance contracts and payments of bonuses and variable compensation during the first half of our fiscal year.

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Credit and Term Loan Facilities. 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 (the Revolver) and (ii) a \$150.0 million senior unsecured term loan facility (the Term Loan). The Credit Agreement amended and restated our previous credit agreement dated October 14, 2011 in order to add a new term loan facility primarily to finance a portion of the purchase price for the acquisition of Magma on February 22, 2012. 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 us 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 market observable base rates as defined in the Credit Agreement. At April 30, 2012, borrowings under the Revolver bore interest at LIBOR + 0.975% and borrowings under the Term Loan bore interest at LIBOR + 1.125%. In addition, commitment fees are payable on the Revolver at rates between 0.150% and 0.300% per year based on our leverage ratio on the daily amount of the revolving commitment. As of April 30, 2012, we had outstanding balances of \$100.0 million under the Revolver and \$150.0 million under the Term Loan, respectively, and are in compliance with all covenants. We had no outstanding debt balances as of October 31, 2011. Principal payments on a portion of the Term Loan are due in equal quarterly installments of \$7.5 million beginning in the third quarter of our fiscal 2012, with the remainder due in October 2016. We can elect to make prepayments on the Term Loan, in whole or in part, without premium or penalty. During the three months ended April 30 2012, we made no principal repayments under the Credit Agreement. All borrowings under the Revolver are considered short term and \$120 million of the borrowings under the Term Loan are classified as long term. We expect the borrowings under the Revolver will fluctuate from quarter to quarter. Our borrowings under the Credit Agreement have a variable interest rate structure.

Other

As of April 30, 2012, our cash equivalents consist of cash deposits, 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. During the three and six months ended April 30, 2012 and 2011, we had no impairment charge associated with our 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 4 and 5 of the *Notes to Unaudited Condensed Consolidated Financial Statements*.

We believe that our current cash, cash equivalents, and cash generated from operations will satisfy our routine business requirements for at least the next twelve months.

Contractual Obligations

We presented our contractual obligations in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011. During the second quarter of 2012, we drew down \$100.0 million under the Revolver and \$150.0 million under the Term Loan. Our total cash payments (including anticipated interest payments that are not recorded on the unaudited condensed consolidated balance sheets) over the life of the Term Loan are expected to be approximately \$156.8 million. For further information, see Note 8 to *Notes to Unaudited Condensed Consolidated Financial Statements* for further information on our Revolver and Term Loan.

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

During the three months ended April 30, 2012, we liquidated our municipal bond portfolio and incurred debt to fund the Magma acquisition.

Our exposure to market risk for changes in interest rates relates to our cash and cash equivalents and outstanding debt. As of April 30, 2012, all of our cash, cash equivalents and debt were at short term variable interest rates. While par value generally approximates fair value on variable

instruments, rising interest rates over time would increase both our interest income and our interest expense.

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The following tables present the carrying value and related weighted average total annual interest rate on our investment and debt portfolios at April 30, 2012:

Cash and Cash Equivalents

	Carrying Value (in thousands)	Weighted Average Total Return
Money market funds (U.S.)	\$ 90,000	0.033%
Cash deposits and money market funds (International)	512,162	0.348%
Total interest bearing instruments	\$ 602,162	0.301%

Debt Portfolio

	Carrying Value (in thousands)	Weighted Average Interest Rate
Term Loan	\$ 150,000	1.375%
Revolver	100,000	1.225%
Total	\$ 250,000	1.315%

The following tables present our investments and debt by fiscal year of expected maturity and average interest rates.

As of April 30, 2012

	Maturing in Year Ending October 31,					Total	Fair Value
	2012	2013	2014	2015 (in thousands)	2016		
Cash equivalent (variable)	\$ 602,162	\$	\$	\$	\$	\$ 602,162	\$ 602,162
Average interest rate	0.30%	%	%	%	%	%	
Short-term debt (variable rate)							
Revolver	\$ 100,000	\$	\$	\$	\$	\$ 100,000	\$ 100,000
Term Loan	\$ 15,000	\$ 15,000	\$	\$	\$	\$ 30,000	\$ 30,000
Average interest rate	1.24%	LIBOR + 1.125%	%	%	%	%	
Long-term debt (variable rate)							
Term Loan		\$ 15,000	\$ 30,000	\$ 30,000	\$ 45,000	\$ 120,000	\$ 120,000
Average interest rate		LIBOR + 1.125%	LIBOR + 1.125%	LIBOR + 1.125%	LIBOR + 1.125%		

As of October 31, 2011

	Maturing in Year Ending October 31,				Fair Value
	2012	2013	2014	Total	

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	(in thousands)				
Cash equivalents (variable rate)	\$ 705,079	\$	\$	\$ 705,079	\$ 705,079
Average interest rate	0.18%		%	%	
Short-term investments (variable rate)	\$ 6,885	\$	\$	\$ 6,885	\$ 6,885
Average interest rate	0.14%		%	%	
Short-term investments (fixed rate)	\$ 111,217	\$ 23,789	\$ 7,106	\$ 142,112	\$ 142,112
Average interest rate	0.74%	0.81%	0.72%		

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.

Table of Contents**ITEM 4. CONTROLS AND PROCEDURES**

- (a) *Evaluation of Disclosure Controls and Procedures.* As of April 30, 2012 (the Evaluation Date), Synopsys carried out an evaluation under the supervision and with the participation of Synopsys management, including the Co-Chief Executive Officers 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 Co-Chief Executive Officers and Chief Financial Officer have concluded that, as of April 30, 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 Co-Chief Executive Officers 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 April 30, 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. (Dynetix) 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. We have filed a motion for leave to amend our answer to assert patent infringement counterclaims against Dynetix and its two verification products.

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.

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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.

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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 recent acquisition of Magma Design Automation, Inc. for total purchase consideration (including cash paid (gross) and the value of equity awards assumed) of \$550 million.

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;

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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;

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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*.

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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. In addition, expenses associated with supporting Magma's products could result in less expense synergies than anticipated. 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;

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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;

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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.

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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.

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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;

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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.

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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.

As of May 23, 2012, we have incurred debt of \$250 million under our revolving credit and term loan facilities, primarily as a result of funding our Magma acquisition. Most of our worldwide cash, cash equivalents and short term investments balance is held in subsidiary accounts outside the United States approximately 82% as of April 30, 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.

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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.

Table of Contents***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 (Board) 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. We repurchase 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 April 30, 2012, \$272.4 million remained available for further repurchases under the program.

On January 6, 2012, we entered into an 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 our common stock. The initial share delivery was valued at \$20.0 million and was recorded as treasury stock in our 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 our unaudited condensed consolidated balance sheet as of January 31, 2012. The equity forward contract was settled with 624,291 shares of our common stock during the second quarter of fiscal 2012. The average purchase price per share for this \$40.0 million ASR was \$29.23.

The table below sets forth information regarding our repurchases of our common stock during the three months ended April 30, 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				
February 5, 2012 through March 10, 2012	624,291	\$ 32.04	624,291	\$ 272,377,801(2)
Month #2				
March 11, 2012 through April 7, 2012		\$		\$ 272,377,801
Month #3				
April 8, 2012 through May 5, 2012		\$		\$ 272,377,801
Total	624,291	\$ 32.04	624,291	\$ 272,377,801

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

(2) Amount reflects \$20.0 million from the settlement of the January 2012 ASR equity forward contract.

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.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

Table of Contents**ITEM 6. EXHIBITS**

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
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	05/21/12	
4.1	Specimen Common Stock Certificate	S-1	33-45138	4.3	02/24/92 (effective date)	
10.21	Employee Stock Purchase Plan, as amended	8-K	000-19807	10.21	04/05/12	
10.35	2006 Employee Equity Incentive Plan, as amended	8-K	000-19807	10.35	04/05/12	
10.45	Amended and Restated Credit Agreement, dated February 17, 2012, among Synopsys as Borrower, the several Lenders from time to time parties thereto, Bank of America, N.A. and Wells Fargo Bank, N.A. as Co-Syndication Agents, HSBC Bank USA, N.A. and Union Bank, N.A. as Co-Documentation Agents, JPMorgan Chase Bank, N.A., as Administrative Agent, and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC, as Co-Lead Arrangers and Co-Bookrunners	8-K	000-19807	10.45	02/22/12	
31.1	Certification of Co-Principal Executive Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
31.2	Certification of Co-Principal Executive Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
31.3	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 Co-Principal Executive Officers 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.

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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: June 1, 2012

By:

/s/ **BRIAN M. BEATTIE**
Brian M. Beattie

Chief Financial Officer

(Principal Financial Officer)

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