

CADENCE DESIGN SYSTEMS INC

Form 10-Q

October 24, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 28, 2013

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 000-15867

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CADENCE DESIGN SYSTEMS, INC.  
(Exact Name of Registrant as Specified in Its Charter)

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Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

77-0148231  
(I.R.S. Employer  
Identification No.)

2655 Seely Avenue, Building 5, San Jose, California  
(Address of Principal Executive Offices)  
(408) 943-1234

95134  
(Zip Code)

Registrant's Telephone Number, including Area Code

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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 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 a 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

On September 28, 2013, 287,743,419 shares of the registrant's common stock, \$0.01 par value, were outstanding.



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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CADENCE DESIGN SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	September 28, 2013	December 29, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$620,403	\$726,357
Short-term investments	96,019	100,704
Receivables, net of allowances of \$144 and \$85, respectively	101,896	97,821
Inventories	45,877	36,163
2015 notes hedges	292,511	303,154
Prepaid expenses and other	117,457	127,036
Total current assets	1,274,163	1,391,235
Property, plant and equipment, net of accumulated depreciation of \$564,416 and \$635,450, respectively	241,965	244,439
Goodwill	456,267	233,266
Acquired intangibles, net of accumulated amortization of \$128,004 and \$104,351, respectively	323,807	184,938
Long-term receivables	3,994	7,559
Other assets	257,191	225,566
Total assets	\$2,557,387	\$2,287,003
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Revolving credit facility	\$50,000	\$—
Convertible notes	463,837	447,011
2015 notes embedded conversion derivative	292,511	303,154
Accounts payable and accrued liabilities	193,445	171,318
Current portion of deferred revenue	297,897	295,787
Total current liabilities	1,297,690	1,217,270
Long-term liabilities:		
Long-term portion of deferred revenue	48,229	50,529
Other long-term liabilities	115,262	104,033
Total long-term liabilities	163,491	154,562
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock and capital in excess of par value	1,739,677	1,721,556
Treasury stock, at cost	(141,344)	(200,786)
Accumulated deficit	(523,011)	(649,549)
Accumulated other comprehensive income	20,884	43,950
Total stockholders' equity	1,096,206	915,171
Total liabilities and stockholders' equity	\$2,557,387	\$2,287,003

See notes to condensed consolidated financial statements.



CADENCE DESIGN SYSTEMS, INC.  
CONDENSED CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Revenue:				
Product and maintenance	\$341,601	\$310,118	\$1,007,855	\$893,916
Service	25,046	28,415	75,539	86,923
Total revenue	366,647	338,533	1,083,394	980,839
Costs and expenses:				
Cost of product and maintenance	32,546	34,461	90,488	94,079
Cost of service	17,190	16,809	50,682	53,254
Marketing and sales	98,094	82,461	283,773	246,674
Research and development	138,078	115,078	398,557	335,703
General and administrative	27,582	26,350	91,833	84,364
Amortization of acquired intangibles	5,141	3,876	14,259	11,305
Restructuring and other charges	86	57	2,594	49
Total costs and expenses	318,717	279,092	932,186	825,428
Income from operations	47,930	59,441	151,208	155,411
Interest expense	(9,583)	(8,737)	(28,373)	(25,840)
Other income (expense), net	2,535	(131)	6,728	5,972
Income before provision (benefit) for income taxes	40,882	50,573	129,563	135,543
Provision (benefit) for income taxes	2,382	(8,011)	3,025	9,469
Net income	\$38,500	\$58,584	\$126,538	\$126,074
Net income per share – basic	\$0.14	\$0.22	\$0.46	\$0.47
Net income per share – diluted	\$0.13	\$0.21	\$0.43	\$0.45
Weighted average common shares outstanding – basic	278,977	271,350	277,034	269,643
Weighted average common shares outstanding – diluted	296,958	283,328	294,531	278,760

See notes to condensed consolidated financial statements.

## CADENCE DESIGN SYSTEMS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Net income	\$38,500	\$58,584	\$126,538	\$126,074
Other comprehensive income (loss), net of tax effects:				
Foreign currency translation adjustments	(5,442	) 1,025	(23,308	) (3,808
Changes in unrealized holding gains or losses on available-for-sale securities, net of reclassification adjustment for realized gains and losses	177	(120	) (206	) (1,141
Changes in defined benefit plan liabilities	66	65	448	120
Total other comprehensive income (loss), net of tax effects	(5,199	) 970	(23,066	) (4,829
Comprehensive income	\$33,301	\$59,554	\$103,472	\$121,245



See notes to condensed consolidated financial statements.

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CADENCE DESIGN SYSTEMS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	September 28, 2013	September 29, 2012
Cash and cash equivalents at beginning of period	\$726,357	\$601,602
Cash flows from operating activities:		
Net income	126,538	126,074
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	72,681	67,171
Amortization of debt discount and fees	19,102	17,480
Stock-based compensation	47,487	34,285
Gain on investments, net	(4,035)	(2,222)
Deferred income taxes	(6,425)	(14,107)
Other non-cash items	2,183	3,578
Changes in operating assets and liabilities, net of effect of acquired businesses:		
Receivables	2,192	24,276
Inventories	(10,005)	6,936
Prepaid expenses and other	26,927	1,547
Other assets	(46,651)	(3,101)
Accounts payable and accrued liabilities	18,277	(1,714)
Deferred revenue	(5,474)	(38,230)
Other long-term liabilities	5,644	(1,855)
Net cash provided by operating activities	248,441	220,118
Cash flows from investing activities:		
Purchases of available-for-sale securities	(84,000)	(101,248)
Proceeds from the sale of available-for-sale securities	59,014	5,936
Proceeds from the maturity of available-for-sale securities	30,506	1,500
Proceeds from the sale of long-term investments	6,200	44
Purchases of property, plant and equipment	(35,950)	(25,932)
Investment in venture capital partnerships and equity investments	—	(250)
Cash paid in business combinations and asset acquisitions, net of cash acquired	(392,825)	(66,432)
Net cash used for investing activities	(417,055)	(186,382)
Cash flows from financing activities:		
Proceeds from revolving credit facility	100,000	—
Payment on revolving credit facility	(50,000)	—
Payment of convertible notes	(78)	—
Principal payments on receivable financing	(2,526)	(2,907)
Payment of acquisition-related contingent consideration	(677)	(39)
Tax effect related to employee stock transactions allocated to equity	9,494	5,790
Proceeds from issuance of common stock	40,691	28,755
Stock received for payment of employee taxes on vesting of restricted stock	(19,461)	(13,457)
Net cash provided by financing activities	77,443	18,142
Effect of exchange rate changes on cash and cash equivalents	(14,783)	(4,381)
Increase (decrease) in cash and cash equivalents	(105,954)	47,497
Cash and cash equivalents at end of period	\$620,403	\$649,099

Supplemental cash flow information:

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Cash paid for interest	\$6,538	\$5,677
Cash paid for taxes, net	\$5,281	\$12,481
Non-cash investing and financing activities:		
Stock options assumed for acquisition	\$529	\$—
Available-for-sale securities received from customer	\$232	\$20

See notes to condensed consolidated financial statements.

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## CADENCE DESIGN SYSTEMS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 1. BASIS OF PRESENTATION

The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared by Cadence Design Systems, Inc., or Cadence, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission, or the SEC. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, Cadence believes that the disclosures contained in this Quarterly Report on Form 10-Q comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These condensed consolidated financial statements are meant to be, and should be, read in conjunction with the consolidated financial statements and the Notes thereto included in Cadence's Annual Report on Form 10-K for the fiscal year ended December 29, 2012. In the condensed consolidated income statements for the three and nine months ended September 28, 2013, Cadence combined product and maintenance revenue because product and maintenance revenue is generally recognized from agreements that require customers to purchase both the product and associated maintenance in a bundled offering. Cadence reclassified prior period product and maintenance revenue balances to conform to the current period presentation. Certain other prior period balances have also been reclassified to conform to current period presentation.

The unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q reflect all adjustments (which include only normal, recurring adjustments and those items discussed in these Notes) that are, in the opinion of management, necessary to state fairly the results of operations, cash flows and financial position for the periods and dates presented. The results for such periods are not necessarily indicative of the results to be expected for the full fiscal year.

Preparation of the condensed consolidated financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2. DEBT

Cadence's outstanding debt as of September 28, 2013 and December 29, 2012 was as follows:

	September 28, 2013			December 29, 2012		
	(In thousands)					
	Principal	Unamortized Discount	Carrying Value	Principal	Unamortized Discount	Carrying Value
2015 Notes	\$350,000	\$(29,275)	\$320,725	\$350,000	\$(41,181)	\$308,819
2013 Notes	144,461	(1,449)	143,012	144,461	(6,447)	138,014
2023 Notes	100	—	100	178	—	178
Revolving credit facility	50,000	—	50,000	—	—	—
Total outstanding debt	\$544,561	\$(30,724)	\$513,837	\$494,639	\$(47,628)	\$447,011

## 2015 Notes

In June 2010, Cadence issued \$350.0 million principal amount of 2.625% Cash Convertible Senior Notes Due 2015, or the 2015 Notes. At maturity, the holders of the 2015 Notes will be entitled to receive the principal amount of the 2015 Notes plus accrued interest. The 2015 Notes are convertible into cash prior to maturity upon the occurrence of certain conditions described in the table below. To the extent that the 2015 Notes are convertible prior to maturity and a holder of the 2015 Notes elects to convert its notes prior to maturity, that note holder will be entitled to receive cash equal to the principal amount of the notes plus any additional conversion value as described in the table below under the heading "Conversion feature."



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Cadence entered into hedge transactions, or the 2015 Notes Hedges, in connection with the issuance of the 2015 Notes. The purpose of the 2015 Notes Hedges was to limit Cadence's exposure to the additional cash payments above the principal amount of the 2015 Notes that may be due to the holders. As a result of the 2015 Notes Hedges, Cadence's maximum expected cash exposure upon conversion of the 2015 Notes is the \$350.0 million principal balance of the notes. In June 2010, Cadence also sold warrants in separate transactions, or the 2015 Warrants. As a result of the 2015 Warrants, Cadence will experience dilution to its diluted earnings per share if its average closing stock price exceeds \$10.78 for any fiscal quarter. To the extent that Cadence's stock price exceeds \$10.78 at expiration of the 2015 Warrants, Cadence will issue shares to net settle the 2015 Warrants.

A summary of key terms of the 2015 Notes is as follows:

2015 Notes  
(In thousands, except percentages and per share amounts)

Outstanding principal maturity value – at September 28, 2013	\$350,000
Contractual interest rate	2.625%
Contractual maturity date	June 1, 2015
Initial conversion rate	132.5205 shares of common stock per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$7.55 per share of Cadence common stock.
Conversion feature (in addition to principal amount payable in cash)	Cash to the extent Cadence's stock price exceeds approximately \$7.55 per share, calculated based on the applicable conversion rate multiplied by the volume weighted average price of Cadence common stock over a specified period.
Early conversion conditions (or the Early Conversion Conditions)	<ul style="list-style-type: none"> <li>• Closing stock price greater than \$9.81 for at least 20 of the last 30 trading days in a fiscal quarter (convertible only for subsequent quarter);</li> <li>• Specified corporate transactions; or</li> <li>• Note trading price falls below a calculated minimum.</li> </ul>
Conversion immediately preceding maturity	From March 1, 2015 until the second trading day immediately preceding the maturity date, holders may convert their 2015 Notes at any time into cash as described above under "Conversion feature."
Redemption at Cadence's option prior to maturity	None.
Fundamental change put right	Upon certain fundamental corporate changes prior to maturity, the 2015 Note holders could require Cadence to repurchase their notes for cash equal to the principal amount of the notes plus accrued interest.

Make-whole premium

Upon certain fundamental changes prior to maturity, if Cadence's stock price were between \$6.16 and \$40.00 per share at that time, the 2015 Note holders would be entitled to an increase to the conversion rate. This is referred to as a "make-whole premium."

Financial covenants

None.

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#### Impact of Early Conversion Conditions on Financial Statements

The 2015 Notes are convertible into cash from September 29, 2013 through December 28, 2013 because Cadence's closing stock price exceeded \$9.81 for at least 20 days in the 30-day period prior to September 28, 2013. Accordingly, the net balance of the 2015 Notes of \$320.7 million is classified as a current liability on Cadence's condensed consolidated balance sheet as of September 28, 2013. The classification of the 2015 Notes as current or long-term on the condensed consolidated balance sheet is evaluated at each balance sheet date and may change from time to time depending on whether Cadence's closing stock price has exceeded \$9.81 during the periods specified in the table above under "Early conversion conditions." In the event that none of the 2015 Notes Early Conversion Conditions have been met in a future fiscal quarter prior to the one-year period immediately preceding the maturity date, Cadence will classify its net liability under the 2015 Notes as a long-term liability on the consolidated balance sheet as of the end of that fiscal quarter.

If the note holders elect to convert their 2015 Notes prior to maturity, any unamortized discount and transaction fees will be expensed at the time of conversion. If the entire outstanding principal amount had been converted on September 28, 2013, Cadence would have recorded an expense of \$33.3 million associated with the conversion, comprised of \$29.3 million of unamortized debt discount and \$4.0 million of unamortized transaction fees.

As of September 28, 2013, the if-converted value of the 2015 Notes to the note holders of approximately \$628.5 million exceeded the principal amount of \$350.0 million. The fair value of the 2015 Notes was \$639.4 million as of September 28, 2013 and \$640.1 million as of December 29, 2012. The 2015 Notes currently trade at a premium to the if-converted value of the notes. As of September 28, 2013, none of the note holders had elected to convert their 2015 Notes.

#### 2015 Notes Embedded Conversion Derivative

The conversion feature of the 2015 Notes, or the 2015 Notes Embedded Conversion Derivative, requires bifurcation from the 2015 Notes and is accounted for as a derivative liability. The fair value of the 2015 Notes Embedded Conversion Derivative at the time of issuance of the 2015 Notes was \$76.6 million and was recorded as original debt discount for purposes of accounting for the debt component of the 2015 Notes. This discount is amortized as interest expense using the effective interest method over the term of the 2015 Notes. The 2015 Notes Embedded Conversion Derivative is carried on the condensed consolidated balance sheet at its estimated fair value. The fair value was \$292.5 million as of September 28, 2013 and \$303.2 million as of December 29, 2012.

#### 2015 Notes Hedges

The 2015 Notes Hedges expire on June 1, 2015 and must be settled in cash. The aggregate cost of the 2015 Notes Hedges was \$76.6 million. The 2015 Notes Hedges are accounted for as derivative assets and are carried on the condensed consolidated balance sheet at their estimated fair value. The 2015 Note Hedges fair value was \$292.5 million as of September 28, 2013 and \$303.2 million as of December 29, 2012. The 2015 Notes Embedded Conversion Derivative liability and the 2015 Notes Hedges asset are adjusted to fair value each reporting period and unrealized gains and losses are reflected in the condensed consolidated income statements. The 2015 Notes Embedded Conversion Derivative and the 2015 Notes Hedges are designed to have similar fair values. Accordingly, the changes in the fair values of these instruments offset during the three and nine months ended September 28, 2013 and September 29, 2012 and did not have a net impact on the condensed consolidated income statements for the respective periods.

The classification of the 2015 Notes Embedded Conversion Derivative liability and the 2015 Notes Hedges asset as current or long-term on the condensed consolidated balance sheet corresponds with the classification of the 2015 Notes, is evaluated at each balance sheet date and may change from time to time depending on whether the closing stock price Early Conversion Condition is met for a particular quarter.

#### 2015 Warrants

In June 2010, Cadence sold the 2015 Warrants in separate transactions for the purchase of up to approximately 46.4 million shares of Cadence's common stock at a strike price of \$10.78 per share, for total proceeds of \$37.5 million, which was recorded as an increase in stockholders' equity. The 2015 Warrants expire on various dates from September 2015 through December 2015 and must be settled in net shares of Cadence's common stock. Therefore, upon expiration of the 2015 Warrants, Cadence will issue shares of common stock to the purchasers of the 2015 Warrants



that represent the value by which the price of the common stock exceeds the strike price stipulated within the particular warrant agreement.

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The effective interest rate and components of interest expense of the 2015 Notes for the three and nine months ended September 28, 2013 and September 29, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In thousands, except percentages)			
Effective interest rate	8.1	% 8.1	% 8.1	% 8.1
Contractual interest expense	\$2,289	\$2,289	\$6,867	\$6,867
Amortization of debt discount	\$4,045	\$3,737	\$11,906	\$10,968

#### 2013 Notes

In December 2006, Cadence issued \$250.0 million principal amount of 1.500% Convertible Senior Notes Due December 15, 2013, or the 2013 Notes. During 2010, Cadence repurchased a portion of the 2013 Notes. As of September 28, 2013, the remaining principal maturity value of the 2013 Notes was \$144.5 million.

At maturity, the holders of the 2013 Notes will be entitled to receive the principal amount of the 2013 Notes plus accrued interest. The 2013 Notes are convertible into a combination of cash and shares of Cadence common stock upon the occurrence of certain conditions described in the table below. To the extent that the 2013 Notes are convertible prior to maturity and a holder of the 2013 Notes elects to convert its notes prior to maturity, that note holder will be entitled to receive cash for the principal amount of the notes plus shares for any additional conversion value as described in the table below under the heading "Conversion feature." As of September 28, 2013, the 2013 Notes were not convertible.

Cadence entered into hedge transactions, or the 2013 Notes Hedges, in connection with the issuance of the 2013 Notes. Pursuant to the 2013 Notes Hedges, Cadence has the option to receive the amount of shares that may be owed to the 2013 Notes holders. The purpose of the 2013 Notes Hedges was to limit Cadence's exposure to the dilution that may result from the issuance of shares upon conversion of the notes. In December 2006, Cadence also sold warrants in separate transactions, or the 2013 Warrants. As a result of the 2013 Warrants, Cadence will experience dilution to its diluted earnings per share to the extent its average closing stock price exceeds \$31.50 for any fiscal quarter. If Cadence's stock price is above \$31.50 at the expiration of the 2013 Warrants, Cadence will issue shares to settle the 2013 Warrants.

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A summary of key terms of the 2013 Notes is as follows:

2013 Notes  
(In thousands, except percentages and per share amounts)

Principal maturity value – at issuance	\$250,000
Outstanding principal maturity value – at September 28, 2013	\$144,461
Contractual interest rate	1.500%
Contractual maturity date	December 15, 2013
Equity component - included in common stock - at September 28, 2013 and December 29, 2012	\$63,027
Initial conversion rate	47.2813 shares of common stock per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$21.15 per share of Cadence common stock.
Conversion feature (in addition to principal amount payable in cash)	Shares to the extent Cadence’s stock price exceeds \$21.15 per share, calculated based on the applicable conversion rate multiplied by the volume weighted average price of Cadence common stock over a specified period.
Early conversion conditions (or the Early Conversion Conditions)	<ul style="list-style-type: none"> <li>• Closing stock price greater than \$27.50 for at least 20 of the last 30 trading days in a calendar quarter (convertible only for subsequent quarter);</li> <li>• Specified corporate transactions; or</li> <li>• Note trading price falls below calculated minimum.</li> </ul>
Conversion immediately preceding maturity	From November 1, 2013, and until the trading day immediately preceding the maturity date, holders may convert their 2013 Notes at any time into cash and Cadence shares as described above under “Conversion feature.”
Redemption at Cadence’s option prior to maturity	None.
Fundamental change put right	Upon a fundamental change prior to maturity, the 2013 Note holders could require Cadence to repurchase their notes for cash equal to the principal amount of the notes plus accrued interest.
Make-whole premium	Upon certain fundamental changes, prior to maturity, if Cadence’s stock price were between \$18.00 and \$60.00 per share at that time, the 2013 Note holders would be entitled

to an increase to the conversion rate. This is referred to as a “make-whole premium.”

Financial covenants

None.

Impact of Early Conversion Conditions on Financial Statements

As of September 28, 2013, none of the 2013 Notes Early Conversion Conditions had been met. The 2013 Notes mature on December 15, 2013 and the liability component of the 2013 Notes is classified as a current liability as of September 28, 2013.

As of September 28, 2013, the if-converted value of the 2013 Notes to the note holders did not exceed the principal amount of the 2013 Notes. The total fair value of the 2013 Notes, including the equity component, was \$144.7 million as of September 28, 2013 and was \$144.1 million as of December 29, 2012.

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### 2013 Notes Hedges

The 2013 Notes Hedges expire on December 15, 2013, and must be settled in net shares of Cadence common stock. Therefore, upon expiration of the 2013 Notes Hedges, the counterparties will deliver shares of common stock to Cadence that represent the value, if any, by which the price of the common stock exceeds the price stipulated within the particular hedge agreement. The aggregate cost of the 2013 Notes Hedges was \$67.7 million and was recorded as a reduction to stockholders' equity. In connection with the purchase of a portion of the 2013 Notes during fiscal 2010, Cadence also sold a portion of the 2013 Notes Hedges representing options to purchase approximately 5.0 million shares of Cadence's common stock. The estimated fair value of the remaining 2013 Notes Hedges was approximately zero as of September 28, 2013 and \$0.7 million as of December 29, 2012. Subsequent changes in the fair value of the 2013 Notes Hedges will not be recognized in the condensed consolidated financial statements as long as the instruments remain classified as equity.

### 2013 Warrants

In December 2006, Cadence sold the 2013 Warrants in separate transactions, for the purchase of up to 11.8 million shares of Cadence's common stock at a strike price of \$31.50 per share for proceeds of \$25.3 million, which was recorded as an increase in stockholders' equity. In connection with the purchase of some of the 2013 Notes during fiscal 2010, Cadence also purchased some of the 2013 Warrants, reducing the number of shares of Cadence common stock subject to purchase rights by 5.0 million shares. The 2013 Warrants will expire on various dates from February 2014 through April 2014. The 2013 Warrants must be settled in net shares of Cadence's common stock. Therefore, upon expiration, Cadence will issue shares of common stock to the purchasers of the warrants that represent the value, if any, by which the price of the common stock exceeds the strike price stipulated within the particular warrant agreement.

The effective interest rate and components of interest expense of the 2013 Notes for the three and nine months ended September 28, 2013 and September 29, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In thousands, except percentages)			
Effective interest rate	6.4	% 6.4	% 6.4	% 6.4
Contractual interest expense	\$540	\$540	\$1,619	\$1,619
Amortization of debt discount	\$1,691	\$1,588	\$4,998	\$4,674

### Zero Coupon Zero Yield Senior Convertible Notes Due 2023

In August 2003, Cadence issued \$420.0 million principal amount of its Zero Coupon Zero Yield Senior Convertible Notes Due 2023, or the 2023 Notes. As of September 28, 2013 and December 29, 2012, the remaining balance and the total fair value of the 2023 Notes was \$0.1 million and \$0.2 million, respectively.

### Revolving Credit Facility

In December 2012, Cadence entered into a five-year senior secured revolving credit facility. The credit facility provides for borrowings up to \$250.0 million, with the right to request increased capacity up to an additional \$150.0 million upon the receipt of lender commitments, for total maximum borrowings of \$400.0 million.

Any outstanding loans drawn under the credit facility are due at maturity in December 2017. Outstanding amounts may be paid at any time prior to maturity. The facility is secured by certain accounts receivable and certain equity interests in Cadence's subsidiaries.

Interest accrues based on Cadence's consolidated leverage ratio. Borrowings may be made at LIBOR plus a margin between 1.25% and 2.00% per annum or at the base rate plus a margin between 0.25% and 1.00% per annum, where in each case the margin is determined by reference to a specified leverage ratio. Interest is payable quarterly. A commitment fee ranging from 0.20% to 0.35% is assessed on the daily average undrawn portion of revolving commitments.

The credit facility contains customary negative covenants that, among other things, restrict Cadence's ability to incur additional indebtedness, grant liens and make certain investments, make acquisitions, dispose of certain assets and make certain restricted payments, including dividends. In addition, the credit facility contains financial covenants that require Cadence to maintain a leverage ratio not to exceed 3 to 1, and a minimum interest coverage ratio of 3 to 1. As of September 28, 2013 and December 29, 2012, Cadence had outstanding borrowings under the credit facility of \$50.0 million and \$0, respectively, and was in compliance with all financial covenants.

### NOTE 3. ACQUISITIONS AND ACQUISITION-RELATED CONTINGENT CONSIDERATION

#### Acquisitions

On April 22, 2013, Cadence acquired Tensilica, Inc., or Tensilica, a privately held provider of configurable dataplane processing units based in Santa Clara, California. The acquired technology enables Cadence to offer customizable design IP solutions to its customers for applications such as mobile wireless, network infrastructure, audio infotainment and home applications. Total cash consideration for Tensilica, after taking into account adjustments for certain costs and cash held by Tensilica at closing of \$26.3 million, was \$319.3 million. An additional \$5.8 million was placed in escrow, is conditioned upon certain former Tensilica shareholders remaining employees of Cadence and is expensed over the designated retention periods of the former Tensilica shareholders now employed by Cadence. Cadence also assumed certain unvested Tensilica options with a fair value of \$15.3 million, of which \$0.5 million was allocated to purchase consideration. The remaining \$14.8 million of assumed options is expensed over the remaining vesting periods of the awards. The Black-Scholes option-pricing model was used to determine the fair value of the assumed options at the acquisition date. The Black-Scholes option-pricing model incorporates various subjective assumptions including expected volatility, expected term and risk-free interest rates. Cadence will also make payments to certain employees that are conditioned upon continued employment and the achievement of certain performance metrics over a three-year period.

On May 23, 2013, Cadence acquired Cosmic Circuits Private Limited, or Cosmic, a privately held provider of intellectual property used in system-on-chip design and verification based in Bangalore, India. The acquired technology enables Cadence to offer broader analog and mixed signal IP solutions to its customers. Total cash consideration for Cosmic, after taking into account cash held by Cosmic at closing of \$1.7 million, was \$59.5 million. Cadence will also make payments to certain employees that are conditioned upon continued employment and the achievement of certain performance metrics over a four-year period. Lip-Bu Tan, Cadence's president, chief executive officer and director, was also a member of the board of directors of Cosmic. In addition, a trust for the benefit of the children of Mr. Tan owned approximately 8.5% of Cosmic, and Mr. Tan and his wife serve as co-trustees of the trust. Mr. Tan recused himself from the discussions and negotiations between and at Cadence and Cosmic throughout the duration of the transaction, including any discussions and negotiations related to the consideration provided to Cosmic. A financial advisor provided a fairness opinion to Cadence in connection with the transaction, and the Board of Directors of Cadence reviewed the transaction and concluded that it was in the best interests of Cadence to proceed with such transaction.

During the nine months ended September 28, 2013, Cadence completed another business combination and an asset acquisition for cash and allocated the total purchase consideration of \$14.4 million to the assets acquired and liabilities assumed based on their respective fair values on the acquisition dates.

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The following table summarizes the fair value of assets acquired and liabilities assumed as part of the acquisitions completed during the nine months ended September 28, 2013:

	(In thousands)		
	Tensilica	Cosmic	Other
Cash and cash equivalents	\$26,331	\$1,724	\$149
Trade receivables	4,454	668	—
Property, plant and equipment	1,938	185	91
Other assets	46,832	1,681	—
Acquired intangibles:			
Existing technology	102,000	16,300	2,014
Agreements and relationships	33,000	5,100	1,667
Tradenames and trademarks	3,000	—	—
In-process technology	5,300	4,200	1,200
Goodwill	176,461	41,911	9,587
Total assets acquired	\$399,316	\$71,769	\$14,708
Deferred revenue	(8,100)	(129)	—
Other liabilities	(4,959)	(1,982)	(277)
Long-term deferred tax liabilities	(40,147)	(8,428)	—
Net assets acquired	\$346,110	\$61,230	\$14,431

Acquired intangibles with definite lives are amortized on a straight-line basis over the remaining estimated economic life of the underlying products and technologies. The weighted average amortization period for definite-lived intangible assets acquired during the nine months ended September 28, 2013 is approximately 8 years.

In-process technology consists of projects that had not reached technological feasibility by the date of acquisition and are considered indefinite-lived intangible assets until the completion or abandonment of the project. Upon completion of the project, the assets are amortized over their estimated useful lives. If the project is abandoned rather than completed, the asset is written off. In-process technology is tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired.

The goodwill generated from Cadence's acquisitions during the nine months ended September 28, 2013 is primarily related to expected synergies from combining operations of the acquired companies with Cadence. Cadence expects that approximately \$9.6 million of goodwill related to the acquisitions completed during the nine months ended September 28, 2013 will be deductible for tax purposes.

Results of operations and the estimated fair value of acquired assets and assumed liabilities are recorded in the condensed consolidated financial statements from the date of acquisition. The fair values of acquired intangible assets, including in-process technology, and assumed liabilities were determined using significant inputs that are not observable in the market. For an additional description of these fair value calculations, see Note 7 in the notes to condensed consolidated financial statements.

The financial information in the table below summarizes the combined results of operations of Cadence and Tensilica, on a pro forma basis, as though the companies had been combined as of the beginning of fiscal 2012. Pro forma results of operations for the other acquisitions completed during the three and nine months ended September 28, 2013 have not been presented because the effects of these acquisitions, individually and in the aggregate, would not have been material to Cadence's financial results. The pro forma financial information for Tensilica 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 December 31, 2011 or of results that may occur in the future.

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In thousands)			
Total revenue	\$368,694	\$346,999	\$1,101,689	\$1,003,170
Net income	\$43,679	\$47,180	\$131,753	\$85,280





Acquisition-related costs were zero and \$8.2 million for the three and nine months ended September 28, 2013, respectively, and \$0.2 million and \$1.3 million for the three and nine months ended September 29, 2012, respectively. These costs consist of professional fees and administrative costs and were expensed as incurred in Cadence's condensed consolidated income statements.

#### Acquisition-related Contingent Consideration

One of the fiscal 2011 acquisitions includes contingent consideration payments based on certain future financial measures associated with the acquired technology. This contingent consideration arrangement requires payments of up to \$5.0 million if these measures are met during the three-year period subsequent to October 1, 2011. The fair value of the contingent consideration arrangement recorded on the date of the acquisition was \$3.5 million. The fair value of the remaining contingent consideration as of September 28, 2013 was \$3.8 million.

Cadence may be obligated to make cash payments in connection with its business combinations and asset acquisitions completed in prior fiscal years, subject to the satisfaction of certain financial measures. If performance is such that these payments are fully achieved, Cadence may be obligated to pay up to an aggregate of \$14.3 million over the next 31 months. Of the \$14.3 million, up to \$8.7 million would be recorded as operating expenses in the condensed consolidated income statements.

#### NOTE 4. GOODWILL AND ACQUIRED INTANGIBLES

##### Goodwill

The changes in the carrying amount of goodwill during the nine months ended September 28, 2013 were as follows:

	Gross Carrying Amount (In thousands)
Balance as of December 29, 2012	\$233,266
Goodwill resulting from acquisitions	227,959
Effect of foreign currency translation	(4,958)
Balance as of September 28, 2013	\$456,267

##### Acquired Intangibles, Net

Acquired intangibles as of September 28, 2013 were as follows, excluding intangibles that were fully amortized as of December 29, 2012:

	Gross Carrying Amount (In thousands)	Accumulated Amortization	Acquired Intangibles, Net
Existing technology	\$236,774	\$(46,170)	\$190,604
Agreements and relationships	171,422	(49,199)	122,223
Distribution rights	30,100	(30,100)	—
Tradenames, trademarks and patents	9,519	(2,535)	6,984
In-process technology	3,996	—	3,996
Total acquired intangibles	\$451,811	\$(128,004)	\$323,807

In-process technology as of September 28, 2013 consists of projects acquired during the nine months ended September 28, 2013, and if completed, will contribute to Cadence's ability to offer additional IP solutions to its customers. These projects are expected to be complete in 6 to 12 months. During the nine months ended September 28, 2013, Cadence completed certain projects previously included in in-process technology and transferred approximately \$5.5 million to existing technology.

Acquired intangibles as of December 29, 2012 were as follows, excluding intangibles that were fully amortized as of December 31, 2011:

	Gross Carrying Amount (In thousands)	Accumulated Amortization	Acquired Intangibles, Net
Existing technology	\$112,940	\$(30,171)	) \$82,769
Agreements and relationships	133,764	(37,769)	) 95,995
Distribution rights	30,100	(28,595)	) 1,505
Tradenames, trademarks and patents	12,485	(7,816)	) 4,669
Total acquired intangibles	\$289,289	\$(104,351)	) \$184,938

Amortization expense for intangible assets from existing technology and maintenance agreements is included in cost of product and maintenance. Amortization of acquired intangibles for the three and nine months ended September 28, 2013 and September 29, 2012 was as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In thousands)			
Cost of product and maintenance	\$7,191	\$3,874	\$16,758	\$9,664
Amortization of acquired intangibles	5,141	3,876	14,259	11,305
Total amortization of acquired intangibles	\$12,332	\$7,750	\$31,017	\$20,969

Estimated amortization expense for the following five fiscal years and thereafter is as follows:

	(In thousands)
2013 – remaining period	\$12,446
2014	49,929
2015	49,378
2016	43,666
2017	40,060
Thereafter	128,328
Total estimated amortization expense	\$323,807

## NOTE 5. INCOME TAXES

During the nine months ended September 28, 2013, Cadence recognized a provision for income taxes of approximately \$3.0 million primarily because of:

• Federal, state and foreign tax expense on anticipated fiscal 2013 income; and

• Tax expense related to integrating the acquisitions;

which were partially offset by:

• A tax benefit of \$33.7 million from the release of an uncertain tax position recorded in a previous business combination and the release of related interest and penalties; and

• A tax benefit of \$5.9 million for the fiscal 2012 federal research tax credit that was retroactively enacted.

## Unrecognized Tax Benefits

During the nine months ended September 28, 2013, Cadence determined that the State of California Franchise Tax Board examination of the 2004 through 2006 tax years was effectively settled and, separately, released an unrecognized tax benefit recorded in a prior business combination.

The changes in Cadence's gross amount of unrecognized tax benefits during the nine months ended September 28, 2013 are as follows:

	Unrecognized tax benefits (In thousands)
Unrecognized tax benefits as of December 29, 2012	\$92,378
Gross amount of the increases in unrecognized tax benefits of tax positions taken during a prior year	6,476
Gross amount of the increases in unrecognized tax benefits as a result of tax positions taken during the current year	13,088
Amount of decreases in unrecognized tax benefits relating to settlements with taxing authorities, including the utilization of tax attributes	(13,821 )
Reductions to unrecognized tax benefits resulting from the lapse of the applicable statute of limitations	(12,044 )
Effect of foreign currency translation	497
Unrecognized tax benefits as of September 28, 2013	\$86,574
Total amounts of unrecognized tax benefits that, if upon resolution of the uncertain tax positions would reduce Cadence's effective tax rate as of September 28, 2013	\$49,914

The total amounts of interest and penalties recognized in the condensed consolidated income statements as provision (benefit) for income taxes for the three and nine months ended September 28, 2013 and September 29, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In thousands)			
Interest	\$728	\$820	\$(12,731)	\$2,584
Penalties	(708)	(36)	(7,666)	(1,012)

The total amounts of gross accrued interest and penalties recognized in the condensed consolidated balance sheets as of September 28, 2013 and December 29, 2012 were as follows:

	As of	
	September 28, 2013	December 29, 2012
	(In thousands)	
Interest	\$52	\$24,427
Penalties	1,255	8,953

#### NOTE 6. RECEIVABLES AND ALLOWANCES FOR DOUBTFUL ACCOUNTS

Cadence's current and long-term receivables balances as of September 28, 2013 and December 29, 2012 were as follows:

	As of	
	September 28, 2013	December 29, 2012
	(In thousands)	
Accounts receivable	\$61,906	\$67,259
Installment contract receivables, short-term	40,134	30,647
Long-term receivables	3,994	7,559
Total receivables	\$106,034	\$105,465
Less allowance for doubtful accounts	(144)	(85)
Total receivables, net	\$105,890	\$105,380

Cadence's customers are primarily concentrated within the semiconductor, electronics systems and consumer electronics industries. As of September 28, 2013, one customer accounted for approximately 13% of Cadence's total receivables. As of December 29, 2012, no single customer accounted for 10% of Cadence's total receivables. As of September 28, 2013, approximately 53% of Cadence's total receivables were attributable to the ten customers with the largest balances of total receivables. As of December 29, 2012, approximately 47% of Cadence's total receivables were attributable to the ten customers with the largest balances of total receivables.

#### NOTE 7. FAIR VALUE

Inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Cadence's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets;

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and



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Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires Cadence to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value. Cadence recognizes transfers between levels of the hierarchy based on the fair values of the respective financial instruments at the end of the reporting period in which the transfer occurred. There were no transfers between levels of the fair value hierarchy during the three and nine months ended September 28, 2013.

On a quarterly basis, Cadence measures at fair value certain financial assets and liabilities. The fair value of financial assets and liabilities was determined using the following levels of inputs as of September 28, 2013 and December 29, 2012:

	Fair Value Measurements as of September 28, 2013:			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
<b>Assets</b>				
Cash equivalents:				
Money market funds	\$475,563	\$475,563	\$—	\$—
Bank certificates of deposit	1,000	—	1,000	—
Short-term investments:				
Corporate debt securities	36,878	—	36,878	—
Bank certificates of deposit	18,313	—	18,313	—
United States Treasury securities	24,738	24,738	—	—
United States government agency securities	11,227	11,227	—	—
Commercial paper	2,797	—	2,797	—
Marketable equity securities	2,066	2,066	—	—
Trading securities held in Non-Qualified Deferred Compensation, or NQDC, trust	22,339	22,339	—	—
2015 Notes Hedges	292,511	—	292,511	—
Foreign currency exchange contracts	1,662	—	1,662	—
<b>Total Assets</b>	<b>\$889,094</b>	<b>\$535,933</b>	<b>\$353,161</b>	<b>\$—</b>
	Total	Level 1	Level 2	Level 3
	(In thousands)			
<b>Liabilities</b>				
Acquisition-related contingent consideration	\$3,835	\$—	\$—	\$3,835
2015 Notes Embedded Conversion Derivative	292,511	—	292,511	—
<b>Total Liabilities</b>	<b>\$296,346</b>	<b>\$—</b>	<b>\$292,511</b>	<b>\$3,835</b>

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	Fair Value Measurements as of December 29, 2012:			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets				
Cash equivalents:				
Money market funds	\$566,334	\$566,334	\$—	\$—
Short-term investments:				
Corporate debt securities	31,359	—	31,359	—
Bank certificates of deposit	27,826	—	27,826	—
United States Treasury securities	23,239	23,239	—	—
United States government agency securities	10,258	10,258	—	—
Commercial paper	5,783	—	5,783	—
Marketable equity securities	2,239	2,239	—	—
Trading securities held in NQDC trust	24,329	24,329	—	—
2015 Notes Hedges	303,154	—	303,154	—
Foreign currency exchange contracts	1,737	—	1,737	—
Total Assets	\$996,258	\$626,399	\$369,859	\$—
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Liabilities				
Acquisition-related contingent consideration	\$4,218	\$—	\$—	\$4,218
2015 Notes Embedded Conversion Derivative	303,154	—	303,154	—
Total Liabilities	\$307,372	\$—	\$303,154	\$4,218

## Level 1 Measurements

Cadence's cash equivalents held in money market funds, available-for-sale United States Treasury securities, United States government agency securities, marketable equity securities and the trading securities held in Cadence's NQDC trust are measured at fair value using level 1 inputs.

## Level 2 Measurements

The 2015 Notes Hedges and the 2015 Notes Embedded Conversion Derivative are measured at fair value using level 1 and level 2 inputs. These instruments are not actively traded and are valued using an option pricing model that uses observable market data for all inputs, such as implied volatility of Cadence's common stock, risk-free interest rate and other factors.

Cadence's available-for-sale corporate debt securities, bank certificates of deposit and commercial paper are measured at fair value using level 2 inputs. Cadence obtains the fair values of its level 2 available-for-sale securities from a professional pricing service and validates the fair values by assessing the pricing methods and inputs and by comparing the fair values to another independent source.

The fair values of Cadence's 2013 Notes and 2015 Notes, which differ from their carrying values, are influenced by interest rates and Cadence's stock price and stock price volatility and are determined by prices for the 2013 Notes and 2015 Notes observed in market trading, which are level 2 inputs.

Cadence's foreign currency exchange contracts are measured at fair value using observable foreign currency exchange rates.

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## Level 3 Measurements

The liabilities included in level 3 represent the fair value of contingent consideration associated with certain of Cadence's 2011 and 2010 acquisitions. Cadence makes estimates regarding the fair value of contingent consideration liabilities on the acquisition date and at the end of each reporting period until the contingency is resolved. The fair value of these arrangements is determined by calculating the net present value of the expected payments using significant inputs that are not observable in the market, including revenue projections and discount rates consistent with the level of risk of achievement. The fair value of these contingent consideration arrangements is affected most significantly by the changes in the revenue projections, but is also impacted by the discount rate used to adjust the outcomes to their present values. If the revenue projections increase or decrease, the fair value of the contingent consideration will increase or decrease accordingly, in amounts that will vary based on the timing of the projected revenues, the timing of the expected payments and the discount rate used to calculate the present value of the expected payments. Cadence used discount rates ranging from 11% to 16% to value its contingent consideration liabilities as of September 28, 2013 and December 29, 2012. Cadence believes that its estimates and assumptions are reasonable, but significant judgment is involved.

Changes in the fair value of contingent consideration liabilities subsequent to the acquisition are recorded in general and administrative expense in the condensed consolidated income statements.

The following table summarizes the level 3 activity for the nine months ended September 28, 2013:

	(In thousands)
Balance as of December 29, 2012	\$4,218
Payments	(835 )
Adjustments	452
Balance as of September 28, 2013	\$3,835

Cadence acquired intangible assets, including in-process technology, of \$173.8 million in connection with its acquisitions during the nine months ended September 28, 2013. The fair value of the intangible assets acquired was determined using the income approach and using level 3 inputs. Key assumptions include the level and timing of expected future cash flows, conditions and demands specific to IP solutions, discount rates consistent with the level of risk and the economy in general. The fair value of these intangible assets was affected most significantly by the projected income associated with the intangible assets and the anticipated timing of the projected income, but was also impacted by the discount rate used to adjust the outcomes to their present values. If the income projections had increased or decreased, the fair value of the intangible assets would have increased or decreased accordingly in amounts that would have varied based on the anticipated timing of the projected income and the discount rate used to calculate the present value of the expected income. Cadence used discount rates ranging from 10% to 15% to value the intangible assets acquired during the nine months ended September 29, 2013.

As part of its acquisitions, Cadence also assumed obligations related to deferred revenue of \$8.2 million, which was estimated using the cost build-up approach. The cost build-up approach determines fair value using estimates of the costs required to provide the contracted deliverables plus an assumed profit between 10% and 25%. The total costs including the assumed profit were adjusted to present value using a discount rate of approximately 3%. The resulting fair value approximates the amount that Cadence would be required to pay a third party to assume the obligation. The fair value of the deferred revenue obligation was affected most significantly by the estimated costs required to support the obligation, but was also affected by the assumed profit and the discount rate.

Cadence believes that its estimates and assumptions related to the fair value of its acquired intangible assets and deferred revenue obligations are reasonable, but significant judgment is involved.



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## NOTE 8. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cadence's cash, cash equivalents and short-term investments at fair value as of September 28, 2013 and December 29, 2012 were as follows:

	As of	
	September 28, 2013	December 29, 2012
	(In thousands)	
Cash and cash equivalents	\$620,403	\$726,357
Short-term investments	96,019	100,704
Cash, cash equivalents and short-term investments	\$716,422	\$827,061

## Cash and Cash Equivalents

Cadence considers all highly liquid investments with original maturities of three months or less on the date of purchase to be cash equivalents. The amortized cost of Cadence's cash equivalents approximates fair value. The following table summarizes Cadence's cash and cash equivalents at fair value as of September 28, 2013 and December 29, 2012:

	As of	
	September 28, 2013	December 29, 2012
	(In thousands)	
Cash and interest bearing deposits	\$143,840	\$160,023
Money market funds	475,563	566,334
Bank certificates of deposit	1,000	—
Total cash and cash equivalents	\$620,403	\$726,357

## Short-Term Investments

The following tables summarize Cadence's short-term investments as of September 28, 2013 and December 29, 2012:

	As of September 28, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Corporate debt securities	\$36,859	\$33	\$(14)	) \$36,878
Bank certificates of deposit	18,300	13	—	) 18,313
United States Treasury securities	24,705	34	(1)	) 24,738
United States government agency securities	11,215	13	(1)	) 11,227
Commercial paper	2,794	3	—	) 2,797
Marketable debt securities	93,873	96	(16)	) 93,953
Marketable equity securities	1,817	249	—	) 2,066
Total short-term investments	\$95,690	\$345	\$(16)	) \$96,019

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	As of December 29, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Corporate debt securities	\$31,313	\$57	\$(11)	\$31,359
Bank certificates of deposit	27,805	21	—	27,826
United States Treasury securities	23,213	26	—	23,239
United States government agency securities	10,245	13	—	10,258
Commercial paper	5,777	6	—	5,783
Marketable debt securities	98,353	123	(11)	98,465
Marketable equity securities	1,817	422	—	2,239
Total short-term investments	\$100,170	\$545	\$(11)	\$100,704

As of September 28, 2013, no securities held by Cadence have been in an unrealized loss position for greater than six months.

The amortized cost and estimated fair value of marketable debt securities included in short-term investments as of September 28, 2013, by contractual maturity, are shown in the table below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due in less than one year	\$48,949	\$48,983
Due in one to three years	44,924	44,970
Total marketable debt securities included in short-term investments	\$93,873	\$93,953

Net realized gains from the sale of marketable debt and equity securities during the three and nine months ended September 28, 2013 and September 29, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In thousands)		(In thousands)	
Gains on sale of marketable debt and equity securities, net	\$1,363	\$8	\$1,339	\$123

**Non-Marketable Investments**

Cadence's non-marketable investments generally consist of voting preferred stock or convertible debt of privately held companies and are included in other assets on Cadence's condensed consolidated balance sheets. If Cadence determines that it has the ability to exercise significant influence over the issuer, which may include considering whether the investments are in-substance common stock, the investment is accounted for using the equity method. Cadence's non-marketable investments as of September 28, 2013 and December 29, 2012 were as follows:

	As of	
	September 28, 2013	December 29, 2012
	(In thousands)	
Cost method	\$3,038	\$3,038
Equity method	3,648	4,249
Total non-marketable investments	\$6,686	\$7,287



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Net realized gains on the sale of non-marketable investments during the three and nine months ended September 28, 2013 and September 29, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In thousands)		(In thousands)	
Gains on sale of non-marketable investments, net	\$6	\$—	\$1,196	\$—

## NOTE 9. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income during the period by the weighted average number of shares of common stock outstanding during that period, less unvested restricted stock awards. Diluted net income per share is impacted by equity instruments considered to be potential common shares, if dilutive, computed using the treasury stock method of accounting.

The calculations for basic and diluted net income per share for the three and nine months ended September 28, 2013 and September 29, 2012 are as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In thousands, except per share amounts)			
Net income	\$38,500	\$58,584	\$126,538	\$126,074
Weighted average common shares used to calculate basic net income per share	278,977	271,350	277,034	269,643
2023 Notes	9	11	11	11
2015 Warrants	11,587	6,286	11,042	3,148
Share-based awards	6,385	5,681	6,444	5,958
Weighted average common shares used to calculate diluted net income per share	296,958	283,328	294,531	278,760
Net income per share - basic	\$0.14	\$0.22	\$0.46	\$0.47
Net income per share - diluted	\$0.13	\$0.21	\$0.43	\$0.45

The following table presents shares of Cadence's common stock outstanding for the three and nine months ended September 28, 2013, and September 29, 2012, that were excluded from the computation of diluted net income per share because the effect of including these shares in the computation of diluted net income per share would have been anti-dilutive:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In thousands)			
2013 Warrants	6,830	6,830	6,830	6,830
Options to purchase shares of common stock	5,639	10,003	6,048	12,767
Non-vested shares of restricted stock	3,280	10	1,099	82
Total potential common shares excluded	15,749	16,843	13,977	19,679

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## NOTE 10. OTHER COMPREHENSIVE INCOME

Cadence's other comprehensive income is comprised of foreign currency translation gains and losses, changes in defined benefit plan liabilities, and changes in unrealized holding gains and losses on available-for-sale securities net of reclassifications for realized gains and losses as presented in Cadence's condensed consolidated statements of comprehensive income.

Accumulated other comprehensive income was comprised of the following as of September 28, 2013, and December 29, 2012:

	As of	
	September 28, 2013	December 29, 2012
	(In thousands)	
Foreign currency translation gain	\$25,345	\$48,653
Changes in defined benefit plan liabilities	(4,781	) (5,229
Unrealized holding gains on available-for-sale securities	320	526
Total accumulated other comprehensive income	\$20,884	\$43,950

For the three and nine months ended September 28, 2013 and September 29, 2012 there were no significant amounts reclassified from accumulated other comprehensive income to net income.

## NOTE 11. CONTINGENCIES

## Legal Proceedings

From time to time, Cadence is involved in various disputes and litigation that arise in the ordinary course of business. These include disputes and lawsuits related to intellectual property, indemnification obligations, mergers and acquisitions, licensing, contracts, distribution arrangements and employee relations matters. At least quarterly, Cadence 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 or the range of loss can be estimated, Cadence accrues a liability for the estimated loss. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on Cadence's judgments using the best information available at the time. As additional information becomes available, Cadence reassesses the potential liability related to pending claims and litigation matters and may revise estimates.

## Other Contingencies

Cadence provides its customers with a warranty on sales of hardware products, generally for a 90-day period. Cadence did not incur any significant costs related to warranty obligations during the three and nine months ended September 28, 2013 or September 29, 2012.

Cadence's product license and services agreements typically include a limited indemnification provision for claims from third parties relating to Cadence's intellectual property. If the potential loss from any indemnification claim is considered probable and the amount or the range of loss can be estimated, Cadence accrues a liability for the estimated loss. The indemnification is generally limited to the amount paid by the customer. Cadence did not incur any significant losses from indemnification claims during the three and nine months ended September 28, 2013 or September 29, 2012.

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## NOTE 12. OTHER INCOME, NET

Cadence's other income, net for the three and nine months ended September 28, 2013 and September 29, 2012 was as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In thousands)			
Interest income	\$366	\$399	\$1,275	\$1,024
Gains on sale of marketable debt and equity securities, net	1,363	8	1,339	123
Gains on sale of non-marketable investments, net	6	—	1,196	—
Gains (losses) on securities in NQDC trust	206	(839	) 2,057	3,237
Gains on foreign exchange	489	1,376	1,476	2,546
Write-down of non-marketable investments	—	(1,081	) (464	) (1,103
Other income (expense), net	105	6	(151	) 145
Total other income (expense), net	\$2,535	\$(131	) \$6,728	\$5,972

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## NOTE 13. SEGMENT REPORTING

Segment reporting is based on the “management approach,” following the method that management organizes the company’s reportable segments for which separate financial information is made available to, and evaluated regularly by, the chief operating decision maker in allocating resources and in assessing performance. Cadence’s chief operating decision maker is its President and Chief Executive Officer, or CEO, who reviews Cadence’s consolidated results as one reportable segment. In making operating decisions, the CEO primarily considers consolidated financial information, accompanied by disaggregated information about revenues by geographic region.

Outside the United States, Cadence markets and supports its products and services primarily through its subsidiaries. Revenue is attributed to geography based upon the country in which the product is used or services are delivered.

Long-lived assets are attributed to geography based on the country where the assets are located.

The following table presents a summary of revenue by geography for the three and nine months ended September 28, 2013 and September 29, 2012:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In thousands)			
Americas:				
United States	\$ 168,125	\$ 141,509	\$ 476,525	\$ 414,888
Other Americas	7,212	4,733	17,393	18,659
Total Americas	175,337	146,242	493,918	433,547
Europe, Middle East and Africa	72,376	66,392	229,053	191,097
Japan	45,853	58,757	144,794	168,856
Asia	73,081	67,142	215,629	187,339
Total	\$ 366,647	\$ 338,533	\$ 1,083,394	\$ 980,839

The following table presents a summary of long-lived assets by geography as of September 28, 2013 and December 29, 2012:

	As of	
	September 28, 2013	December 29, 2012
	(In thousands)	
Americas:		
United States	\$ 209,783	\$ 214,711
Other Americas	330	185
Total Americas	210,113	214,896
Europe, Middle East and Africa	6,354	5,410
Japan	974	1,649
Asia	24,524	22,484
Total	\$ 241,965	\$ 244,439

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q, or this Quarterly Report, and in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 29, 2012. Certain of these statements, including, but not limited to, statements regarding the extent and timing of future revenues and expenses and customer demand, statements regarding the deployment of our products, statements regarding our reliance on third parties and other statements using words such as "anticipates," "believes," "could," "estimates," "expects," "forecasts," "intends," "may," "plans," "should," "will" and "would," and words of similar import and the negatives thereof, constitute forward-looking statements. These statements are predictions based upon our current expectations about future events. Actual results could vary materially as a result of certain factors, including, but not limited to, those expressed in these statements. We refer you to the "Risk Factors," "Results of Operations," "Disclosures About Market Risk," and "Liquidity and Capital Resources" sections contained in this Quarterly Report, and the risks discussed in our other Securities Exchange Commission, or SEC, filings, which identify important risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements.

We urge you to consider these factors carefully in evaluating the forward-looking statements contained in this Quarterly Report. All subsequent written or oral forward-looking statements attributable to our company or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements included in this Quarterly Report are made only as of the date of this Quarterly Report. We do not intend, and undertake no obligation, to update these forward-looking statements.

Overview

We develop solutions that our customers use to design increasingly complex integrated circuits, or ICs, and electronic devices. Our solutions are designed to help our customers reduce the time to bring an IC or electronic device to market and to reduce their design and development costs. Our offerings include software, two categories of intellectual property, or IP (commonly referred to as verification IP, or VIP, and Design IP), and hardware technology. We provide maintenance for our product offerings and provide engineering services related to methodology, education and hosted design solutions, which help our customers manage and accelerate their electronics product development processes.

Substantially all of our business is generated from semiconductor and electronics systems manufacturers and designers and the renewal of many of our customer contracts and the decisions for new purchases are dependent upon their commencement of new design projects. As a result, our business is significantly influenced by our customers' business outlook and investment in the introduction of new products and the improvement of existing products. The markets our customers serve are sensitive to product price and the time it takes to bring the products to market. In order to be competitive and profitable in these markets, our customers demand high levels of productivity from their design teams, better predictability in shorter development schedules, high quality products and lower development costs. Semiconductor and electronics systems companies are responding to these challenges and users' demand for increased functionality and smaller devices by combining subsystems - such as radio frequency, or RF, wireless communication, signal processing, microprocessors and memory controllers - onto a single silicon chip, creating a system-on-chip, or SoC, or combining multiple chips into a single chip package in a format referred to as system-in-package, or SiP. The trend toward subsystem integration has required these chip makers to find solutions to challenges previously addressed by system companies, such as verifying system-level functionality and hardware-software interoperability.

Our offerings address many of the challenges associated with developing unique silicon circuitry, integrating that circuitry with design IP developed by us or third parties to create SoCs, and combining ICs and SoCs with software to create electronic systems. Our strategy is to provide our customers with the ability to address the broad range of issues that arise at the silicon, SoC, and system levels.

Significant issues that our customers face in creating their products include optimizing energy consumption, manufacturing microscopic circuitry, verifying device functionality, and achieving technical performance targets, all



while meeting aggressive time-to-market and cost requirements. Providers of electronic design automation, or EDA, solutions must deliver products that address these technical challenges while improving the productivity, predictability, reliability and profitability of the design processes and products of their customers.

Our products are engineered to improve our customers' design productivity and design quality by providing a comprehensive set of EDA solutions and a differentiated portfolio of Design IP and VIP. Product revenue includes fees from licenses to use our software and IP, and from sales and leases of our hardware products.

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We combine our products and technologies into categories related to major design activities:

Functional Verification, Hardware and IP;  
Custom IC Design;  
Digital IC Design;  
System Interconnect Design; and  
Design for Manufacturing, or DFM.

The major Cadence® design platforms are branded as Incisive® functional verification, Virtuoso® custom IC design, Encounter® digital IC design and Allegro® system interconnect design. Our functional verification offerings include our VIP products, our Design IP offerings and our hardware offerings. In addition, we augment these platform product offerings with a set of DFM products that service both the digital and custom IC design flows.

The products and technologies included in these categories are combined with ready-to-use packages of technologies assembled from our broad portfolio of IP and other associated components that provide comprehensive solutions for low power, mixed signal and designs at smaller geometries referred to as advanced process nodes, as well as popular designs based on design IP owned and licensed by other companies such as ARM Holdings plc. These solutions are marketed to users who specialize in areas such as system design and verification, functional verification, logic design, digital implementation, custom IC design and printed circuit board, or PCB, and IC package and SiP design.

During the nine months ended September 28, 2013, we completed acquisitions that enable us to offer additional IP solutions to our customers. These acquisitions, along with our fiscal 2012 acquisition of Sigrity, influenced revenues and operating expenses for the three and nine months ended September 28, 2013. It is expected that the impact of these acquisitions on our condensed consolidated income statements for the remainder of fiscal 2013 will result in a greater increase in our operating expenses than the increase in revenue generated from the acquisitions, in part, because the adjustment of deferred revenue to fair value.

We have identified certain items that management uses as performance indicators to manage our business, including revenue, certain elements of operating expenses and cash flow from operations, and we describe these items further below under the heading "Results of Operations" and "Liquidity and Capital Resources."

**Critical Accounting Estimates**

In preparing our condensed consolidated financial statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, operating income and net income, as well as on the value of certain assets and liabilities on our condensed consolidated balance sheets. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. At least quarterly, we evaluate our assumptions, judgments and estimates, and make changes as deemed necessary. Historically, our assumptions, judgments and estimates relative to our critical accounting estimates have not differed materially from actual results. For further information about our critical accounting estimates, see the discussion in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading "Critical Accounting Estimates" in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

## Results of Operations

Financial results for the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012, reflect the following:

An increase in our product and maintenance revenue, primarily because of increased business levels, increased revenue recognized from bookings in prior periods and revenue recognized from our fiscal 2013 and 2012 acquisitions;

An increase in employee-related costs, primarily consisting of incremental costs related to employees added from our fiscal 2013 and 2012 acquisitions and costs related to hiring additional employees; and

An increase in variable compensation due to increased revenue, bookings and operating performance.

### Revenue

We primarily generate revenue from licensing our EDA software and IP, selling or leasing our hardware technology, providing maintenance for our software, IP and hardware, providing engineering services and earning royalties generated from the use of our IP.

The timing of our product revenue is significantly affected by the mix of hardware and software products in the bookings executed in any given period and whether the revenue for such bookings is recognized over multiple periods or up-front, upon completion of delivery.

We seek to achieve a consistent mix of bookings with approximately 90% of the aggregate value of our bookings of a type for which the revenue is recurring, or ratable, in nature, and the remainder of the resulting revenue recognized up-front, upon completion of delivery. Our ability to achieve this bookings mix in any single fiscal quarter may be impacted by hardware sales, because product revenue for hardware sales is generally recognized up-front in the quarter in which delivery is completed.

Approximately 90% of the aggregate value of our bookings during the three and nine months ended September 28, 2013 and September 29, 2012 was of a type for which the revenue is recurring, or ratable, in nature.

For an additional description of the impact of hardware sales on the anticipated mix of bookings, our other license types and the timing of revenue recognition for license transactions, see the discussion under the heading “Critical Accounting Estimates – Revenue Recognition” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Form 10-K for the fiscal year ended December 29, 2012.

### Revenue by Period

In the condensed consolidated income statements for the three and nine months ended September 28, 2013, we combined product and maintenance revenue because product and maintenance revenue is generally recognized from agreements that require customers to purchase both the product and associated maintenance in a bundled offering. We reclassified prior period product and maintenance revenue balances to conform to the current year presentation.

The following table shows our revenue for the three months ended September 28, 2013 and September 29, 2012 and the change in revenue between periods:

	Three Months Ended		Change		
	September 28, 2013	September 29, 2012	Amount	Percentage	
	(In millions, except percentages)				
Product and maintenance	\$341.6	\$310.1	\$31.5	10	%
Services	25.0	28.4	(3.4)	(12)	)%
Total revenue	\$366.6	\$338.5	\$28.1	8	%

The following table shows our revenue for the nine months ended September 28, 2013 and September 29, 2012 and the change in revenue between periods:

	Nine Months Ended		Change		
	September 28, 2013	September 29, 2012	Amount	Percentage	
	(In millions, except percentages)				
Product and maintenance	\$1,007.9	\$893.9	\$114.0	13	%
Services	75.5	86.9	(11.4)	(13)	)%
Total revenue	\$1,083.4	\$980.8	\$102.6	10	%

Product and maintenance revenue increased during the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012, primarily because of increased business levels, increased revenue recognized from bookings in prior periods and revenue recognized from our fiscal 2013 and 2012 acquisitions. Services revenue decreased during the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012, because of the redeployment of certain of our design services engineers to internal research and development projects related to our Design IP activities.

No one customer accounted for 10% or more of total revenue during the three and nine months ended September 28, 2013 or September 29, 2012.

#### Revenue by Product Group

The following table shows the percentage of product and related maintenance revenue contributed by each of our five product groups, and services and other for the past five consecutive quarters:

	Three Months Ended					
	September 28, 2013	June 29, 2013	March 30, 2013	December 29, 2012	September 29, 2012	
Functional Verification, Hardware and IP	31	% 28	% 26	% 30	% 30	%
Digital IC Design	21	% 23	% 25	% 23	% 23	%
Custom IC Design	25	% 25	% 25	% 24	% 24	%
System Interconnect Design	10	% 11	% 10	% 9	% 9	%
Design for Manufacturing	6	% 6	% 7	% 6	% 6	%
Services and other	7	% 7	% 7	% 8	% 8	%
Total	100	% 100	% 100	% 100	% 100	%

As described in Note 2 in the notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012, certain of our licensing arrangements allow customers the ability to remix among software products. Additionally, we have arrangements with customers that include a combination of our products, with the actual product selection and number of licensed users to be determined at a later date. For these arrangements, we estimate the allocation of the revenue to product groups based upon the expected usage of our products. The actual usage of our products by these customers may differ and, if that proves to be the case, the revenue allocation in the table above would differ.

The changes in the percentage of revenue contributed by the Functional Verification, Hardware and IP product group for the quarters presented are primarily related to the inclusion of revenue recognized from our fiscal 2013 acquisitions.

## Revenue by Geography

	Three Months Ended		Change		
	September 28, 2013	September 29, 2012	Amount	Percentage	
(In millions, except percentages)					
United States	\$168.1	\$141.5	\$26.6	19	%
Other Americas	7.2	4.7	2.5	53	%
Europe, Middle East and Africa	72.4	66.4	6.0	9	%
Japan	45.8	58.8	(13.0)	(22)	)%
Asia	73.1	67.1	6.0	9	%
Total revenue	\$366.6	\$338.5	\$28.1	8	%

	Nine Months Ended		Change		
	September 28, 2013	September 29, 2012	Amount	Percentage	
(In millions, except percentages)					
United States	\$476.5	\$414.9	\$61.6	15	%
Other Americas	17.4	18.7	(1.3)	(7)	)%
Europe, Middle East and Africa	229.1	191.1	38.0	20	%
Japan	144.8	168.8	(24.0)	(14)	)%
Asia	215.6	187.3	28.3	15	%
Total revenue	\$1,083.4	\$980.8	\$102.6	10	%

Most of our revenue is transacted in the United States dollar. However, certain revenue transactions are denominated in foreign currencies, primarily the Japanese yen, and we recognize reduced revenue from those contracts in periods when the Japanese yen weakens in value against the United States dollar and additional revenue from those contracts in periods when the Japanese yen strengthens against the United States dollar. For an additional description of how changes in foreign exchange rates affect our condensed consolidated financial statements, see the discussion under the heading “Item 3. Quantitative and Qualitative Disclosures About Market Risk – Foreign Currency Risk.”

Revenue for Japan decreased during the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012, primarily due to business conditions facing our Japanese customers. Because of these conditions, we expect lower revenue for Japan for the remainder of fiscal 2013, as compared to the same period in fiscal 2012.

For the primary factors contributing to our increase in revenue in other geographies, see the general description under “Revenue by Period,” above.

## Revenue by Geography as a Percent of Total Revenue

	Three Months Ended		Nine Months Ended		
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012	
United States	46	% 42	% 44	% 42	%
Other Americas	2	% 1	% 2	% 2	%
Europe, Middle East and Africa	20	% 20	% 21	% 20	%
Japan	12	% 17	% 13	% 17	%
Asia	20	% 20	% 20	% 19	%
Total	100	% 100	% 100	% 100	%

## Cost of Revenue

	Three Months Ended		Change	
	September 28, 2013	September 29, 2012	Amount	Percentage
	(In millions, except percentages)			
Product and maintenance	\$32.5	\$34.5	\$(2.0)	(6)%
Services	17.2	16.8	0.4	2%

	Nine Months Ended		Change	
	September 28, 2013	September 29, 2012	Amount	Percentage
	(In millions, except percentages)			
Product and maintenance	\$90.5	\$94.1	\$(3.6)	(4)%
Services	50.7	53.3	(2.6)	(5)%

The following table shows cost of revenue as a percentage of related revenue for the three and nine months ended September 28, 2013 and September 29, 2012:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Product and maintenance	10	% 11	% 9	% 11
Services	69	% 59	% 67	% 61

## Cost of Product and Maintenance

Cost of product and maintenance includes costs associated with the sale and lease of our hardware and licensing of our software and IP products, employee salary, benefits and other employee-related costs, cost of our customer support services, amortization of acquired intangibles, as well as the costs of technical documentation and royalties payable to third-party vendors. Costs associated with our hardware products include materials, assembly and overhead. These additional hardware manufacturing costs make our cost of hardware product higher, as a percentage of revenue, than our cost of software and IP products.

A summary of cost of product and maintenance is as follows:

	Three Months Ended		Change	
	September 28, 2013	September 29, 2012	Amount	Percentage
	(In millions, except percentages)			
Product and maintenance-related costs	\$25.3	\$30.6	\$(5.3)	(17)%
Amortization of acquired intangibles	7.2	3.9	3.3	85%
Total cost of product and maintenance	\$32.5	\$34.5	\$(2.0)	(6)%
	Nine Months Ended		Change	
	September 28, 2013	September 29, 2012	Amount	Percentage
	(In millions, except percentages)			
Product and maintenance-related costs	\$73.7	\$84.4	\$(10.7)	(13)%
Amortization of acquired intangibles	16.8	9.7	7.1	73%
Total cost of product and maintenance	\$90.5	\$94.1	\$(3.6)	(4)%

Cost of product and maintenance depends primarily upon hardware product sales in any given period, employee salary, benefits and other employee-related costs, and also depends upon the timing and extent to which we acquire intangible assets, acquire or license third-parties' intellectual property or technology and sell our products that include such acquired or licensed intellectual property or technology. Profit margins can fluctuate from period to period depending upon, among other things, the mix of hardware and software revenue and the cost of product associated with particular sales agreements. The decrease in product and maintenance-related costs during the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012, was primarily due to decreased hardware sales between the respective periods. The increase in amortization of acquired intangibles related to cost of product and maintenance during the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012, resulted from increased amortization of intangible assets related to our fiscal 2013 and 2012 acquisitions, which was partially offset by certain acquired intangibles becoming fully amortized. We expect cost of product and maintenance to increase for the remainder of fiscal 2013, as compared to the same period in fiscal 2012, primarily due to amortization of intangible assets recorded in connection with our fiscal 2013 acquisitions.

#### Cost of Services

Cost of services primarily includes employee salary, benefits and other employee-related costs, costs to maintain the infrastructure necessary to manage a services organization, and provisions for contract losses, if any. During the nine months ended September 28, 2013, certain of our design services engineers were redeployed to internal research and development projects or to assist with pre-sales activities, resulting in lower cost of services expense when compared to the nine months ended September 29, 2012. We expect to continue to utilize certain design services engineers on internal projects and pre-sales activities.

#### Operating Expenses

Our operating expenses include marketing and sales, research and development and general and administrative expenses. Factors that may cause our operating expenses to fluctuate include changes in the number of employees due to hiring, acquisitions, foreign exchange rates and the impact of our variable compensation programs, which are driven by overall operating results.

Our employee salary and other compensation-related costs increased during the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012, primarily due to incremental costs related to employees added from our fiscal 2013 and 2012 acquisitions, hiring additional employees for our research and development and sales activities, and higher variable compensation as a result of improved business performance.

Many of our operating expenses are denominated in various foreign currencies. We recognize lower expenses in periods when the United States dollar strengthens in value against other currencies and we recognize higher expenses when the United States dollar weakens against other currencies. For an additional description of how changes in foreign exchange rates affect our condensed consolidated financial statements, see the discussion under the heading "Item 3. Quantitative and Qualitative Disclosures About Market Risk – Foreign Currency Risk."

We expect our operating expenses to increase during the remainder of fiscal 2013, as compared to the same period in fiscal 2012, due to the addition of employees through our fiscal 2013 acquisitions and hiring of research and development and sales personnel.

Our operating expenses for the three and nine months ended September 28, 2013 and September 29, 2012 were as follows:

	Three Months Ended		Change Amount	Percentage	
	September 28, 2013	September 29, 2012			
	(In millions, except percentages)				
Marketing and sales	\$98.1	\$82.5	\$15.6	19	%
Research and development	138.1	115.1	23.0	20	%
General and administrative	27.6	26.4	1.2	5	%

Operating expenses	\$263.8	\$224.0	\$39.8	18	%
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	Nine Months Ended		Change	
	September 28, 2013	September 29, 2012	Amount	Percentage
	(In millions, except percentages)			
Marketing and sales	\$283.8	\$246.7	\$37.1	15 %
Research and development	398.6	335.7	62.9	19 %
General and administrative	91.8	84.4	7.4	9 %
Operating expenses	\$774.2	\$666.8	\$107.4	16 %

Our operating expenses, as a percentage of total revenue, for the three and nine months ended September 28, 2013 and September 29, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Marketing and sales	27 %	24 %	26 %	25 %
Research and development	38 %	34 %	37 %	34 %
General and administrative	8 %	8 %	8 %	9 %
Operating expenses	73 %	66 %	71 %	68 %

#### Marketing and Sales

The changes in marketing and sales expense for the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012, were due to the following:

	Change	
	Three Months Ended	Nine Months Ended
	(In millions)	
Salary, benefits and other employee-related costs	\$11.4	\$29.4
Stock-based compensation	1.9	3.7
Professional services	0.9	2.3
Other items	1.4	1.7
	\$15.6	\$37.1

#### Research and Development

The changes in research and development expense for the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012, were due to the following:

	Change	
	Three Months Ended	Nine Months Ended
	(In millions)	
Salary, benefits and other employee-related costs	\$16.7	\$46.6
Stock-based compensation	3.6	8.2
Facilities and other infrastructure costs	3.0	6.7
Other items	(0.3)	1.4
	\$23.0	\$62.9

The increase in salary, benefits and other employee-related costs during the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012, was primarily due to incremental costs related to employees added from our fiscal 2013 and 2012 acquisitions and hiring of research and development personnel.

We expect research and development expense to increase for the remainder of fiscal 2013, as compared to the same period in fiscal 2012, primarily due to our fiscal 2013 acquisitions and higher salary, benefits and other employee-related costs from hiring of research and development personnel.

#### General and Administrative

The changes in general and administrative expense for the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012 were due to the following:

	Change Three Months Ended (In millions)	Nine Months Ended
Professional services	\$0.7	\$6.3
Other items	0.5	1.1
	\$1.2	\$7.4

The increase in professional services costs during the nine months ended September 28, 2013, as compared to the nine months ended September 29, 2012, is primarily due to services rendered in connection with our fiscal 2013 acquisitions.

#### Amortization of Acquired Intangibles

	Three Months Ended September 28, 2013 (In millions, except percentages)	September 29, 2012	Change Amount	Percentage	
Amortization of acquired intangibles	\$5.1	\$3.9	\$1.2	31	%
	Nine Months Ended September 28, 2013 (In millions, except percentages)	September 29, 2012	Change Amount	Percentage	
Amortization of acquired intangibles	\$14.3	\$11.3	\$3.0	27	%

The increase in amortization of acquired intangibles during the three and nine months ended September 28, 2013, as compared to the three and nine months ended September 29, 2012, resulted from increased amortization of intangible assets related to our fiscal 2013 and 2012 acquisitions, which was partially offset by certain acquired intangibles becoming fully amortized.

We expect amortization of acquired intangibles to increase during the remainder of fiscal 2013, as compared to the same period in fiscal 2012, due to the amortization of intangible assets recorded in connection with our fiscal 2013 acquisitions.

## Interest Expense

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In millions)			
Contractual interest expense:				
2013 Notes	\$0.5	\$0.5	\$1.6	\$1.6
2015 Notes	2.3	2.3	6.9	6.9
Revolving credit facility	0.3	—	0.9	—
Amortization of debt discount:				
2013 Notes	1.7	1.6	5.0	4.7
2015 Notes	4.0	3.7	11.9	11.0
Amortization of deferred financing costs:				
2013 Notes	0.1	0.1	0.3	0.3
2015 Notes	0.6	0.5	1.6	1.5
Other	0.1	—	0.2	(0.2)
Total interest expense	\$9.6	\$8.7	\$28.4	\$25.8

## Income Taxes

The following table presents the provision for income taxes and the effective tax rate for the three and nine months ended September 28, 2013 and September 29, 2012:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
	(In millions, except percentages)			
Provision (benefit) for income taxes	\$2.4	\$(8.0)	\$3.0	\$9.5
Effective tax rate	5.8	% (15.8)	% 2.3	% 7.0

Our provision for income taxes for the three months ended September 28, 2013, which reflects our current estimate of an increased tax benefit for foreign income that is subject to a lower tax rate, primarily consisted of the following:

• Federal, state and foreign tax on anticipated fiscal 2013 income, and

• Tax expense related to integrating our acquisitions.

Our provision for income taxes for the nine months ended September 28, 2013 primarily consisted of the following:

• Federal, state and foreign tax expense on anticipated fiscal 2013 income, and

• Tax expense related to integrating our acquisitions,

which were partially offset by:

• Tax benefit of \$33.7 million related to the release of an uncertain tax position from a previous business combination and the release of related interest and penalties, and

• Tax benefit for the retroactively enacted fiscal 2012 federal research tax credit of \$5.9 million.

Our benefit for income taxes for the three months ended September 29, 2012 primarily consisted of the following:  
 Tax benefit of \$14.8 million from the release of a valuation allowance related to the acquisition of Sigrity, Inc. during the period, which was partially offset by a tax expense related to certain foreign subsidiaries.

Our provision for income taxes for the nine months ended September 29, 2012 primarily consisted of the following:

Tax expense related to certain foreign subsidiaries, and

Excess tax benefits from stock-based compensation that were allocated to equity,

which were partially offset by:

Tax benefit of \$14.8 million from the release of a valuation allowance related to the acquisition of Sigrity, Inc. during the period.

We estimate our annual effective tax rate for fiscal 2013 to be approximately 7.0%. Our estimate excludes tax effects of certain stock compensation, potential acquisitions, and other items which we cannot anticipate.

For further discussion regarding our income taxes, see Note 6 in the notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

## Liquidity and Capital Resources

	As of September 28, 2013 (In millions)	December 29, 2012	Change
Cash, cash equivalents and short-term investments	\$716.4	\$827.1	\$(110.7 )
Net working capital	\$(23.5 )	\$174.0	\$(197.5 )

### Cash, Cash Equivalents and Short-term Investments

As of September 28, 2013, our principal sources of liquidity consisted of \$716.4 million of cash, cash equivalents and short-term investments, as compared to \$827.1 million as of December 29, 2012.

During the nine months ended September 28, 2013, we used \$392.8 million of our cash and cash equivalents for our acquisitions, resulting in a decrease in our net working capital as of September 28, 2013, as compared to December 29, 2012. During the nine months ended September 28, 2013, we generated \$248.4 million of cash from our operating activities and borrowed a net of \$50.0 million under our revolving credit facility to meet our working capital requirements and to maintain adequate liquidity. We expect cash generated from our operating activities and available capacity under our revolving credit facility will provide sufficient cash to meet our operating liquidity requirements, including the \$144.5 million required to fund the maturity of our 2013 Notes in December 2013.

During the second quarter of fiscal 2012, we began to maintain an investment portfolio of approximately \$100 million in marketable debt securities, including corporate debt securities, United States Treasury securities, United States government agency securities, bank certificates of deposit and commercial paper. Our investments in marketable debt securities are classified as available-for-sale and are included in short-term investments as of September 28, 2013. Our investments are made in accordance with our cash investment policy, which governs the amounts and types of investments we hold in our portfolio. Our investment portfolio could be affected by various risks and uncertainties including credit risk, interest rate risk and general market risk, as outlined in Part II, Item 1A, "Risk Factors."

Our primary sources of cash, cash equivalents and short-term investments during the nine months ended September 28, 2013 were customer payments for products, maintenance and services, and borrowings under our revolving credit facility. We also received cash from stock purchases under our ESPP and from the exercise of stock options.

Our primary uses of cash, cash equivalents and short-term investments during the nine months ended September 28, 2013 were payments relating to our fiscal 2013 acquisitions, salaries, benefits, other employee-related costs, payments on our revolving credit facility and other operating expenses.

Approximately 55% of our cash, cash equivalents and short-term investments were held by our foreign subsidiaries as of September 28, 2013. Our intent is to permanently reinvest our earnings from certain foreign operations. We do not anticipate we will need to repatriate dividends from foreign operations that are permanently reinvested in order to fund our domestic operations. In the event that dividends from foreign operations that are currently permanently reinvested are needed to fund United States liquidity, we could be required to accrue and pay additional taxes in order to repatriate these funds.

During fiscal 2012, we entered into a \$250 million five-year senior secured revolving credit facility. Borrowings under the credit facility may be used to finance working capital, capital expenditures, acquisitions and other business purposes. Any outstanding loans drawn under the credit facility are payable on or before December 12, 2017. The credit facility contains customary negative covenants that, among other things, restrict our ability to incur additional indebtedness, grant liens, make certain investments, dispose of certain assets and make certain payments. In addition, the credit facility contains certain financial covenants that require us to maintain a leverage ratio of not greater than 3 to 1, subject to certain exceptions, and requires that we maintain an interest coverage ratio of at least 3 to 1. As of September 28, 2013, we were in compliance with the financial covenants. For an additional description of this revolving credit facility, see Note 2 in the notes to condensed consolidated financial statements.

We expect that current cash, cash equivalents and short-term investment balances, cash flows that are generated from operations and additional cash available under our revolving credit facility will be sufficient to meet our domestic and international working capital needs, and other capital and liquidity requirements, including acquisitions, for at least the next 12 months.

#### Net Working Capital

Net working capital decreased by \$197.5 million as of September 28, 2013, as compared to December 29, 2012, due to the following:

	Change (In millions)
Decrease in cash and cash equivalents	\$(106.0 )
Increase in outstanding borrowings under revolving credit facility	(50.0 )
Increase in accounts payable and accrued liabilities	(22.1 )
Increase in convertible notes	(16.8 )
Decrease in prepaid expenses and other	(9.6 )
Decrease in short-term investments	(4.7 )
Increase in current portion of deferred revenue	(2.1 )
Increase in receivables, net	4.1
Increase in inventories	9.7
	\$(197.5 )

#### Cash Flows from Operating Activities

	Nine Months Ended		Change
	September 28, 2013	September 29, 2012	(In millions)
Cash provided by operating activities	\$248.4	\$220.1	\$28.3

Cash flows from operating activities increased \$28.3 million during the nine months ended September 28, 2013, as compared to September 29, 2012, due to the following:

	Change (In millions)
Net income, net of non-cash related gains and losses	\$25.3
Changes in operating assets and liabilities, net of effect of acquired businesses	3.0
	\$28.3



Cash flows from operating activities include net income, adjusted for certain non-cash items as well as changes in the balances of certain assets and liabilities. Our cash flows from operating activities are significantly influenced by business levels and the payment terms set forth in our license agreements.

We expect that cash flows from operating activities will fluctuate in future periods due to a number of factors, including our operating results and the timing of our billings, collections, tax payments and routine cash disbursements.

#### Cash Flows from Investing Activities

	Nine Months Ended		Change (In millions)
	September 28, 2013	September 29, 2012	
Cash used for investing activities	\$(417.1	) \$(186.4	) \$(230.7

The changes in net cash used for investing activities for the nine months ended September 28, 2013, as compared to the nine months ended September 29, 2012, were due to the following:

	Change (In millions)
Cash paid in business combinations and asset acquisitions, net of cash acquired	\$(326.4
Purchases of property, plant and equipment	(10.0
Proceeds from the sale of long-term investments	6.2
Purchases of available-for-sale securities	17.2
Proceeds from the sale and maturity of available-for-sale securities	82.1
Other items	0.2
	\$(230.7

Cash paid in business combinations and asset acquisitions relates to our fiscal 2013 and 2012 acquisitions. For an additional description of the acquisitions completed during the nine months ended September 28, 2013, see Note 3 in the notes to condensed consolidated financial statements. The proceeds from, purchases of and maturities of available-for-sale securities are primarily related to normal purchases, sales and maturities of the debt securities included in our investment portfolio.

In connection with our business combinations and asset acquisitions completed in prior fiscal years, we may be obligated to make payments based on, or subject to the satisfaction of, certain performance metrics. If performance is such that these payments are fully achieved, we would be obligated to pay up to an aggregate of \$14.3 million in cash during the next 31 months.

We expect to continue our investing activities, including purchasing property, plant and equipment, purchasing intangible assets, business combinations, purchasing software licenses, and making long-term equity investments.

## Cash Flows from Financing Activities

	Nine Months Ended		Change
	September 28, 2013	September 29, 2012	(In millions)
Cash provided by financing activities	\$77.4	\$18.1	\$59.3

The changes in net cash provided by financing activities for the nine months ended September 28, 2013, as compared to the nine months ended September 29, 2012, were due to the following:

	Change
	(In millions)
Proceeds from revolving credit facility	\$100.0
Payment on revolving credit facility	(50.0)
Proceeds from the issuance of common stock	11.9
Tax effect related to employee stock transactions allocated to equity	3.7
Stock received for payment of employee taxes on vesting of restricted stock	(6.0)
Other items	(0.3)
	\$59.3

During the nine months ending September 28, 2013, net proceeds from the revolving credit facility were used for general working capital purposes. For an additional description of this revolving credit facility, see Note 2 in the notes to condensed consolidated financial statements. Cash inflows from the issuance of common stock and the tax effect related to employee stock transactions allocated to equity increased during the nine months ended September 28, 2013, as compared to the nine months ended September 29, 2012, as a result of an increase in the exercise of stock options. This was partially offset by an increase in cash outflows related to stock received for payment of employee taxes on vesting of restricted stock.

## Other Factors Affecting Liquidity and Capital Resources

As of September 28, 2013, we had convertible notes outstanding with a net liability value of \$463.7 million and that mature between December 15, 2013, and June 1, 2015. The principal maturity value of these convertible notes is \$494.5 million. The total cash or stock payable upon the early conversion of these notes, as determined by the indenture of each security, will be their principal amount plus any additional conversion value that would be due upon conversion.

In the case of our 2015 Notes, we will owe additional cash to the note holders upon early conversion if our stock price exceeds \$7.55 per share. We entered into hedges with counterparties to limit our exposure to the additional cash payments above the principal amount of the 2015 Notes that may be due to the holders upon conversion. In separate transactions, we sold warrants, or the 2015 Warrants, with a strike price of \$10.78 per share. Although our incremental cash payout exposure above the conversion price is limited by the hedges to the \$350.0 million outstanding principal value of the 2015 Notes, we will experience dilution to our stock and to our diluted earnings per share from the outstanding 2015 Warrants to the extent our average closing stock price exceeds \$10.78 in any fiscal quarter until the 2015 Notes are converted and the 2015 Warrants are settled.

Additionally, holders may convert their 2015 Notes into cash during any quarter following a quarter in which our stock price closes above \$9.81 for at least 20 of the last 30 trading days. The 2015 Notes are convertible into cash from September 29, 2013 through December 28, 2013 because our closing stock price exceeded \$9.81 for at least 20 of the last 30 trading days prior to September 28, 2013. Accordingly, the net balance of the 2015 Notes of \$320.7 million is classified as a current liability on our condensed consolidated balance sheet as of September 28, 2013. While holders of the 2015 Notes would have the right to convert their notes if early conversion conditions are met, we do not expect holders of the 2015 Notes to convert their notes under such circumstances because the economic value to the holders of the notes has exceeded and likely will continue to exceed the cash received upon conversion. If the holders of our 2015 Notes elect to convert their notes into cash, we would be required to make cash payments of up to \$350 million prior to the maturity of the 2015 Notes. In connection with the 2015 Notes, we entered into the 2015 Notes Hedges and sold warrants to limit our exposure to the additional cash payments above the \$350 million



principal balance in the event of a cash conversion of the 2015 Notes. The 2015 Notes currently trade at a premium to their if-converted value, and we do not anticipate a conversion of the 2015 Notes by the note holders between September 29, 2013 and December 28, 2013. However, if the holders of the 2015 Notes elect to convert their notes between September 29, 2013 and December 28, 2013, we expect to have sufficient cash, cash equivalents, short-term investments and access to our revolving credit facility to fund any payment resulting from a conversion.

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In the case of our 2013 Notes, we may owe shares of our common stock to the note holders upon conversion if our stock price exceeds \$21.15 per share. We entered into hedges with counterparties to limit our exposure to the dilution that may result from the issuance of shares upon conversion of the 2013 Notes. In separate transactions, we sold warrants with a strike price of \$31.50 per share. We will experience dilution to our stock and to diluted earnings per share from the outstanding warrants to the extent our stock price exceeds \$31.50.

We expect to have sufficient cash, cash equivalents, short-term investments and access to our credit facility to fund the maturity of the 2013 Notes in December 2013. The 2013 Notes could become convertible prior to their maturity if certain conversion conditions are met. However, we do not currently expect that any of the conversion conditions will be met prior to the maturity of the 2013 Notes. We also believe that we will have sufficient cash in future periods as well as access to our revolving credit facility to service the maturities of our 2015 Notes, but future changes in our cash position, cash flows from operating activities, cash flows from investing activities, cash flows from financing activities, as well as general business levels and changes in our access to financing may impact our ability to settle the principal amount payable to the holders of the 2013 Notes and 2015 Notes when they mature or convert.

For an additional description of the 2015 Notes and 2013 Notes, the conversion terms thereof and the hedge and warrants transactions, see Note 2 in the notes to condensed consolidated financial statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Foreign Currency Risk

A material portion of our revenue, expenses and business activity are transacted in the United States dollar. However, certain of our operations include transactions in foreign currencies that can affect our results of operations. In certain countries where we invoice customers in the local currency, Japan in particular, our revenues benefit from a weaker dollar and are adversely affected by a stronger dollar. The opposite impact occurs in countries where we record expenses in local currencies. In those cases, our operating expenses benefit from a stronger dollar and are adversely affected by a weaker dollar. The fluctuations in our operating expenses outside the United States resulting from volatility in the United States dollar against certain foreign currencies are not generally moderated by corresponding fluctuations in our revenues, except for our operations in Japan because we receive some cash payments and make most expense payments in Japanese yen.

We enter into foreign currency forward exchange contracts with financial institutions to protect against currency exchange risks associated with existing assets and liabilities. A foreign currency forward exchange contract acts as a hedge by increasing in value when underlying assets decrease in value or underlying liabilities increase in value due to changes in foreign exchange rates. Conversely, a foreign currency forward exchange contract decreases in value when underlying assets increase in value or underlying liabilities decrease in value due to changes in foreign exchange rates. These forward contracts are not designated as accounting hedges, so the unrealized gains and losses are recognized in other income, net, in advance of the actual foreign currency cash flows with the fair value of these forward contracts being recorded as accrued liabilities or other current assets.

We do not use forward contracts for trading purposes. Our forward contracts generally have maturities of 90 days or less. We enter into currency forward exchange contracts based on estimated future asset and liability exposures, and the effectiveness of our hedging program depends on our ability to estimate these future asset and liability exposures. Recognized gains and losses with respect to our current hedging activities will ultimately depend on how accurately we are able to match the amount of currency forward exchange contracts with actual underlying asset and liability exposures.

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The following table provides information about our forward foreign currency contracts as of September 28, 2013. The information is provided in United States dollar equivalent amounts. The table presents the notional amounts, at contract exchange rates, and the weighted average contractual foreign currency exchange rates expressed as units of the foreign currency per United States dollar, which in some cases may not be the market convention for quoting a particular currency. All of these forward contracts mature before or during November 2013.

	Notional Principal	Weighted Average Contract Rate
	(In millions)	
Forward Contracts:		
European Union euro	\$51.2	0.75
Indian rupee	18.5	64.57
Japanese yen	13.8	98.67
Canadian dollar	10.4	1.04
Israeli shekel	10.2	3.59
Chinese renminbi	7.3	6.16
Swedish krona	7.2	6.55
Other	13.8	N/A
Total	\$132.4	
Estimated fair value	\$1.7	

While we actively monitor our foreign currency risks, there can be no assurance that our foreign currency hedging activities will substantially offset the impact of fluctuations in currency exchange rates on our results of operations, cash flows and financial position.

#### Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our portfolio of marketable debt securities, our portfolio of cash and cash equivalents and outstanding balances drawn on our revolving credit facility, if any.

We are exposed to interest rate fluctuations in many of the world's leading industrialized countries, but the fair value of our marketable debt securities and our interest income and expense is most sensitive to fluctuations in the general level of United States interest rates. In this regard, changes in United States interest rates affect the interest earned on our marketable debt securities and cash and cash equivalents, any unrealized and realized gains or losses on our marketable debt securities and the costs associated with foreign currency hedges. Pursuant to our investment policy, we limit the amount of our credit exposure to any one issuer, other than in securities issued by the United States Treasury and United States government agencies.

Our short-term investments as of September 28, 2013 include \$94.0 million of marketable debt securities that may decline in value if market interest rates rise. Such variability in market interest rates may result in a negative impact on the results of our investment activities. As of September 28, 2013, an increase in the market rates of interest of 1% would result in a decrease in the fair values of our marketable debt securities by approximately \$0.7 million.

All highly liquid securities with a maturity of three months or less at the date of purchase are considered to be cash equivalents. Securities with maturities greater than three months are classified as available-for-sale and are considered to be short-term investments. The carrying value of our interest-bearing instruments approximated fair value as of September 28, 2013.

Interest rates under our revolving credit facility are variable, so interest expense for periods when the revolving credit facility is utilized could be adversely affected by changes in interest rates. Interest rates under our revolving credit facility can fluctuate based on changes in market interest rates and in an interest rate margin that varies based on our consolidated leverage ratio. As of September 28, 2013, we had \$50.0 million outstanding on the revolving credit facility. For an additional description of this revolving credit facility see Note 2 in the notes to condensed consolidated

financial statements.

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Equity Price Risk  
Convertible Notes

Our 2015 Notes and 2013 Notes include conversion and settlement provisions that are based on the price of our common stock at conversion or at maturity of the notes. In addition, the hedges and warrants associated with these convertible notes also include settlement provisions that are based on the price of our common stock. The amount of cash we may be required to pay, or the number of shares we may be required to provide to note holders at conversion or maturity of these notes, is determined by the price of our common stock. The amount of cash or number of shares that we may receive from hedge counterparties in connection with the related hedges and the number of shares that we may be required to provide warrant counterparties in connection with the related warrants are also determined by the price of our common stock.

Upon the expiration of our 2015 Warrants, Cadence will issue shares of common stock to the purchasers of the warrants to the extent our stock price exceeds the warrant strike price of \$10.78 at that time. The following table shows the number of shares that Cadence would issue to 2015 Warrant counterparties at expiration of the warrants, assuming various Cadence closing stock prices on the dates of warrant expiration:

	Shares (In millions)
\$11.00	0.9
\$12.00	4.7
\$13.00	7.9
\$14.00	10.7
\$15.00	13.0
\$16.00	15.1
\$17.00	17.0
\$18.00	18.6
\$19.00	20.1
\$20.00	21.4

Prior to the expiration of the 2015 Warrants, for purposes of calculating diluted earnings per share, our diluted weighted-average shares outstanding will increase when our average closing stock price for a quarter exceeds \$10.78. For an additional description of our 2015 Notes and 2013 Notes, see Note 2 in our notes to condensed consolidated financial statements and “Liquidity and Capital Resources – Other Factors Affecting Liquidity and Capital Resources,” under Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Equity Investments

We have a portfolio of equity investments that includes marketable equity securities and non-marketable investments. Our equity investments are made primarily in connection with our strategic investment program. Under our strategic investment program, from time to time, we make cash investments in companies with technologies that are potentially strategically important to us. See Note 8 in the notes to condensed consolidated financial statements, and Note 9 in the notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012, for an additional description of these investments. Our non-marketable investments had a carrying value of \$6.7 million as of September 28, 2013, and \$7.3 million as of December 29, 2012.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, under the supervision and with the participation of our management, including our Chief Executive Officer, or CEO, and our Chief Financial Officer, or CFO, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 28, 2013. The evaluation of our disclosure controls and procedures included a review of our processes and the effect on the information generated for use in this Quarterly Report on Form 10-Q. In the course of this evaluation, we sought to identify any material weaknesses in our disclosure controls and procedures, to determine whether we had identified any acts of fraud involving personnel who have a significant role in our disclosure controls and procedures, and to confirm that any necessary corrective action, including process improvements, was taken. This type of evaluation is done every fiscal quarter so that our conclusions concerning the effectiveness of these controls can be reported in our periodic reports filed with the SEC. The overall goals of these evaluation activities are to monitor our disclosure controls and procedures and to make modifications as necessary. We intend to maintain these disclosure controls and procedures, modifying them as circumstances warrant.

Based on their evaluation as of September 28, 2013, our CEO and CFO have concluded that our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 28, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. Internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of internal control are met. Further, the design of internal control must reflect the fact that there are resource constraints, and the benefits of the control must be considered relative to their costs. While our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of their effectiveness, 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, within Cadence, have been detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various disputes and litigation that arise in the ordinary course of business. These include disputes and lawsuits related to intellectual property, indemnification obligations, mergers and acquisitions, licensing, contracts, distribution arrangements and employee relations matters. At least quarterly, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount or the range of loss can be estimated, we accrue a liability for the estimated loss. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on our judgments using the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims and litigation matters and may revise our estimates.

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock.

Risks Related to Our Business

Uncertainty in the global economy in general, and any potential downturn in the semiconductor and electronics industries in particular, may negatively impact our business and reduce our bookings levels and revenue. Purchases of our products and services are dependent upon the commencement of new design projects by IC manufacturers and electronics systems companies. The IC and electronics systems industries are cyclical and are characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. For example, the IC and electronics systems industries experienced a significant downturn in 2009. The IC and electronic systems industries have also experienced significant downturns in connection with, or in anticipation of, maturing product cycles of both these industries' and their customers' products. This economic downturn in the industries we serve contributed to the reduction in our revenue in 2009, as compared to prior years. Although the semiconductor industry experienced growth in 2010, semiconductor industry revenues for 2011 remained at levels similar to 2010 and decreased slightly during 2012. Spending on EDA products and services grew moderately during fiscal 2012. While spending on EDA products and services has grown in recent years, the current outlook for the semiconductor industry is uncertain and may result in a decrease in spending on EDA products and services. While we cannot predict global economic conditions, uncertainty about future economic conditions and future decline in consumer spending could negatively impact our customers' businesses, reducing the number of new chip designs, their overall research and development spending, including their spending on EDA products and services, and as a result decrease demand for our products. Decreased bookings for our products and services, customer bankruptcies, consolidation among our customers, or problems or delays with the supply or delivery of our hardware products or our hardware suppliers could also adversely affect our ability to grow our business. Our future business and financial results are subject to considerable uncertainty that could impact our stock price. If economic conditions deteriorate in the future, or, in particular, if semiconductor industry revenues do not grow or our suppliers of our hardware components and products are subject to problems or delays, our future revenues and financial results could be adversely affected. However, if economic conditions improve for our customers, the positive impact on our revenues and financial results may be deferred due to cautious customer research and development spending and our ratable license mix.





Our failure to respond quickly to technological developments or customers' increasing technological requirements could make our products uncompetitive and obsolete.

The industries in which we compete experience rapid technology developments, changes in industry standards and customer requirements and frequent new product introductions and improvements. Currently, the industries we serve are experiencing the following trends:

- Changes in the design and manufacturing of ICs, including migration to advanced process nodes and the introduction of three dimensional transistors, such as fin-based, multigate transistors, or FinFETs, present major challenges to the semiconductor industry, particularly in IC design, design automation, design of manufacturing equipment, and the manufacturing process itself. With migration to advanced process nodes, the industry must adapt to more complex physics and manufacturing challenges such as the need to draw features on silicon that are many times smaller than the wavelength of light used to draw the features via lithography. Models of each component's electrical properties and behavior also become more complex as do requisite analysis, design, verification and manufacturing capabilities. Novel design tools and methodologies must be invented and enhanced quickly to remain competitive in the design of electronics in the smallest nanometer ranges.

- The challenges of advanced node design are leading some customers to work with more mature, less risky manufacturing processes that may reduce their need to upgrade or enhance their EDA products and design flows. The ability to design SoCs increases the complexity of managing a design that, at the lowest level, is represented by billions of shapes on fabrication masks. In addition, SoCs typically incorporate microprocessors and digital signal processors that are programmed with software, requiring simultaneous design of the IC and the related software embedded on the IC.

With the availability of seemingly endless gate capacity, there is an increase in design reuse, or the combining of off-the-shelf design IP with custom logic to create ICs or SoCs. The unavailability of a broad range of high-quality design IP (including our own) that can be reliably incorporated into a customer's design with our software products and services could lead to reduced demand for our products and services.

Increased technological capability of the Field-Programmable Gate Array, or FPGA, which is a programmable logic chip, creates an alternative to IC implementation for some electronics companies. This could reduce demand for our IC implementation products and services.

- A growing number of low-cost engineering services businesses could reduce the need for some IC companies to invest in EDA products.

- Adoption of cloud computing technologies with accompanying new business models for an increasing number of software categories, including EDA.

If we are unable to respond quickly and successfully to these trends, we may lose our competitive position, and our products or technologies may become obsolete. To compete successfully, we must develop, acquire or license new products and improve our existing products and processes on a schedule that keeps pace with technological developments and the requirements for products addressing a broad spectrum of designers and designer expertise in our industries. Our hardware platforms must be enhanced periodically to reduce the likelihood that a competitor surpasses the capabilities we offer. We must also be able to support a range of changing computer software, hardware platforms and customer preferences. A rapid transition to different business models associated with cloud computing technologies could result in reduced revenue. We cannot guarantee that we will be successful in keeping pace with all, or any, of the customer trends.

We have experienced varied operating results, and our operating results for any particular fiscal period are affected by the timing of revenue recognition, particularly for our hardware products.

We have recorded net losses in the past and may record net losses in the future. Various factors affect our operating results, and some of them are not within our control. Our operating results for any period are affected by the timing of revenue recognition, particularly for our hardware products.

A substantial portion of the product revenue related to our hardware business is recognized upon delivery. Revenue related to our hardware business is inherently difficult to predict because sales of our hardware products depend on the commencement of new projects for the design and development of complex ICs and systems by our customers, our customers' willingness to expend capital to deploy our hardware in those projects and the availability of our hardware products for delivery. Therefore, our hardware sales may be delayed or may decrease if our customers delay or cancel projects because their capital spending is constrained or if there are problems or delays with the supply or delivery of our hardware products or our hardware suppliers. Moreover, the verification hardware market is highly competitive, and our customers may choose to purchase a competitor's verification hardware product based on cost, performance or other factors. These factors may result in lower hardware revenue, which would have an adverse effect on our business, results of operations or cash flows. Additionally, our forecasted revenue results are based, in part, on our expectations of hardware to be delivered in a particular quarter. Since revenue related to our hardware business is generally recognized upon delivery, changes in hardware bookings or deliveries relative to expectations will have a more immediate impact on our revenue than do changes in software or services bookings, for which revenue is generally recognized over time.

Our software license mix is such that a substantial proportion of licenses require ratable revenue recognition, and we expect the license mix, combined with the modest growth in spending by our customers in the semiconductor sector, may make it difficult for us to rapidly increase our revenue in future fiscal periods. The timing of our revenue recognition may be deferred until payments become due and payable from customers with nonlinear payment terms or as cash is collected from customers with low credit ratings.

We plan our operating expenses based on forecasted revenue, expected business needs and other factors. These expenses and the effect of long-term commitments are relatively fixed in the short term. Bookings and the related revenue are harder to forecast in a difficult economic environment. If the macroeconomic environment weakens, and we experience a shortfall in bookings, our operating results could differ from our expectations because we may not be able to quickly reduce our expenses in response to short-term business changes.

The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results of operations (see "Critical Accounting Estimates" under Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations"). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that may lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

Historical results of operations should not be viewed as reliable indicators of our future performance. If our revenue, operating results or business outlook for future periods fall short of the levels expected by us, securities analysts or investors, the trading price of our common stock could decline.

We depend on sole suppliers for certain hardware components, making us vulnerable to supply disruption and price fluctuation.

We depend on sole suppliers for certain hardware components. Our reliance on sole suppliers could result in product delivery problems and delays and reduced control over product pricing and quality. Though we prefer to have multiple sources to procure certain key components, in some cases it is not practical or feasible to do so. We may suffer a disruption in the supply of certain hardware components if we are unable to purchase sufficient components on a timely basis or at all for any reason. Any supply disruption, including delay by our suppliers or the bankruptcy or shutdown of our suppliers, could delay our production process and prevent us from delivering completed hardware products to customers or from supplying new evaluation units to customers, which could have a negative impact on our revenue and operating results.

Warrant transactions associated with our convertible notes will, in certain circumstances, dilute the ownership interests of existing stockholders.

At the time of issuance of our convertible notes due in 2015, we entered into separate warrant transactions for the purchase of up to approximately 46.4 million shares of our common stock at a strike price of \$10.78 per share. At the time of issuance of our convertible notes due 2013, we also entered into separate warrant transactions, and warrants are currently outstanding to purchase approximately 6.8 million shares of our common stock at a strike price of \$31.50 per share. These warrants will be settled in net shares. Therefore, upon expiration of the warrants, we will issue shares

of our common stock to the purchasers of the warrants that represent the value by which the price of our common stock exceeds the strike price stipulated within the particular warrant agreement. If our stock price is above the warrants' strike price upon expiration of the warrants, the warrants will dilute the ownership interest of our existing stockholders. The warrants will also dilute our diluted earnings per share in periods when our average closing stock price exceeds the strike price of the particular warrant. Any sales in the public market of common stock issuable upon net settlement at expiration of the warrants could adversely affect then current market prices of our common stock. Additional risk factors related to our indebtedness are described below under "Risks Related to Our Securities and Indebtedness."

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We have acquired and expect to acquire other companies and businesses and may not realize the expected benefits of these acquisitions.

We have acquired and expect to acquire other companies and businesses in the future. While we expect to carefully analyze each potential acquisition before committing to the transaction, we may not consummate any particular transaction, but may nonetheless incur significant costs, or if a transaction is consummated, we may not be able to integrate and manage acquired products and businesses effectively or to integrate and retain key personnel from the acquired companies or businesses. In addition, acquisitions involve a number of risks. If any of the following acquisition-related risks occur, our business, operating results or financial condition could be seriously harmed:

- The failure to realize anticipated benefits such as cost savings and revenue enhancements;
- The failure to retain key employees of the acquired business;
- Difficulties in combining previously separate businesses into a single unit;
- The substantial diversion of management's attention from day-to-day business when evaluating and negotiating these transactions and integrating an acquired business;
- The discovery, after completion of the acquisition, of unanticipated liabilities assumed from the acquired business or of assets acquired, such that we cannot realize the anticipated value of the acquisition;
- Difficulties related to integrating the products of an acquired business in, for example, distribution, engineering, licensing models and customer support areas;
- Unanticipated costs;
- Customer dissatisfaction with existing license agreements with us, possibly dissuading them from licensing or buying products acquired by us after the effective date of the license; and
- The failure to understand and compete effectively in markets where we have limited experience.

In a number of our completed acquisitions, we have agreed to make future payments, either in the form of employee bonuses or contingent purchase price payments based on the performance of the acquired businesses or the employees who joined us with the acquired businesses. We may continue to use contingent purchase price payments in connection with acquisitions in the future. The performance goals pursuant to which these future payments may be made generally relate to achievement by the acquired business, or by the employees who joined us with the acquired business of certain specified bookings, revenue, run rate, product proliferation, product development or employee retention goals during a specified period following completion of the applicable acquisition. Future acquisitions may involve issuances of stock as full or partial payment of the purchase price for the acquired business, grants of incentive stock or options to employees of the acquired businesses (which may be dilutive to existing stockholders), expenditure of substantial cash resources or the incurrence of material amounts of debt. These arrangements may impact our liquidity, financial position and results of operations.

The specific performance goal levels and amounts and timing of employee bonuses or contingent purchase price payments vary with each acquisition. While we expect to derive value from an acquisition in excess of such contingent payment obligations, our strategy may change and we may be required to make certain contingent payments without deriving the anticipated value.

Our stock price has been subject to significant fluctuations and may continue to be subject to fluctuations.

The market price of our common stock has experienced significant fluctuations and may fluctuate or decline in the future, and as a result you could lose the value of your investment. The market price of our common stock may be affected by a number of factors, including, but not limited to:

- Announcements of our quarterly operating results and revenue and earnings forecasts that fail to meet or are inconsistent with earlier projections or the expectations of our securities analysts or investors;
- Changes in our forecasted bookings, revenue or earnings estimates;
- Market conditions in the IC, electronics systems and semiconductor industries;
- Announcements of a restructuring plan;
- Changes in management;
- A gain or loss of a significant customer or market segment share;
- Material litigation; and
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Announcements of new products or acquisitions of new technologies by us, our competitors or our customers.

In addition, equity markets in general, and the equities of technology companies in particular, have experienced extreme price and volume fluctuations. Such price and volume fluctuations may adversely affect the market price of our common stock for reasons unrelated to our business or operating results.

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The effect of foreign exchange rate fluctuations may adversely impact our revenue, expenses, cash flows and financial condition.

We have significant operations outside the United States. Our revenue from international operations as a percentage of total revenue was approximately 54% and 58% during the three months ended September 28, 2013 and September 29, 2012, respectively. We expect that revenue from our international operations will continue to account for a significant portion of our total revenue. We also transact business in various foreign currencies. The volatility of foreign currencies in certain countries where we conduct business, most notably the Japanese yen, European Union euro, British pound and Indian rupee have had and may in the future have an effect on our revenue or operating results. Fluctuations in the rate of exchange between the United States dollar, or US dollar, and the currencies of other countries where we conduct business could seriously affect our business, operating results or financial condition. For example, when a foreign currency declines in value relative to the US dollar, it takes more of the foreign currency to purchase the same amount of US dollars than before the change. If we price our products and services in the foreign currency, we receive fewer US dollars than we did before the change. If we price our products and services in US dollars, the decrease in value of the local currency results in an increase in the price for our products and services compared to those products of our competitors that are priced in local currency. This could result in our prices being uncompetitive in markets where business is transacted in the local currency. On the other hand, when a foreign currency increases in value relative to the US dollar, it takes more US dollars to purchase the same amount of the foreign currency. As we use the foreign currency to fund payroll costs and other operating expenses in our international operations, this results in an increase in operating expenses. Our attempts to reduce the effect of foreign currency fluctuations may be unsuccessful, and significant exchange rate movements may hurt our results of operations as expressed in US dollars.

Litigation could adversely affect our financial condition or operations.

We currently are, and in the future may be, involved in various disputes and litigation that arise in the ordinary course of business. These include disputes and lawsuits related to intellectual property, including customer indemnification, mergers and acquisitions, licensing, contracts, distribution arrangements and employee relations matters. For information regarding the litigation matters in which we are currently engaged, please refer to the discussion under Item 1, "Legal Proceedings" and Note 11 in our notes to condensed consolidated financial statements. We cannot provide any assurances that the final outcome of these lawsuits or any other proceedings that may arise in the future will not have a material adverse effect on our business, operating results, financial condition or cash flows. Litigation can be time consuming and expensive and could divert management's time and attention from our business, which could have a material adverse effect on our revenues and operating results.

Our future revenue is dependent in part upon our installed customer base continuing to license or buy additional products and purchase additional services.

Our installed customer base has traditionally generated additional new license, service and maintenance revenues. In future periods, customers may not necessarily license or buy additional products or contract for additional services or maintenance. Our customers, many of which are large semiconductor and systems companies, often have significant bargaining power in negotiations with us. Mergers or acquisitions of our customers can reduce the total level of purchases of our software and services, and in some cases, increase customers' bargaining power in negotiations with their suppliers, including us.

The competition in our industries is substantial, and we may not be able to continue to successfully compete in our industries.

The EDA industry and the commercial electronics engineering services industry are highly competitive. If we fail to compete successfully in these industries, it could seriously harm our business, operating results or financial condition. To compete in these industries, we must identify and develop or acquire innovative and cost-competitive EDA products, integrate them into platforms and market them in a timely manner. We may not be able to compete successfully in these industries. Factors that could affect our ability to succeed include:

- The development by others of competitive EDA products or platforms and engineering services, possibly resulting in a shift of customer preferences away from our products and services and significantly decreased revenue;

Decisions by electronics manufacturers to perform engineering services internally, rather than purchase these services from outside vendors due to budget constraints or excess engineering capacity;

• The challenges of developing (or acquiring externally developed) technology solutions, including hardware offerings, that are adequate and competitive in meeting the rapidly evolving requirements of next-generation design challenges;

• The significant number of current and potential competitors in the EDA industry and the low cost of entry;

• Intense competition to attract acquisition targets, possibly making it more difficult for us to acquire companies or technologies at an acceptable price, or at all;

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- The combination of two or more of our EDA competitors or collaboration among many EDA companies to deliver more comprehensive offerings than they could individually; and

Aggressive pricing competition by some of our competitors may cause us to lose our competitive position, which could result in lower revenues or profitability and could adversely impact our ability to realize the revenue and profitability forecasts for our software or hardware systems products.

We compete in EDA most frequently with Synopsys, Inc. and Mentor Graphics Corporation, but also with numerous other EDA providers (such as Ansys, Inc., Atrenta, Inc., ATopTech, Inc., Berkeley Design Automation, Inc. and Zuken Ltd. and many others offering "point solutions"), with manufacturers of electronic devices that have developed, acquired or have the capability to develop their own EDA products, and with numerous electronics design and consulting companies. In the area of Design IP, we compete with Synopsys and numerous smaller IP companies. During fiscal 2012, Synopsys acquired Magma Design Automation, Inc., EVE SA and Springsoft, Inc. We expect that Synopsys' integration of these companies into its product offerings will result in increased competitive pressures that could harm our business, results of operations or cash flows.

We may need to change our pricing models to compete successfully. Competitive pressures could constrain the prices we can charge for our products, which could have an adverse effect on our results of operations.

The highly competitive markets in which we do business can put pressure on us to reduce the prices of our products. If our competitors offer deep discounts on certain products in an effort to recapture or gain market share or to sell other software or hardware products, we may then need to lower our prices or offer other favorable terms to compete successfully. Any such changes would be likely to reduce our profit margins and could adversely affect our operating results. Any substantial changes to our prices and pricing policies could cause sales and software license revenues to decline or be delayed as our sales force implements and our customers adjust to the new pricing policies. Some of our competitors may bundle products for promotional purposes or as a long-term pricing strategy or provide guarantees of prices and product implementations. These practices could, over time, significantly constrain the prices that we can charge for our products. If we cannot offset price reductions with a corresponding increase in the number of sales or with lower spending, then the reduced license revenues resulting from lower prices could have an adverse effect on our results of operations.

Risks associated with our international operations could seriously harm our financial condition.

A significant amount of our revenue is derived from our international operations, and we have offices throughout the world, including key research and development facilities outside of the United States. Our international operations may be subject to a number of risks, including:

- The adoption or expansion of government trade restrictions, including tariffs and other trade barriers;

- Limitations on repatriation of earnings;

- Limitations on the conversion of foreign currencies;

- Reduced protection of intellectual property rights in some countries;

- Performance of national economies;

- Longer collection periods for receivables and greater difficulty in collecting accounts receivable;

- Difficulties in managing foreign operations;

- Political and economic instability;

- Unexpected changes in regulatory requirements;

- Inability to continue to offer competitive compensation in certain growing regions; and

- United States' and other governments' licensing requirements for exports, which may lengthen the sales cycle or restrict or prohibit the sale or licensing of certain products.

Some of our international research and development and other facilities are in parts of the world that may face a greater risk of business interruption as a result of terrorist acts or military conflicts than businesses located domestically. Furthermore, this potential harm is exacerbated because damage to or disruptions at our international research and development facilities could have a more significant adverse effect on our ability to develop new or improve existing products than other businesses that may only have sales offices or other less critical operations abroad. We are not insured for losses or interruptions caused by acts of war. Furthermore, our operations are dependent upon the connectivity of our operations throughout the world. Activities that interfere with our international connectivity, such as cyber hacking, the introduction of a virus into our computer systems or natural disasters near any



of our international locations, could significantly interfere with our business operations.

In addition, internal controls, policies and procedures and employee training and compliance programs that we have implemented to deter prohibited practices may not prevent our employees, contractors or agents from violating or circumventing our policies and the laws and regulations applicable to our worldwide operations.

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We depend upon our management team and key employees, and our failure to attract, train, motivate and retain management and key employees may make us less competitive in our industries and therefore harm our results of operations.

Our business depends upon the continued services, efforts and abilities of our senior management and other key employees. Competition for highly skilled executive officers and employees can be intense, particularly in geographic areas recognized as high technology centers such as the Silicon Valley area, where our principal offices are located, and in other locations where we maintain facilities. We may also experience increased compensation costs that are not offset by either improved productivity or higher sales. We may not be successful in recruiting new personnel and in retaining and motivating existing personnel. From time to time, there may be changes in our management team resulting from the hiring and departure of executive officers, and as a result, we may experience disruption to our business that may harm our operating results and our relationships with our employees, customers and suppliers may be adversely affected. To attract, retain and motivate individuals with the requisite expertise, we may be required to grant large numbers of stock options or other stock-based incentive awards, which may be dilutive to existing stockholders and increase compensation expense, and pay significant base salaries and cash bonuses, which could harm our operating results. The high cost of training new employees, not fully utilizing these employees, or losing trained employees to competing employers could also reduce our operating margins and harm our business or operating results.

In addition, applicable rules and regulations require stockholder approval for new equity compensation plans and significant amendments to existing equity compensation plans (including increases in shares available for issuance under such plans), and prohibit publicly-traded companies from giving a proxy to vote on equity compensation plans unless the beneficial owner of the shares has given voting instructions. These rules and regulations could make it more difficult for us to grant equity compensation to employees in the future. To the extent that these regulations make it more difficult or expensive to grant equity compensation to employees, we may incur increased compensation costs or find it difficult to attract, retain and motivate employees, which could materially and adversely affect our business. We may not receive significant revenue from our current research and development efforts for several years, if at all. Developing EDA products and IP and integrating acquired technology into existing platforms is expensive, and these investments often require a long time to generate returns. Our strategy involves significant investments in research and development and related product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain and improve our competitive position. However, we cannot ensure that we will receive significant, if any, revenue from these investments.

We rely on our proprietary technology, as well as software and other intellectual property rights licensed to us by third parties, and we cannot assure you that the precautions taken to protect our rights will be adequate or that we will continue to be able to adequately secure such intellectual property rights from third parties.

Our success depends, in part, upon our proprietary technology. We generally rely on patents, copyrights, trademarks, trade secret laws, licenses and restrictive agreements to establish and protect our proprietary rights in technology and products. Despite the precautions we may take to protect our intellectual property, third parties have tried in the past, and may try in the future, to challenge, invalidate or circumvent these safeguards. Our patents or other intellectual property rights may not provide us with sufficient competitive advantages. Patents may not be issued on any of our pending applications and our issued patents may not be sufficiently broad to protect our technology. Furthermore, the laws of foreign countries may not protect our proprietary rights in those countries to the same extent as applicable law protects these rights in the United States. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights, or deter or prevent third parties from infringing or misappropriating our proprietary rights.

Many of our products include software or other intellectual property licensed from third parties. We may have to seek new or renew existing licenses for such software and other intellectual property in the future. Our engineering services business holds licenses to certain software and other intellectual property owned by third parties, including that of our competitors. Our failure to obtain software, other intellectual property licenses or other intellectual property rights that are necessary or helpful for our business on favorable terms, or our need to engage in litigation over these licenses or rights, could seriously harm our business, operating results or financial condition.



We could suffer serious harm to our business because of the infringement of our intellectual property rights by third parties or because of our infringement of the intellectual property rights of third parties.

There are numerous EDA, VIP and design IP product-related patents. New patents are being issued at a rapid rate and are owned by EDA companies as well as entities and individuals outside the EDA industry, including parties whose income is primarily derived from infringement-related litigation. It is not always practicable to determine in advance whether a product or any of its components infringes the patent rights of others. As a result, from time to time, we may be compelled to respond to or prosecute intellectual property infringement claims to protect our rights or defend a customer's rights.

Intellectual property infringement claims, including contractual defense reimbursement obligations related to third-party claims against our customers, regardless of merit, could consume valuable management time, result in costly litigation or cause product shipment delays, all of which could seriously harm our business, operating results or financial condition. The risk of infringement and related indemnification claims associated with design IP products that are incorporated into a customer product broadly used by consumers, may be higher than the risk associated with our software products. In settling these claims, we may be required to enter into royalty or licensing agreements with the third parties claiming infringement. These royalty or licensing agreements, if available, may not have terms favorable to us. Being compelled to enter into a license agreement with unfavorable terms could seriously harm our business, operating results or financial condition. Any potential intellectual property litigation could compel us to do one or more of the following:

- Pay damages (including the potential for treble damages), license fees or royalties (including royalties for past periods) to the party claiming infringement;

- Stop licensing products or providing services that use the challenged intellectual property;

- Obtain a license from the owner of the infringed intellectual property to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or

- Redesign the challenged technology, which could be time consuming and costly, or not be accomplished.

If we were compelled to take any of these actions, our business or operating results may suffer.

Our operating results and revenue could be adversely affected by customer payment delays, customer bankruptcies and defaults or modifications of licenses.

Occasionally, our customers file for bankruptcy or request to modify license terms. If our customers experience adversity in their business, they may delay or default on their payment obligations to us, file for bankruptcy or modify or cancel plans to license our products. For instance, if our customers are not successful in generating sufficient cash or are precluded from securing financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us, although these obligations are generally not cancelable. Our customers' inability to fulfill payment obligations, in turn, may adversely affect our revenue and cash flow. Additionally, our customers may seek to renegotiate pre-existing contractual commitments. Payment defaults by our customers or significant reductions in existing contractual commitments could have a material adverse effect on our financial condition and operating results. Because of the relatively high levels of volatility that continue to drive significant fluctuations in asset prices, as well as concern regarding high levels of leverage in sovereign and corporate debt, the capital and credit markets are volatile and unpredictable. If we were to seek funding from the capital or credit markets in response to any material level of customer defaults, we may not be able to secure funding on terms acceptable to us, or at all, which may have a material negative effect on our business.

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If our security measures are breached, and an unauthorized party obtains access to customer data or our proprietary business information, our information systems may be perceived as being insecure, which could harm our business and reputation.

Our products and services involve the storage and transmission of our proprietary information and that of our customers. We have offices throughout the world, including key research and development facilities outside of the United States. Our operations are dependent upon the connectivity of our operations throughout the world. Despite our security measures, our information technology and infrastructure may be vulnerable to cyber attacks or breached due to an employee error or other disruption that could result in unauthorized disclosure of sensitive information and could significantly interfere with our business operations. Breaches of our security measures could expose us to a risk of loss or misuse of this information, litigation and potential liability. Because techniques used to obtain unauthorized access or to sabotage information systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. In addition, if we select a vendor that uses cyber storage of information as part of their service or product offerings, despite our attempts to validate the security of such services, our proprietary information may be misappropriated by third parties. In the event of an actual or perceived breach of our security, or the security of one of our vendors, the market perception of the effectiveness of our security measures could be harmed and we could suffer damage to our reputation or our business, or lose existing customers and lose our ability to obtain new customers.

The long sales cycle of our products and services may cause our operating results to fluctuate unexpectedly. Generally, we have a long sales cycle that can extend up to six months or longer. The complexity and expense associated with our products and services generally require a lengthy customer education, evaluation and approval process. Consequently, we may incur substantial expenses and devote significant management effort and expense to develop potential relationships that do not result in agreements or revenue and may prevent us from pursuing other opportunities.

In addition, sales of our products and services have been and may in the future be delayed if customers delay approval or commencement of projects because of:

- The timing of customers' competitive evaluation processes; or
- Customers' budgetary constraints and budget cycles.

Long sales cycles for hardware products subject us to a number of significant risks over which we have limited control, including insufficient, excess or obsolete inventory, variations in inventory valuation and fluctuations in quarterly operating results.

The investment of our cash, cash equivalents and investments in money market funds and marketable debt securities are subject to risks which may cause losses and affect the liquidity of these investments.

Our investments include various money market funds and marketable debt securities, such as corporate debt securities, United States Treasury securities, United States government agency securities, bank certificates of deposit and commercial paper. Weakened financial markets have at times adversely impacted the general credit, liquidity, market prices and interest rates for these and other types of debt securities. Additionally, changes in monetary policy by the Federal Open Market Committee and concerns about the rising United States government debt level may cause a decrease in the purchasing power of the United States dollar and adversely affect our investment portfolio.

Furthermore, if there is a default or downgrade of U.S. government or agency debt securities, our investment portfolio may be adversely impacted, requiring impairment charges that could adversely affect our liquidity, financial position, results of operations or cash flows. The financial market and monetary risks associated with our investment portfolio may have a material adverse effect on our financial condition, liquidity, results of operations or cash flows.

Our reported financial results may be adversely affected by changes in United States generally accepted accounting principles, and we may incur significant costs to adjust our accounting systems and processes to comply with significant changes.

United States generally accepted accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. During fiscal 2010, the FASB issued exposure drafts of proposed accounting principles related to revenue recognition and leases which could change the way we account for certain of our transactions. The FASB issued a revised exposure draft of proposed accounting principles

related to revenue recognition during fiscal 2011 and has continued to discuss these and other proposed accounting principles during the first three quarters of fiscal 2013. A change in these or other principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change. In addition, the SEC is considering a multi-year plan that could ultimately lead to the use of International Financial Reporting Standards by United States issuers in their SEC filings. Any such change could have a significant effect on our reported financial results.

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In addition, we may need to significantly change our accounting systems and processes if we are required to adopt the proposed changes in accounting principles noted above. The cost of these changes may negatively impact our results of operations during the periods of transition.

We have substantial cash requirements in the United States, but a significant portion of our cash is held and generated outside of the United States, and if our cash available in the United States and the cash available under our revolving credit facility is insufficient to meet our operating expenses and debt repayment obligations in the United States, then we may be required to raise cash in ways that could negatively affect our financial condition, results of operations and the market price of our common stock.

We have significant operations outside the United States. As of September 28, 2013, approximately 55% of our cash, cash equivalents and short-term investments balance was held by subsidiaries outside the United States, with the remainder of the balance held by us or our subsidiaries in the United States. We believe that the combination of our existing United States cash, cash equivalents and short-term investments balances, future United States operating cash flows and cash available under our revolving credit facility are sufficient to meet our ongoing United States operating expenses and debt repayment obligations. However, if these sources of cash were insufficient to meet our future funding obligations in the United States, we could be required to seek other available funding sources, which could negatively impact our results of operations, financial position and the market price of our common stock.

Our operating results could be adversely affected as a result of changes in our effective tax rates or by material differences between our forecasted annual effective tax rates and actual tax rates.

Our future effective tax rates could be adversely affected by the following:

- Changes in tax laws or the interpretation of such tax laws, including potential United States and international tax reforms;

- Earnings being lower than anticipated in countries where we are taxed at lower rates as compared to the United States federal and state statutory tax rates;

- An increase in expenses not deductible for tax purposes, including certain stock-based compensation and impairment of goodwill;

- Changes in the valuation allowance against our deferred tax assets;

- Changes in judgment from the evaluation of new information that results in a recognition, derecognition or change in measurement of a tax position taken in a prior period;

- Increases to interest or penalty expenses classified in the financial statements as income taxes;

- New accounting standards or interpretations of such standards;

- A change in our decision to indefinitely reinvest foreign earnings outside the United States; or

- Results of tax examinations by the Internal Revenue Service, or IRS, and state and foreign tax authorities.

Any significant change in our future effective tax rates could adversely impact our results of operations for future periods.

Forecasts of our annual effective tax rate are complex and subject to uncertainty because our income tax position for each year combines the effects of estimating our annual income or loss, the mix of profits and losses earned by us and our subsidiaries in tax jurisdictions with a broad range of income tax rates, as well as benefits from available deferred tax assets, the impact of various accounting rules and results of tax audits. Forecasts of our annual effective tax rate do not include the anticipation of future tax law changes. If there were a material difference between forecasted and actual tax rates then it could have a material impact on our results of operations.

The IRS and other tax authorities regularly examine our tax returns, and the outcome of current and future tax examinations may have a material adverse effect on our results of operations and cash flows.

The IRS and other tax authorities regularly examine our income tax returns. The calculation of our provision (benefit) for income taxes requires us to use significant judgment and involves dealing with uncertainties in the application of complex tax laws and regulations. In determining the adequacy of our provision (benefit) for income taxes, we regularly assess the potential settlement outcomes resulting from income tax examinations. However, the final outcome of tax examinations, including the total amount payable or the timing of any such payments upon resolution of these issues, cannot be estimated with certainty. In addition, we cannot be certain that such amount will not be materially different from the amount that is reflected in our historical income tax provisions and accruals. Should the

IRS or other tax authorities assess additional taxes as a result of a current or a future examination, we may be required to record charges to operations in future periods that could have a material impact on our results of operations, financial position or cash flows in the applicable period or periods.

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Our restructuring plans may not result in the benefits we have anticipated, possibly having a negative effect on our future operating results.

In recent fiscal years, we have initiated restructuring plans in an effort to decrease costs by reducing our workforce and by consolidating facilities. The remaining activities in our restructuring plans relate primarily to facilities vacated as part of these plans. Our restructuring plans may also subject us to litigation risks and expenses. In addition, our restructuring plans may have other consequences, such as attrition beyond our planned reduction in workforce, a negative effect on employee morale or our ability to attract highly skilled employees. Our competitors may also seek to gain a competitive advantage over us. The restructuring plans could also cause our remaining employees to leave or result in reduced productivity by our employees, and, in turn, this may affect our revenue and other operating results in the future.

Failure to obtain export licenses could harm our business by rendering us unable to ship products and transfer our technology outside of the United States.

We must comply with regulations of the United States and of certain other countries in shipping our software products and transferring our technology outside the United States and to foreign nationals. Any significant future difficulty in complying could harm our business, operating results or financial condition.

Errors or defects in our products and services could expose us to liability and harm our reputation.

Our customers use our products and services in designing and developing products that involve a high degree of technological complexity, each of which has its own specifications. Because of the complexity of the systems and products with which we work, some of our products and designs can be adequately tested only when put to full use in the marketplace. As a result, our customers or their end users may discover errors or defects in our software or the systems we design, or the products or systems incorporating our design and intellectual property may not operate as expected. Errors or defects could result in:

- Loss of customers;
- Loss of market share;
- Failure to attract new customers or achieve market acceptance;
- Diversion of development resources to resolve the problem;
- Loss of or delay in revenue;
- Increased service costs;
- and
- Liability for damages.

If we become subject to unfair hiring claims, we could be prevented from hiring needed employees, incur liability for damages and incur substantial costs in defending ourselves.

When companies in our industry lose employees to competitors, they frequently claim that these competitors have engaged in unfair hiring practices or that the employment of these persons would involve the disclosure or use of trade secrets. These claims could prevent us from hiring employees or cause us to incur liability for damages. We could also incur substantial costs in defending ourselves or our employees against these claims, regardless of their merits.

Defending ourselves from these claims could also divert the attention of our management away from our operations.

Anti-takeover defenses in our certificate of incorporation and bylaws and certain provisions under Delaware law could prevent an acquisition of our company or limit the price that investors might be willing to pay for our common stock.

Our certificate of incorporation and bylaws and certain provisions of the Delaware General Corporation Law that apply to us could make it difficult for another company to acquire control of our company. For example:

Our certificate of incorporation allows our Board of Directors to issue, at any time and without stockholder approval, preferred stock with such terms as it may determine. No shares of preferred stock are currently outstanding. However, the rights of holders of any of our preferred stock that may be issued in the future may be superior to the rights of holders of our common stock.

Section 203 of the Delaware General Corporation Law generally prohibits a Delaware corporation from engaging in any business combination with a person owning 15% or more of its voting stock, or who is affiliated with the corporation and owned 15% or more of its voting stock at any time within three years prior to the proposed business combination, for a period of three years from the date the person became a 15% owner, unless specified conditions are met.

All or any one of these factors could limit the price that certain investors would be willing to pay for shares of our common stock and could allow our Board of Directors to resist, delay or prevent an acquisition of our company, even if a proposed transaction were favored by a majority of our independent stockholders.

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Our business is subject to the risk of earthquakes and other natural disasters.

Our corporate headquarters, including certain of our research and development operations and certain of our distribution facilities, is located in the Silicon Valley area of Northern California, a region known to experience seismic activity. If significant seismic activity were to occur, our operations may be interrupted, which could adversely impact our business and results of operations.

Our other offices in the United States and in other countries around the world may be adversely impacted by natural disasters. If a natural disaster occurs at or near any of our offices, our operations may be interrupted, which could adversely impact our business and results of operations. If a natural disaster impacts a significant number of our customers, our business and results of operations could be adversely impacted.

#### Risks Related to Our Securities and Indebtedness

Our debt obligations expose us to risks that could adversely affect our business, operating results or financial condition, and could prevent us from fulfilling our obligations under such indebtedness.

We have a substantial level of debt, and, as of September 28, 2013, we have the ability to borrow an additional \$200.0 million under a revolving credit facility. As of September 28, 2013, we had outstanding indebtedness with a principal balance of \$544.6 million as follows:

\$350.0 million related to our 2.625% cash convertible senior notes due 2015, or the 2015 Notes;

\$144.5 million related to our 1.500% convertible senior notes due December 15, 2013, or the 2013 Notes;

\$50.0 million related to our five-year senior secured revolving credit facility; and

\$0.1 million related to our zero coupon zero yield senior convertible notes due 2023.

The level of our current or future indebtedness, among other things, could:

• Make it difficult for us to satisfy our payment obligations on our debt as described above;

• Make us more vulnerable in the event of a downturn in our business;

• Reduce funds available for use in our operations or for developments or acquisitions of new technologies;

• Make it difficult for us to incur additional debt or obtain any necessary financing in the future for working capital, capital expenditures, debt service, acquisitions or general corporate purposes;

• Impose additional operating or financial covenants on us;

• Limit our flexibility in planning for or reacting to changes in our business; or

• Place us at a possible competitive disadvantage relative to less leveraged competitors and competitors that have greater access to capital resources.

We have entered into a \$250 million five-year senior secured revolving credit facility. Any outstanding loans drawn under this agreement are payable on or before December 12, 2017. We have the option to increase the maximum borrowings on our credit facility up to an additional \$150 million if our lenders approve our request. The credit facility contains customary negative covenants that, among other things, restrict our ability to incur additional indebtedness, grant liens and make certain investments, complete acquisitions, dispose of certain assets and make certain payments, including dividends. In addition, the credit facility contains certain financial covenants that require us to maintain a leverage ratio of not greater than 3 to 1, subject to certain exceptions, and requires that we maintain an interest coverage ratio of at least 3 to 1. These financial covenants could limit our flexibility in conducting our business, and any borrowings outstanding under the credit facility could be accelerated if we fail to comply with these covenants.

If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we fail to comply with the various requirements of our indebtedness, we would be in default, which would permit the holders of our indebtedness to accelerate the maturity of the indebtedness and could cause defaults under any other indebtedness as well. Additionally, in the event of a default, certain assets that secure the borrowings could be seized by our lenders, which could adversely impact our ability to operate.

Any default under our indebtedness could have a material adverse effect on our business, operating results and financial condition. In addition, a material default on our indebtedness could suspend our eligibility to register securities using certain registration statement forms under SEC guidelines that permit incorporation by reference of substantial information regarding us, potentially hindering our ability to raise capital through the issuance of our

securities and increasing our costs of registration.

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Conversion of our 2013 Notes and 2015 Notes prior to the scheduled maturities of the notes may adversely affect our liquidity and financial condition.

Holders of our 2013 Notes and 2015 Notes may convert their notes into cash prior to the scheduled maturities if any of the conversion conditions for those notes are met. The 2015 Notes are convertible into cash only and the 2013 Notes are convertible into a combination of cash and shares of our common stock.

In order for the 2015 Notes to be convertible into cash in a particular fiscal quarter, a conversion condition must be met during the preceding fiscal quarter. During the three months ended September 28, 2013 our closing stock price exceeded \$9.81 for at least 20 of the last 30 trading days prior to September 28, 2013. As a result, the 2015 Notes are convertible into cash from September 29, 2013 through December 28, 2013 and we have classified our 2015 Notes as a current liability on our consolidated balance sheet as of September 28, 2013. The 2013 Notes are not currently convertible.

So long as the 2015 Notes are outstanding, we will assess whether this conversion condition has been met at the end of each fiscal quarter. If a conversion condition is met in any future fiscal quarter, we would classify our 2015 Notes as a current liability on our consolidated balance sheet as of the end of that fiscal quarter.

If one or more of the 2013 or 2015 Note holders elect to convert their notes at a time when the conversion conditions have been met, we would be required to settle the converted principal and, in the case of the 2015 Notes, the conversion value, through payment of cash, which could adversely affect our liquidity and financial condition.

At the option of the holders of the 2013 Notes and the 2015 Notes, under certain circumstances we may be required to repurchase the 2013 Notes or the 2015 Notes in cash.

Under the terms of the 2013 Notes and the 2015 Notes, we may be required to repurchase the 2013 Notes and the 2015 Notes following a "fundamental change" in our corporate ownership or structure, such as a change of control in which substantially all of the consideration does not consist of publicly traded securities, prior to maturity of the 2013 Notes and the 2015 Notes. The repurchase price for the 2013 Notes and the 2015 Notes in the event of a fundamental change must be paid solely in cash. This repayment obligation may have the effect of discouraging, delaying or preventing a takeover of our company. Payment of the notes prior to their scheduled maturities could have a significant negative impact on our cash and liquidity and could impact our ability to invest financial resources in other strategic initiatives.

Hedge and warrant transactions entered into in connection with the issuance of the 2013 Notes and the 2015 Notes may affect the value of our common stock.

We entered into hedge transactions with various financial institutions, at the time of issuance of the 2013 Notes and the 2015 Notes, with the objective of limiting the potential dilutive effect of issuing our common stock upon conversion of the 2013 Notes and our exposure to the additional cash payments above the principal amount upon conversion of the 2015 Notes. We also entered into separate warrant transactions with the same financial institutions. In connection with our hedge and warrant transactions associated with the 2013 Notes and the 2015 Notes, these financial institutions purchased our common stock in secondary market transactions and entered into various over-the-counter derivative transactions with respect to our common stock. These entities or their affiliates are likely to modify their hedge positions from time to time prior to conversion or maturity of the 2013 Notes and the 2015 Notes by purchasing and selling shares of our common stock, other of our securities or other instruments they may wish to use in connection with such hedging. Any of these transactions and activities could adversely affect the value of our common stock and, as a result, the number of shares and the value of the common stock that the 2013 Note holders will receive upon conversion of the 2013 Notes and the amount of cash that 2015 Notes holders will receive upon conversion of the 2015 Notes.

We are subject to the risk that the hedge participants fail to fulfill their obligations under the 2013 Notes hedge transactions and the 2015 Notes hedge transactions.

If any of the participants in the hedge transactions is unwilling or unable to perform its obligations for any reason, we would not be able to receive the benefit of such transaction. We cannot provide any assurances as to the financial stability or viability of any of the participants in the hedge transactions. Our 2015 Notes were convertible as of September 28, 2013. The convertible note hedge transactions in connection with the 2015 Notes, or the 2015 Notes Hedges, are intended to reduce our exposure above the \$350.0 million principal balance in the event of a cash

conversion of the 2015 Notes. If the hedge participants fail to meet their obligations for any reason, it could have a material adverse effect on our liquidity and financial condition.

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Rating agencies may provide unsolicited ratings on the 2013 Notes and the 2015 Notes that could reduce the market value or liquidity of our 2013 Notes, 2015 Notes or our common stock.

We have not requested a rating of the 2013 Notes or the 2015 Notes from any rating agency, and we do not anticipate that the 2013 Notes or the 2015 Notes will be rated. However, if one or more rating agencies independently elects to rate the 2013 Notes or the 2015 Notes and assigns the 2013 Notes or the 2015 Notes a rating lower than the rating expected by investors, or reduces such rating in the future, the market price or liquidity of the 2013 Notes or the 2015 Notes, as the case may be, and our common stock could be harmed. Should a decline occur in the market price of the 2013 Notes or the 2015 Notes, as compared to the price of our common stock, the decline may trigger the right of the holders of the 2013 Notes or the 2015 Notes to convert such notes into cash and shares of our common stock, as applicable.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In February 2008, our Board of Directors authorized a program to repurchase shares of our common stock in the open market with a value of up to \$500 million in the aggregate. In August 2008, our Board of Directors authorized another program to repurchase shares of our common stock in the open market with a value of up to an additional \$500 million in the aggregate. As described in Note 2 in the notes to condensed consolidated financial statements, our revolving credit facility restricts certain payments, including share repurchases. We did not repurchase shares under these repurchase programs during the three months ended September 28, 2013, and \$814.4 million remains under our repurchase authorization as of September 28, 2013.

The following table presents repurchases and shares surrendered by employees to satisfy income tax withholding obligations during the three months ended September 28, 2013:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plan or Program <sup>(1)</sup> (In millions)
June 30, 2013 – August 3, 2013	15,445	\$ 15.79	—	\$ 814.4
August 4, 2013 – August 31, 2013	409,858	\$ 14.42	—	\$ 814.4
September 1, 2013 – September 28, 2013	34,763	\$ 14.04	—	\$ 814.4
Total	460,066	\$ 14.44	—	

Shares purchased that were not part of our publicly announced repurchase programs represent employee surrender (1) of shares of restricted stock to satisfy employee income tax withholding obligations due upon vesting, and do not reduce the dollar value that may yet be purchased under our publicly announced repurchase programs.

Item 3. Defaults Upon Senior Securities  
None.

Item 4. Mine Safety Disclosures  
Not applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits

(a) The following exhibits are filed herewith:

Exhibit Number	Exhibit Title	Incorporated by Reference			Filing Date	Provided Herewith
		Form	File No.	Exhibit No.		
31.01	Certification of the Registrant's Chief Executive Officer, Lip-Bu Tan, pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.					X
31.02	Certification of the Registrant's Chief Financial Officer, Geoffrey G. Ribar, pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.					X
32.01	Certification of the Registrant's Chief Executive Officer, Lip-Bu Tan, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.02	Certification of the Registrant's Chief Financial Officer, Geoffrey G. Ribar, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					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 Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X



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.

CADENCE DESIGN SYSTEMS, INC.  
(Registrant)

DATE: October 24, 2013

By: /s/ Lip-Bu Tan  
Lip-Bu Tan  
President, Chief Executive Officer and Director

DATE: October 24, 2013

By: /s/ Geoffrey G. Ribar  
Geoffrey G. Ribar  
Senior Vice President and Chief Financial Officer

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