SYNOPSYS INC
Form 10-Q
May 31, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED APRIL 30, 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: 0-19807

SYNOPSYS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**56-1546236**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

700 EAST MIDDLEFIELD ROAD

MOUNTAIN VIEW, CA 94043

(Address of principal executive offices, including zip code)

(650) 584-5000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (l) 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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	x	Accelerated Filer	¨
Non-accelerated filer	¨ (Do not check if smaller reporting company)	Smaller reporting company	¨

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

As of May 28, 2013, there were 153,764,405 shares of the registrant s common stock outstanding.

Table of Contents

SYNOPSYS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE FISCAL QUARTER ENDED APRIL 30, 2013

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

SYNOPSYS, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value amounts)

	April 30, 2013	October 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 681,018	$ 700,382
Accounts receivable, net of allowances of $6,017 and $6,072, respectively	251,682	292,668
Deferred income taxes	74,558	74,712
Income taxes receivable and prepaid taxes	20,178	17,267
Prepaid and other current assets	78,933	55,627
Total current assets	1,106,369	1,140,656
Property and equipment, net	195,315	191,243
Goodwill	1,980,012	1,976,987
Intangible assets, net	397,219	466,322
Long-term prepaid taxes	9,702	9,429
Long-term deferred income taxes	270,037	239,412
Other long-term assets	140,234	123,607
Total assets	$ 4,098,888	$ 4,147,656
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 277,114	$ 383,093
Accrued income taxes	13,926	4,682
Deferred revenue	691,882	834,864
Short-term debt	30,000	30,000
Total current liabilities	1,012,922	1,252,639
Long-term accrued income taxes	57,468	52,645
Long-term deferred revenue	62,840	67,184
Long-term debt	90,000	105,000
Other long-term liabilities	176,726	126,217
Total liabilities	1,399,956	1,603,685
Stockholders equity:		
Preferred Stock, $0.01 par value: 2,000 shares authorized; none outstanding		
Common Stock, $0.01 par value: 400,000 shares authorized; 153,605 and 150,899 shares outstanding, respectively	1,535	1,509
Capital in excess of par value	1,599,164	1,585,034
Retained earnings	1,231,378	1,098,694
Treasury stock, at cost: 3,659 and 6,365 shares, respectively	(105,138)	(168,090)
Accumulated other comprehensive income (loss)	(28,007)	(15,461)

Total Synopsys stockholders equity	2,698,932	2,501,686
Non-controlling interest		42,285
Total stockholders equity	2,698,932	2,543,971
Total liabilities and stockholders equity	$ 4,098,888	$ 4,147,656

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

SYNOPSYS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended April 30, 2013	Three Months Ended April 30, 2012	Six Months Ended April 30, 2013	Six Months Ended April 30, 2012
Revenue:				
Time-based license	$ 413,491	$ 363,580	$ 799,450	$ 719,474
Upfront license	24,779	22,333	55,568	50,845
Maintenance and service	60,987	46,648	119,376	87,738
Total revenue	499,257	432,561	974,394	858,057
Cost of revenue:				
License	61,569	57,592	126,061	115,314
Maintenance and service	19,766	19,215	39,821	37,959
Amortization of intangible assets	26,398	23,699	52,914	37,087
Total cost of revenue	107,733	100,506	218,796	190,360
Gross margin	391,524	332,055	755,598	667,697
Operating expenses:				
Research and development	169,962	151,230	327,472	284,105
Sales and marketing	103,930	108,836	205,688	204,240
General and administrative	32,254	49,948	70,192	83,787
Amortization of intangible assets	5,875	4,905	11,762	8,426
Total operating expenses	312,021	314,919	615,114	580,558
Operating income	79,503	17,136	140,484	87,139
Other income (expense), net	7,204	6,353	17,953	10,179
Income before provision for income taxes	86,707	23,489	158,437	97,318
Provision (benefit) for income taxes	18,016	2,518	19,824	19,653
Net income	$ 68,691	$ 20,971	$ 138,613	$ 77,665
Net income per share:				
Basic	$ 0.45	$ 0.14	$ 0.91	$ 0.54
Diluted	$ 0.44	$ 0.14	$ 0.89	$ 0.52
Shares used in computing per share amounts:				
Basic	153,515	145,948	152,496	144,877
Diluted	156,606	149,297	155,662	148,259

See accompanying notes to unaudited condensed consolidated financial statements.

2

Table of Contents

SYNOPSYS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended April 30, 2013	Three Months Ended April 30, 2012	Six Months Ended April 30, 2013	Six Months Ended April 30, 2012
	(in thousands)			
Net income	$ 68,691	$ 20,971	$ 138,613	$ 77,665
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	(7,670)	(5,010)	(14,512)	(7,059)
Cash flow hedges:				
Deferred gains (losses), net of tax of $2,188 and $2,532, for the three and six months ended April 30, 2013, respectively, and of ($549) and $381 for each of the same periods in fiscal 2012, respectively	(2,128)	4,586	3,696	(120)
Reclassification adjustment on deferred (gains) losses included in net income, net of tax of $(144) and $(199), for the three and six months ended April 30, 2013, respectively, and of $(605) and $(1,593) for each of the same periods in fiscal 2012, respectively	(2,010)	2,117	(1,730)	5,570
Change in unrealized (losses) gains on investments, net of tax of $117 and $58, for the three and six months ended April 30, 2012.		(179)		(88)
Other comprehensive income (loss), net of tax effects	(11,808)	1,514	(12,546)	(1,697)
Comprehensive income	$ 56,883	$ 22,485	$ 126,067	$ 75,968

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

SYNOPSYS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended April 30, 2013	Six Months Ended April 30, 2012
Cash flow from operating activities:		
Net income	$ 138,613	$ 77,665
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization and depreciation	94,154	74,862
Stock compensation	33,229	36,853
Allowance for doubtful accounts	901	452
Gain on sale of investments	(101)	(349)
Deferred income taxes	8,225	10,033
Net changes in operating assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	39,287	(11,516)
Prepaid and other current assets	(27,502)	(3,442)
Other long-term assets	(16,524)	(8,128)
Accounts payable and other liabilities	(97,569)	(48,391)
Income taxes	(2,574)	(8,436)
Deferred revenue	(127,847)	(32,147)
Net cash provided by operating activities	42,292	87,456
Cash flows from investing activities:		
Proceeds from sales and maturities of short-term investments		166,132
Purchases of short-term investments		(18,179)
Proceeds from sales of long-term investments	222	
Proceeds from sale of property and equipment	2,000	
Purchases of property and equipment	(29,426)	(19,585)
Cash paid for acquisitions and intangible assets, net of cash acquired		(564,528)
Capitalization of software development costs	(1,787)	(1,539)
Net cash used in investing activities	(28,991)	(437,699)
Cash flows from financing activities:		
Principal payments on capital leases	(784)	(1,888)
Acquisition of non-controlling interests	(44,004)	
Proceeds from credit facility and term loan		250,000
Repayment of debt	(15,237)	(21,156)
Issuances of common stock	75,193	111,180
Purchases of treasury stock	(34,998)	(40,000)
Other	(1,130)	
Net cash (used in) provided by financing activities	(20,960)	298,136
Effect of exchange rate changes on cash and cash equivalents	(11,705)	(6,376)
Net change in cash and cash equivalents	(19,364)	(58,483)
Cash and cash equivalents, beginning of year	700,382	855,077
Cash and cash equivalents, end of period	$ 681,018	$ 796,594

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

SYNOPSYS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business

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

Note 2. Summary of Significant Accounting Policies

The Company has prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Pursuant to these rules and regulations, the Company has condensed or omitted certain information and footnote disclosures it normally includes in its annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). In management s opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present its unaudited condensed consolidated balance sheets, results of operations, comprehensive income and cash flows. The Company s interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in Synopsys Annual Report on Form 10-K for the fiscal year ended October 31, 2012 as filed with the SEC on December 20, 2012.

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

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

Fiscal Year End. The Company s fiscal year generally ends on the Saturday nearest to October 31 and consists of 52 weeks, with the exception that approximately every five years, the Company has a 53-week year. When a 53-week year occurs, the Company includes the additional week in the first quarter to realign fiscal quarters with calendar quarters. Fiscal 2013 is a 52-week year and will end on November 2, 2013, and fiscal 2012 was a 53-week year and ended on November 3, 2012. The results of operations for the six months of fiscal 2013 and 2012 included 26 weeks and 27 weeks, respectively. The second fiscal quarters, and six months of fiscal 2013 and 2012 ended on May 4, 2013 and May 5, 2012, respectively. For presentation purposes, the unaudited condensed consolidated financial statements and accompanying notes refer to the closest calendar month end.

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

Note 3. Business Combinations and Acquisition of Non-controlling Interest

Fiscal 2013 Acquisition of Non-controlling Interest

During the first quarter of fiscal 2013, the Company completed the acquisition of the non-controlling interest in SpringSoft, Inc. (SpringSoft), a company organized under the laws of the Republic of China (Taiwan), in which the remaining 8.4% of outstanding shares of SpringSoft along with the remaining outstanding vested stock options of SpringSoft were exchanged for cash of $44.0 million.

Table of Contents

Note 4. Financial Assets and Liabilities

Cash, Cash Equivalents and Investments. Cash, cash equivalents and investments are detailed as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months (in thousands)	Gross Unrealized Losses 12 Months or Longer	Estimated Fair Value(1)
Balance at April 30, 2013					
Classified as current assets:					
Non-interest bearing cash (U.S. and International)	$ 188,340	$	$	$	$ 188,340
Money market funds (U.S.)	205,000				205,000
Cash deposits and money market funds (International)	287,678				287,678
	681,018				681,018
Classified as other long-term assets:					
Strategic investments	11,643				11,643
Total	$ 692,661	$	$	$	$ 692,661

	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months (in thousands)	Gross Unrealized Losses 12 Months or Longer	Estimated Fair Value(1)
Balance at October 31, 2012					
Classified as current assets:					
Non-interest bearing cash (U.S. and International)	$ 167,161	$	$	$	$ 167,161
Money market funds (U.S.)	155,000				155,000
Cash deposits and money market funds (International)	378,221				378,221
	700,382				700,382
Classified as other long-term assets:					
Strategic investments	11,744				11,744
Total	$ 712,126	$	$	$	$ 712,126

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

Strategic Investments. The Company s strategic investment portfolio consists of non-marketable equity securities in privately held companies. The securities accounted for under cost method investments are reported at cost net of impairment losses. Securities accounted for under equity method investments are recorded at cost plus the proportional share of the issuers income or loss, which is recorded in the Company s other income (expense), net. The cost basis of securities sold is based on the specific identification method. Refer to *Note 5. Fair Value Measures.*

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

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

Table of Contents

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

Cash Flow Hedging Activities

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

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

Non-designated Hedging Activities

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

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

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2013	2012	2013	2012
	(in thousands)			
Gain (loss) recorded in other income (expense), net	$ 797	$ 2,217	$ 3,930	$ 2,018

	As of April 30, 2013	As of October 31, 2012
	(in thousands)	
Total gross notional amount	$ 577,008	$ 618,978
Net fair value	$ 16,239	$ 390

The notional amounts for derivative instruments provide one measure of the transaction volume outstanding as of April 30, 2013 and October 31, 2012, respectively, and do not represent the amount of the Company s exposure to market gain or loss. The Company s exposure to market gain or loss will vary over time as a function of currency exchange rates. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

Table of Contents

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

	Fair Values of derivative instruments designated as hedging instruments	Fair Values of derivative instruments not designated as hedging instruments
	(in thousands)	
As of April 30, 2013		
Other current assets	$ 15,226	$ 3,284
Other current liabilities	$ 2,182	$ 88
As of October 31, 2012		
Other current assets	$ 5,149	$ 68
Other current liabilities	$ 4,739	$ 88

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

	Location of gain (loss) recognized in OCI on derivatives	Amount of gain (loss) recognized in OCI on derivatives (effective portion)	Location of gain (loss) reclassified from OCI	Amount of gain (loss) reclassified from OCI (effective portion)
		(in thousands)		
Three months ended April 30, 2013				
Foreign exchange contracts	Revenue	$ 230	Revenue	$ 2,067
Foreign exchange contracts	Operating expenses	(2,382)	Operating expenses	(57)
Total		$ (2,152)		$ 2,010
Three months ended April 31, 2012				
Foreign exchange contracts	Revenue	$ 4,578	Revenue	$ (24)
Foreign exchange contracts	Operating expenses	205	Operating expenses	(2,093)
Total		$ 4,783		$ (2,117)
Six months ended April 30, 2013				
Foreign exchange contracts	Revenue	$ 2,858	Revenue	$ 2,554
Foreign exchange contracts	Operating expenses	942	Operating expenses	(824)
Total		$ 3,800		$ 1,730
Six months ended April 31, 2012				
Foreign exchange contracts	Revenue	$ 4,994	Revenue	$ (1,634)
Foreign exchange contracts	Operating expenses	(4,895)	Operating expenses	(3,936)
Total		$ 99		$ (5,570)

Table of Contents

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

	Amount of gain (loss) recognized in income statement on derivatives (ineffective portion)(1)	Amount of gain (loss) recognized in income statement on derivatives (excluded from effectiveness testing)(2)
	(in thousands)	
For the three months ended April 30, 2013		
Foreign exchange contracts	$ (202)	$ 790
For the three months ended April 30, 2012		
Foreign exchange contracts	$ (22)	$ 466
For the six months ended April 30, 2013		