SYNOPSYS INC
Form 10-Q
February 24, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2015

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)

690 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 ý 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 ý 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	ý	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 ý

As of February 20, 2015, there were 153,686,533 shares of the registrant’s common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
SYNOPSYS, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value amounts)

	January 31, 2015	October 31, 2014*
ASSETS		
Current assets:		
Cash and cash equivalents	$796,824	$985,762
Short-term investments	120,238	—
Total cash, cash equivalents and short-term investments	917,062	985,762
Accounts receivable, net	283,007	326,727
Deferred income taxes	95,800	111,449
Income taxes receivable and prepaid taxes	28,089	26,496
Prepaid and other current assets	92,315	54,301
Total current assets	1,416,273	1,504,735
Property and equipment, net	256,092	249,098
Goodwill	2,245,920	2,255,708
Intangible assets, net	332,385	365,030
Long-term prepaid taxes	4,501	17,645
Long-term deferred income taxes	227,715	208,156
Other long-term assets	179,463	175,127
Total assets	$4,662,349	$4,775,499
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$242,335	$397,113
Accrued income taxes	12,024	31,404
Deferred revenue	823,745	928,242
Short-term debt	265,000	30,000
Total current liabilities	1,343,104	1,386,759
Long-term accrued income taxes	42,154	50,952
Long-term deferred revenue	98,413	77,646
Long-term debt	37,500	45,000
Other long-term liabilities	204,157	158,972
Total liabilities	1,725,328	1,719,329
Stockholders' equity:		
Preferred stock, $0.01 par value: 2,000 shares authorized; none outstanding	—	—
Common stock, $0.01 par value: 400,000 shares authorized; 153,457 and 155,965 shares outstanding, respectively	1,535	1,560
Capital in excess of par value	1,586,965	1,614,603
Retained earnings	1,608,758	1,551,592
Treasury stock, at cost: 3,807 and 1,299 shares, respectively	(162,992)	(49,496)
Accumulated other comprehensive income (loss)	(97,245)	(62,089)
Total stockholders' equity	2,937,021	3,056,170
Total liabilities and stockholders' equity	$4,662,349	$4,775,499

* Derived from audited financial statements.
See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended January 31,	
	2015	2014
Revenue:		
Time-based license	$431,026	$400,146
Upfront license	46,480	33,972
Maintenance and service	64,537	44,833
Total revenue	542,043	478,951
Cost of revenue:		
License	70,784	62,825
Maintenance and service	27,983	20,271
Amortization of intangible assets	25,866	22,753
Total cost of revenue	124,633	105,849
Gross margin	417,410	373,102
Operating expenses:		
Research and development	181,610	167,543
Sales and marketing	106,169	105,792
General and administrative	36,354	34,233
Amortization of intangible assets	6,442	5,378
Restructuring charges	15,336	—
Total operating expenses	345,911	312,946
Operating income	71,499	60,156
Other income (expense), net	5,116	11,028
Income before provision for income taxes	76,615	71,184
Provision (benefit) for income taxes	11,426	3,488
Net income	$65,189	$67,696
Net income per share:		
Basic	$0.42	$0.44
Diluted	$0.41	$0.43
Shares used in computing per share amounts:		
Basic	154,458	154,066
Diluted	157,206	156,756

See accompanying notes to unaudited condensed consolidated financial statements.

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SYNOPSYS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Three Months Ended January 31,	
	2015	2014
	(in thousands)	
Net income	$65,189	$67,696
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	(23,453)	(13,849)
Changes in unrealized gains (losses) on available-for-sale securities, net of tax of $0 for periods presented	17	—
Cash flow hedges:		
Deferred gains (losses), net of tax of $4,845 and $1,329, respectively	(12,775)	(575)
Reclassification adjustment on deferred (gains) losses included in net income, net of tax of $(390) and $294, respectively	1,055	(3,306)
Other comprehensive income (loss), net of tax effects	(35,156)	(17,730)
Comprehensive income	$30,033	$49,966

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended January 31, 2015	2014
Cash flow from operating activities:		
Net income	$65,189	$67,696
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization and depreciation	50,529	43,714
Stock compensation	20,581	18,118
Allowance for doubtful accounts	300	(400)
Deferred income taxes	(158)	5,891
(Gain) loss on sale of investments	(12)	(6,529)
Net changes in operating assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	40,857	7,910
Prepaid and other current assets	(42,860)	(13,635)
Other long-term assets	(7,597)	(6,695)
Accounts payable and other liabilities	(125,320)	(134,902)
Income taxes	(14,024)	(10,068)
Deferred revenue	(74,828)	(44,992)
Net cash used in operating activities	(87,343)	(73,892)
Cash flows from investing activities:		
Proceeds from sales of long-term investments	—	6,791
Proceeds from sales and maturities of short-term investments	8,012	—
Purchases of short-term investments	(128,427)	—
Purchases of property and equipment	(19,607)	(14,353)
Cash paid for intangible assets	—	(900)
Capitalization of software development costs	(909)	(902)
Net cash used in investing activities	(140,931)	(9,364)
Cash flows from financing activities:		
Proceeds from credit facility	250,000	—
Repayment of debt	(22,723)	(7,748)
Issuances of common stock	10,542	21,581
Purchase of equity forward contract	(36,000)	—
Purchases of treasury stock	(144,000)	(54,747)
Other	(14)	(111)
Net cash provided by (used in) financing activities	57,805	(41,025)
Effect of exchange rate changes on cash and cash equivalents	(18,469)	(5,107)
Net change in cash and cash equivalents	(188,938)	(129,388)
Cash and cash equivalents, beginning of year	985,762	1,022,441
Cash and cash equivalents, end of period	$796,824	$893,053

See accompanying notes to unaudited condensed consolidated financial statements.

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SYNOPSYS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business

Synopsys, Inc. (Synopsys or the Company) is a global leader in providing software, intellectual property and services used to design integrated circuits and electronic systems. The Company supplies 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 offers intellectual property (IP) products, which are pre-designed circuits that engineers use as components of larger chip designs rather than designing those circuits themselves. The Company provides software and hardware used to develop the electronic systems that incorporate chips and the software that runs on them. To complement these product offerings, the Company provides technical services to support these solutions and help its customers develop chips and electronic systems. The Company is also a leading provider of software tools that developers use to improve the quality, security and time-to-market of software code in a wide variety of industries, including electronics, financial services, energy, and industrials.

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, 2014 as filed with the SEC on December 15, 2014.

Use of Estimates. 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 2015 and 2014 are both 52-week years. The first fiscal quarters of fiscal 2015 and 2014 ended on January 31, 2015 and February 1, 2014, respectively, and the prior year ended on November 1, 2014. 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. Goodwill and Intangible Assets

Goodwill as of January 31, 2015 and October 31, 2014 consisted of the following:

	(in thousands)	
As of October 31, 2014	$2,255,708	
Additions	—	
Effect of foreign currency translation	(9,788	)
As of January 31, 2015	$2,245,920	

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Intangible assets as of January 31, 2015 consisted of the following:

	Gross Assets	Accumulated Amortization	Net Assets
	(in thousands)		
Core/developed technology	$490,929	$316,714	$174,215
Customer relationships	209,984	97,829	112,155
Contract rights intangible	145,616	116,389	29,227
Covenants not to compete	2,530	2,530	—
Trademarks and trade names	18,779	8,464	10,315
In-process research and development (IPR&D)(1)	2,400	—	2,400
Capitalized software development costs	22,738	18,665	4,073
Total	$892,976	$560,591	$332,385

Intangible assets as of October 31, 2014 consisted of the following:

	Gross Assets	Accumulated Amortization	Net Assets
	(in thousands)		
Core/developed technology	$490,242	$298,705	$191,537
Customer relationships	210,172	92,146	118,026
Contract rights intangible	146,364	109,067	37,297
Covenants not to compete	2,530	2,530	—
Trademarks and trade names	18,779	7,765	11,014
In-process research and development (IPR&D)(1)	3,086	—	3,086
Capitalized software development costs	21,829	17,759	4,070
Total	$893,002	$527,972	$365,030

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

Amortization expense related to intangible assets consisted of the following:

	Three Months Ended January 31,	
	2015	2014
	(in thousands)	
Core/developed technology	$18,009	$15,621
Customer relationships	5,748	5,053
Contract rights intangible	7,852	7,126
Covenants not to compete	—	17
Trademarks and trade names	699	314
Capitalized software development costs(1)	906	864
Total	$33,214	$28,995

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

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

Fiscal Year	(in thousands)
Remainder of fiscal 2015	$95,690
2016	92,056
2017	55,627
2018	40,298
2019	20,645
2020 and thereafter	25,669
IPR&D(1)	2,400
Total	$332,385

(1) IPR&D projects are estimated to be completed within one year as of January 31, 2015. Assets are amortized over their useful life upon completion of the project or are written off upon abandonment.

Note 4. Financial Assets and Liabilities

Cash equivalents and short-term investments. The Company classifies time deposits and other investments with maturities less than three months as cash equivalents. Debt securities and other investments with maturities longer than three months are classified as short-term investments. The Company's investments generally have a term of less than three years and are classified as available-for-sale carried at fair value, with unrealized gains and losses included in the unaudited condensed consolidated balance sheet as a component of accumulated other comprehensive income (loss), net of tax. Those unrealized gains or losses deemed other than temporary are reflected in other income (expense), net. The cost of securities sold is based on the specific identification method and realized gains and losses are included in other income (expense), net.

During the first fiscal quarter of 2015, the Company made investments in available-for-sale securities, as follows:

As of January 31, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	Gross Unrealized Losses 12 Months or Longer	Estimated Fair Value(1)
	(in thousands)				
Cash equivalents:					
Certificates of deposit	$2,400	$—	$—	$—	$2,400
Money market funds	377,370	—	—	—	377,370
Commercial paper	8,697	—	—	—	8,697
Total:	388,467	—	—	—	388,467
Short-term investments:					
U.S. government agency securities	17,928	8	—	—	17,936
Municipal bonds	1,405	—	(2)	—	1,403
Certificates of deposit	3,400	—	—	—	3,400
Commercial paper	7,090	—	—	—	7,090
Corporate debt securities	67,160	26	(18)	—	67,168
Asset-backed securities	23,238	5	(2)	—	23,241
Total:	120,221	39	(22)	—	120,238

(1) See Note 5. Fair Value Measures for further discussion on fair values of cash equivalents and short-term investments.

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As of January 31, 2015 the stated maturities of the Company's short-term investments are:

	Amortized Cost (in thousands)	Fair Value
Due in 1 year or less	$64,421	$64,414
Due in 1-5 years	55,800	55,824
Total	$120,221	$120,238

Non-marketable equity securities. 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. 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 approximately one month to 22 months, the majority of which are short-term. The Company does not use foreign currency forward contracts for speculative or trading purposes. The Company enters into foreign exchange forward contracts with high credit quality financial institutions that are rated 'A' or above and to date has not experienced nonperformance by counterparties. Further, the Company anticipates continued performance by all counterparties to such agreements.

The assets or liabilities associated with the forward contracts are recorded at fair value in other current assets or 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 approximately 22 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. The Company expects 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.

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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 January 31,	
	2015	2014
	(in thousands)	
Gain (loss) recorded in other income (expense), net	$(2,758)	$(943)

The notional amounts in the table below for derivative instruments provide one measure of the transaction volume outstanding:

	As of January 31, 2015	As of October 31, 2014
	(in thousands)	
Total gross notional amount	$732,766	$793,937
Net fair value	$(6,894)	$(2,455)

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

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

	Fair values of derivative instruments designated as hedging instruments	Fair values of derivative instruments not designated as hedging instruments
	(in thousands)	
As of January 31, 2015		
Other current assets	$16,781	$1,549
Accrued liabilities	$25,210	$14
As of October 31, 2014		
Other current assets	$9,299	$1
Accrued liabilities	$11,656	$99

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

	Location of gain (loss) recognized in OCI on derivatives	Amount of gain (loss) recognized in OCI on derivatives (effective portion)	Location of gain (loss) reclassified from OCI	Amount of gain (loss) reclassified from OCI (effective portion)
	(in thousands)			
Three months ended January 31, 2015				
Foreign exchange contracts	Revenue	$2,966	Revenue	$2,381
Foreign exchange contracts	Operating expenses	(15,795)	Operating expenses	(3,436)
Total		$(12,829)		$(1,055)
Three months ended January 31, 2014				
Foreign exchange contracts	Revenue	$3,188	Revenue	$2,756
Foreign exchange contracts	Operating expenses	(3,782)	Operating expenses	550
Total		$(594)		$3,306

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:

Foreign exchange contracts	Amount of gain (loss) recognized in income statement on derivatives (ineffective portion)(1)	Amount of gain (loss) recognized in income statement on derivatives (excluded from effectiveness testing)(2)
	(in thousands)	
For the three months ended January 31, 2015	$740	$1,072
For the three months ended January 31, 2014	$119	$1,594

(1) The ineffective portion includes forecast inaccuracies.
(2) The portion excluded from effectiveness testing includes the discount earned or premium paid for the contracts.

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Note 5. Fair Value Measures

ASC 820-10, Fair Value Measurements and Disclosures, defines fair value, establishes guidelines and enhances disclosure requirements for fair value measurements. The accounting guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The accounting guidance also establishes a fair value hierarchy based on the independence of the source and objective evidence of the inputs used. There are three fair value hierarchies based upon the level of inputs that are significant to fair value measurement:

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

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

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

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

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

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

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

The Company’s borrowings under its credit and term loan facilities are classified within Level 2 because these borrowings are not actively traded and have a variable interest rate structure based upon market rates currently available to the Company for debt with similar terms and maturities. Refer to Note 7. Credit Facility.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below as of January 31, 2015:

Description	Total	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets				
Cash equivalents:				
Certificates of deposit	$2,400	$—	$2,400	$—
Money market funds	377,370	377,370	—	—
Commercial paper	8,697	—	8,697	—
Short-term investments:				
U.S. government agency securities	17,936	—	17,936	—
Municipal bonds	1,403	—	1,403	—
Certificates of deposit	3,400	—	3,400	—
Commercial paper	7,090	—	7,090	—
Corporate debt securities	67,168	—	67,168	—
Asset-backed securities	23,241	—	23,241	—
Prepaid and other current assets:				
Foreign currency derivative contracts	18,330	—	18,330	—
Other long-term assets:				
Deferred compensation plan assets	151,061	151,061	—	—
Total assets	$678,096	$528,431	$149,665	$—
Liabilities				
Accounts payable and accrued liabilities:				
Foreign currency derivative contracts	$25,224	$—	$25,224	$—
Total liabilities	$25,224	$—	$25,224	$—

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Assets and liabilities measured at fair value on a recurring basis are summarized below as of October 31, 2014:

Description	Total	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets				
Cash equivalents:				
Money market funds	$409,064	$409,064	$—	$—
Prepaid and other current assets:				
Foreign currency derivative contracts	9,300	—	9,300	—
Other long-term assets:				
Deferred compensation plan assets	145,508	145,508	—	—
Total assets	$563,872	$554,572	$9,300	$—
Liabilities				
Accounts payable and accrued liabilities:				
Foreign currency derivative contracts	$11,755	$—	$11,755	$—
Total liabilities	$11,755	$—	$11,755	$—

Assets/Liabilities Measured at Fair Value on a Non-Recurring Basis

Non-Marketable Equity Securities

Equity investments in privately-held companies, also called non-marketable equity securities are accounted for using either the cost or equity method of accounting.

The non-marketable equity securities are measured and recorded at fair value when an event or circumstance which impacts the fair value of these securities indicates an other-than-temporary decline in value has occurred. In such events, these equity investments would be classified within Level 3 as they are valued using significant unobservable inputs or data in an inactive market, and the valuation requires management judgment due to the absence of market price and inherent lack of liquidity. The non-marketable equity securities are measured and recorded at fair value when an event or circumstance which impacts the fair value of these securities indicates an other-than-temporary decline in value has occurred. The Company monitors these investments and generally uses the income approach to assess impairments based primarily on the financial conditions of these companies.

The Company did not recognize any impairment during the three months ended January 31, 2015 and 2014, respectively.

As of January 31, 2015, the fair value of the Company's non-marketable securities was $10.6 million, of which $6.7 million and $3.9 million were accounted for under the cost method and equity method, respectively. As of October 31, 2014, the fair value of non-marketable securities was $10.9 million, of which $6.7 million and $4.2 million were accounted for under the cost method and equity method, respectively.

Note 6. Liabilities and Restructuring Charges

In November 2014, the Company initiated a restructuring program that included a voluntary retirement program (VRP) and a minimal headcount reduction program. The VRP was offered to certain eligible employees in the United States and enrollment for those employees was completed on November 21, 2014. The total cost of the restructuring program was $15.3 million, of which $12.6 million was paid during the first quarter of fiscal 2015 and the remaining balance of $2.7 million is recorded in accounts payable and accrued liabilities as payroll and related benefits in the unaudited condensed balance sheets as of January 31, 2015. The remaining payments relate to severance and benefits and will be paid during fiscal 2015.

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Accounts payable and accrued liabilities consist of:

	January 31, 2015	October 31, 2014
	(in thousands)	
Payroll and related benefits	$158,778	$302,295
Other accrued liabilities	55,317	66,666
Accounts payable	28,240	28,152
Total	$242,335	$397,113

Other long-term liabilities consist of:

	January 31, 2015	October 31, 2014
	(in thousands)	
Deferred compensation liability	$151,061	$145,508
Other long-term liabilities	53,096	13,464
Total	$204,157	$158,972

Note 7. Credit Facility

On February 17, 2012, the Company entered into an agreement with several lenders (the Credit Agreement) providing for (i) a $350.0 million senior unsecured revolving credit facility (the Revolver) and (ii) a $150.0 million senior unsecured term loan facility (the Term Loan). Principal payments on a portion of the Term Loan are due in equal quarterly installments of $7.5 million, with the remainder due when the Credit Agreement expires in October 2016. The Company can elect to make prepayments on the Term Loan, in whole or in part, without premium or penalty. Subject to obtaining additional commitments from lenders, the principal amount of the loans provided under the Credit Agreement may be increased by the Company by up to an additional $150.0 million through October 13, 2015. The Credit Agreement contains financial covenants requiring the Company to operate within a maximum leverage ratio and maintain specified levels of cash, as well as other non-financial covenants.

In December 2014, the Company drew down $250.0 million under the Revolver, primarily to finance an accelerated share repurchase agreement (See Note 9. Stock Repurchase Program). During the three months ended January 31, 2015, the Company made a principal payment of $7.5 million under the Term Loan and $15.0 million under the Revolver. As of January 31, 2015, the Company had a $67.5 million outstanding balance under the Term Loan, of which $37.5 million is classified as long term, and a $235.0 million outstanding balance under the Revolver, which is all considered short term. As of October 31, 2014, the Company had a $75.0 million outstanding balance under the Term Loan, of which $45.0 million was classified as long term, and no outstanding balance under the Revolver.

Borrowings bear interest at a floating rate based on a margin over the Company's choice of market observable base rates as defined in the Credit Agreement. As of January 31, 2015, borrowings under the Term Loan bore interest at LIBOR +1.125% and the applicable interest rate for the Revolver was LIBOR +0.975%. In addition, commitment fees are payable on the Revolver at rates between 0.150% and 0.300% per year based on the Company's leverage ratio on the daily amount of the revolving commitment.

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

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Note 8. Accumulated Other Comprehensive Income (Loss)

Components of accumulated other comprehensive income (loss), on an after-tax basis where applicable, were as follows:

	January 31, 2015	October 31, 2014
	(in thousands)	
Cumulative currency translation adjustments	$(74,394)	$(50,941)
Unrealized gain (loss) on derivative instruments, net of taxes	(22,868)	(11,148)
Unrealized gain (loss) on available-for-sale securities, net of taxes	17	—
Total accumulated other comprehensive income (loss)	$(97,245)	$(62,089)

The effect of amounts reclassified out of each component of accumulated other comprehensive income (loss) into net income was as follows:

	Three Months Ended January 31,	
	2015	2014
	(in thousands)	
Reclassifications from accumulated other comprehensive income (loss) into unaudited condensed consolidated statement of operations:		
Gain (loss) on cash flow hedges, net of taxes		
Revenues	$2,381	$2,756
Operating expenses	(3,436)	550
Gain (loss) on available-for-sale securities		
Other income (expense)	$12	$—
Total reclassifications into net income	$(1,043)	$3,306

Note 9. Stock Repurchase Program

The Company’s Board of Directors (Board) previously approved a stock repurchase program pursuant to which the Company was authorized to purchase up to $500.0 million of its common stock, and has periodically replenished the stock repurchase program to such amount. The Board replenished the stock repurchase program up to $500.0 million on December 3, 2013, as announced on December 4, 2013. The program does not obligate Synopsys to acquire any particular amount of common stock, and the program may be suspended or terminated at any time by Synopsys’ Chief Financial Officer or the Board. The Company repurchases shares to offset dilution caused by ongoing stock issuances from existing equity plans for equity compensation awards and issuances related to acquisitions, and when management believes it is a good use of cash. Repurchases are transacted in accordance with Rule 10b-18 of the Securities Exchange Act of 1934 (Exchange Act) and may be made through any means including, but not limited to, open market purchases, plans executed under Rule 10b5-1(c) of the Exchange Act and structured transactions. As of January 31, 2015, $200.3 million remained available for further repurchases under the program.

In December 2014, the Company entered into an accelerated share repurchase agreement (2015 ASR) to repurchase an aggregate of $180.0 million of the Company’s common stock. Pursuant to the 2015 ASR, the Company made a prepayment of $180.0 million and received an initial share delivery of shares valued at $144.0 million with an average purchase price of $43.77 per share. The remaining balance of $36.0 million will be settled within 6 months or earlier upon completion of the repurchase and is included within stockholders' equity as the forward instrument meets the criteria in the FASB authoritative guidance for equity treatment. Under the terms of the 2015 ASR, the specific number of shares that the Company ultimately repurchases will be based on the volume weighted average share price of the Company’s common stock during the repurchase period, less a discount.

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Stock repurchase activities are as follow:

	Three Months Ended January 31,	
	2015	2014
	(in thousands, except per share price)	
Shares repurchased	3,290	1,422
Average purchase price per share	$43.77	$38.50
Aggregate purchase price (1)	$144,000	$54,747
Reissuance of treasury stock	782	1,309

(1) Does not include $36.0 million equity forward contract related to the above-referenced 2015 ASR.

Note 10. Stock Compensation

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

	Three Months Ended January 31,	
	2015	2014
	(in thousands)	
Cost of license	$2,118	$1,861
Cost of maintenance and service	542	428
Research and development expense	10,200	8,916
Sales and marketing expense	4,247	3,732
General and administrative expense	3,474	3,181
Stock compensation expense before taxes	20,581	18,118
Income tax benefit	(4,699)	(4,220)
Stock compensation expense after taxes	$15,882	$13,898

As of January 31, 2015, there was $137.8 million of unamortized share-based compensation expense, which is expected to be amortized over a weighted-average period of approximately 2.6 years.

The intrinsic values of equity awards exercised during the periods are as follows:

	Three Months Ended January 31,	
	2015	2014
	(in thousands)	
Intrinsic value of awards exercised	$11,517	$16,199

Note 11. Net Income per Share

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

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

	Three Months Ended January 31,	
	2015	2014
	(in thousands)	
Numerator:		
Net income	$65,189	$67,696
Denominator:		
Weighted-average common shares for basic net income per share	154,458	154,066
Dilutive effect of potential common shares from equity-based compensation	2,748	2,690
Weighted-average common shares for diluted net income per share	157,206	156,756
Net income per share:		
Basic	$0.42	$0.44
Diluted	$0.41	$0.43
Anti-dilutive employee stock-based awards excluded(1)	2,440	1,378

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

Note 12. Segment Disclosure

Certain disclosures are required for operating segments, products and services, geographic areas of operation and major customers. Segment reporting is based upon the “management approach,” i.e., how management organizes the Company’s operating segments for which separate financial information is (1) available and (2) evaluated regularly by the Chief Operating Decision Makers (CODMs) in deciding how to allocate resources and in assessing performance. Synopsys’ CODMs are the Company’s two Co-Chief Executive Officers.

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

	Three Months Ended January 31,	
	2015	2014
	(in thousands)	
Revenue:		
United States	$277,587	$233,627
Europe	71,883	66,654
Japan	60,852	64,320
Asia-Pacific and Other	131,721	114,350
Consolidated	$542,043	$478,951

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

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One customer accounted for 11.3% and 11.6% of the Company’s unaudited condensed consolidated revenue in the three months ended January 31, 2015 and 2014, respectively.

Note 13. Other Income (Expense), net

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

	Three Months Ended January 31,	
	2015	2014
	(in thousands)	
Interest income	$1,148	$367
Interest expense	(653)	(357)
Gain (loss) on assets related to executive deferred compensation plan	(697)	1,042
Foreign currency exchange gain (loss)	3,694	893
Other, net	1,624	9,083
Total	$5,116	$11,028

Note 14. Taxes

Effective Tax Rate

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

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

	Three Months Ended January 31,	
	2015	2014
	(in thousands)	
Income before income taxes	$76,615	$71,184
Provision (benefit) for income tax	$11,426	$3,488
Effective tax rate	14.9%	4.9%

The Company’s effective tax rate for the three months ended January 31, 2015 is lower than the statutory federal income tax rate of 35% primarily due to the lower tax rates applicable to its non-U.S. operations and U.S. federal and California research tax credits, partially offset by state taxes and non-deductible stock compensation.

The Company's effective tax rate increased in the three months ended January 31, 2015, as compared to the same period in fiscal 2014, primarily due to the integration of acquired technologies, partially offset by the reinstatement of the U.S. federal research tax credit in the first quarter of fiscal 2015. The tax rate for the three months ended January 31, 2014 was lower due to the tax benefits of an IRS settlement for fiscal 2012, as described below.

On December 19, 2014, the president signed into law the Tax Increase Prevention Act of 2014 which reinstated the research tax credit retroactive to January 1, 2014 and extended the credit through December 31, 2014. As a result of the new legislation, the Company recognized a benefit in the first quarter of fiscal 2015 related to ten months of fiscal 2014 as well as a benefit to the annual effective tax rate for two months of fiscal 2015. During fiscal 2015 the Company estimates the benefit of the reinstatement of the research tax credit to be approximately $12.4 million.

The Company’s total gross unrecognized tax benefits at January 31, 2015 are $126.1 million exclusive of interest and penalties. If the total gross unrecognized tax benefits at January 31, 2015 were recognized in the future, approximately $122.5 million would decrease the effective tax rate.

The timing of the resolution of income tax examinations is highly uncertain as well as the amounts and timing of various tax payments that are part of the settlement process. This could cause large fluctuations in the balance sheet classification of current and non-current assets and liabilities. The Company believes that in the coming

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twelve months, it is reasonably possible that either certain audits will conclude or the statute of limitations on certain state and foreign income and withholding taxes will expire, or both. Given the uncertainty as to ultimate settlement terms, the timing of payment and the impact of such settlements on other uncertain tax positions, the range of the estimated potential decrease in underlying unrecognized tax benefits is between $0 and $31 million.

IRS Examinations

In the first quarter of fiscal 2014, the Company reached final settlement with the Examination Division of the IRS on the remaining fiscal 2012 issues and recognized approximately $10.0 million in unrecognized tax benefits.

Non-U.S. Examinations

In the first quarter of fiscal 2015, the Company reached final settlement with the Taiwan tax authorities for fiscal 2012, with regard to certain transfer pricing issues. As a result of the settlement the Company recognized approximately $1.1 million in unrecognized tax benefits.

Note 15. Effect of New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605).” This ASU requires an entity to recognize revenue when goods are transferred or services are provided to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This ASU also requires disclosures enabling users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance will be effective for fiscal 2018, including interim periods within that reporting period, using one of two prescribed retrospective methods, and no early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

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

This Quarterly Report on Form 10-Q, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are subject to the "safe harbor" created by those sections. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as "may," "will," "could," "would," "should," "anticipate," "expect," "intend," "believe," "estimate," "project" or "continue," and such terms are intended to identify forward-looking statements. Without limiting the foregoing, forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements concerning expected growth in the semiconductor industry, our business outlook, the ability of our prior acquisitions (including our acquisition of Coverity, Inc.) to drive revenue growth, the sufficiency of our cash, cash equivalents and short-term investments and cash generated from operations, our future liquidity requirements, and other statements that involve certain known and unknown risks, uncertainties and other factors that could cause our actual results, time frames or achievements to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those identified below in Part II, Item 1A. Risk Factors of this Form 10-Q. The information included herein represents our estimates and assumptions as of the date of this filing. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future. All subsequent written or oral forward-looking statements attributable to Synopsys or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Readers are urged to carefully review and consider the various disclosures made in this report and in other documents we file from time to time with the Securities and Exchange Commission (SEC) that attempt to advise interested parties of the risks and factors that may affect our business.

The following summary of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements and the related notes thereto contained in Part I, Item 1 of this report and with our audited consolidated financial statements and the related notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014, as filed with the SEC on December 15, 2014.

Overview

Business Summary

Synopsys is a global leader in providing software, intellectual property and services used to design integrated circuits and electronic systems. We supply the electronic design automation (EDA) software that engineers use to design, create prototypes for and test integrated circuits, also known as chips. We also offer intellectual property (IP) products, which are pre-designed circuits that engineers use as components of larger chip designs rather than designing those circuits themselves. We provide software and hardware used to develop the electronic systems that incorporate chips and the software that runs on them. To complement these product offerings, we provide technical services to support our solutions and help our customers develop chips and electronic systems. We are also a leading provider of software tools that developers use to improve the quality, security, and time-to-market of software code in a wide variety of industries, including electronics, financial services, energy, and industrials.

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

Despite global economic uncertainty, we have maintained profitability and positive cash flow on an annual basis in recent years. We achieved these results not only because of our solid execution, leading technology and strong customer relationships, but also because of our time-based revenue business model. Under this model, a substantial majority of our customers pay for their licenses over time and we typically recognize this revenue over the life of the contract, which averages approximately three years. Time-based revenue, which consists of time-based license, maintenance and service revenue, generally represents approximately 90% of our total revenue. The revenue we recognize in a particular period generally results from selling efforts in prior periods rather than the

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current period. Due to our business model, decreases as well as increases in customer spending do not immediately affect our revenues in a significant way.

As we continue to expand our product portfolio and our total addressable market, for instance in IP products, we may experience increased variability in our revenue, though we generally expect time-based revenue to continue to represent approximately 90% of our total revenue. Overall, our business outlook remains solid based on our leading technology, customer relationships, business model, diligent expense management, and acquisition strategy. We believe that these factors will help us continue to successfully execute our strategies.

Acquisition of Coverity

On March 24, 2014, we acquired Coverity, Inc. (Coverity) the leading provider of software quality, testing and security tools. We believe this acquisition has enabled us to enter into a new, growing market dedicated to helping companies deliver better software faster, by finding software code defects as the code is being developed rather than at the end of the process. Coverity's customer base includes Synopsys' semiconductor and systems customers, albeit different users and budgets, and extends well beyond to software developers such as independent software vendors and companies engaged in e-commerce. We believe the Coverity acquisition has expanded our total addressable market. However, due to the fair value adjustment of acquired deferred revenue and amortization of intangible assets, the acquisition will have a negative effect on net income in the short term.

Financial Performance Summary

In the first quarter of fiscal 2015, compared to the first quarter of fiscal 2014, we delivered:

- Total revenue of $542.0 million, an increase of $63.1 million or 13%, and
- Total cost of revenue and operating expenses of $470.5 million, an increase of $51.7 million or 12%. Our expenses in the current period included $15.3 million of restructuring charges related to our Voluntary Retirement Program (VRP) and minimal headcount reduction program, and the impact of our prior year acquisitions.

We continued to derive more than 90% of our revenue from time-based revenue.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes nearly all existing revenue recognition guidance under U.S. generally accepted accounting principles (GAAP). The new guidance will be effective for fiscal 2018, including interim periods within that reporting period, using one of two prescribed retrospective methods. No early adoption is permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements and related disclosures.

Critical Accounting Policies and Estimates

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

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

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

Our critical accounting policies and estimates are discussed in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the fiscal year ended October 31, 2014, filed with the SEC on December 15, 2014.

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Results of Operations

Revenue Background

We generate our revenue from the sale of software licenses, maintenance and professional services and to a small extent, hardware products. Software license revenue consists of fees associated with the licensing of our software. Maintenance and service revenue consists of maintenance fees associated with perpetual and term licenses and professional services fees. Hardware revenue consists of FPGA-based emulation and prototyping products.

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

- Technology Subscription Licenses (TSLs). TSLs are time-based licenses for a finite term, and generally provide the customer limited rights to receive, or to exchange certain quantities of licensed software for, unspecified future technology. We bundle and do not charge separately for post-contract customer support (maintenance) for the term of the license.
- Term licenses. Term licenses are also for a finite term, but do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually for the balance of the term. The annual maintenance fee is typically calculated as a percentage of the net license fee.
- Perpetual licenses. Perpetual licenses continue as long as the customer renews maintenance plus an additional 20 years. Perpetual licenses do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually.

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

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

Under current accounting rules and policies, we recognize revenue from orders we receive for software licenses, services and hardware products at varying times. In most instances, we recognize revenue on a TSL software license order over the license term and on a term or perpetual software license order in the quarter in which the license is delivered. The weighted average license term of the TSLs and term licenses we entered into for the three months ended January 31, 2015 and 2014 was 2.4 and 2.6 years, respectively. Revenue on contracts requiring significant modification or development is accounted for using the percentage of completion method over the period of the development. Revenue on hardware product orders is generally recognized in full at the time the product is shipped. Contingent revenue is recognized if and when the applicable event occurs.

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

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

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

Total Revenue

	January 31, 2015	2014	$ Change	% Change
	(dollars in millions)			
Three months ended	$542.0	$479.0	$63.0	13 %

Our revenues are subject to fluctuations, primarily due to customer requirements, including payment terms and the timing and value of contract renewals. For example, we experience variability in our quarterly revenue due to factors such as the timing of renewals of maintenance contracts, timing of IP consulting projects and royalties, and certain contracts where revenue is recognized when customer installment payments are due, as well as variability in hardware sales.

The increase in total revenue for the three months ended January 31, 2015 compared to the same period in fiscal 2014 was due to our overall growth and contributions from acquired companies in all revenue categories except for maintenance revenue, which was lower.

Time-Based License Revenue

	January 31, 2015	2014	$ Change	% Change
	(dollars in millions)			
Three months ended	$431.0	$400.1	$30.9	8 %
Percentage of total revenue	79 %	84 %		

The increase in time-based license revenue for the three months ended January 31, 2015 compared to the same periods in fiscal 2014 was primarily attributable to an increase in TSL license revenue due to our overall growth, including contributions of revenue from acquired companies.

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Upfront License Revenue

	January 31,			
	2015	2014	$ Change	% Change
	(dollars in millions)			
Three months ended	$46.5	$34.0	$12.5	37 %
Percentage of total revenue	9 %	7 %		

Changes in upfront license revenue are generally attributable to normal fluctuations in customer requirements, which can drive the amount of upfront orders and revenue in any particular period.

The increase in upfront license revenue for the three months ended January 31, 2015 compared to the same period in fiscal 2014 was primarily attributable to an increase in the sale of hardware products and to a lesser extent, the sale of perpetual licenses.

As our sales of hardware products grow, we expect upfront license revenue to increase as a percentage of total revenue but remain consistent with our business model in which approximately 90% of our total revenue consists of time-based revenue.

Maintenance and Service Revenue

	January 31,			
	2015	2014	$ Change	% Change
	(dollars in millions)			
Three months ended				
Maintenance revenue	$17.5	$18.8	$(1.3)	(7)%
Professional services and other revenue	47.0	26.1	20.9	80 %
Total maintenance and service revenue	$64.5	$44.9	$19.6	44 %
Percentage of total revenue	12 %	9 %		

Changes in maintenance revenue are generally attributable to timing and type of contracts that bundle maintenance. The slight decrease in maintenance revenue was primarily due to timing.

The changes in professional services and other revenue for the three months ended January 31, 2015 compared to the same periods in fiscal 2014 was primarily due to the increase in, and timing of, IP consulting projects that are accounted for using the percentage of completion method.

Cost of Revenue

	January 31,			
	2015	2014	$ Change	% Change
	(dollars in millions)			
Three months ended				
Cost of license revenue	$70.8	$62.8	$8.0	13 %
Cost of maintenance and service revenue	28.0	20.3	7.7	38 %
Amortization of intangible assets	25.8	22.7	3.1	14 %
Total	$124.6	$105.8	$18.8	18 %
Percentage of total revenue	23 %	22 %		

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

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

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

Amortization of intangible assets. Amortization of intangible assets, which is recorded to cost of revenue and operating expenses, includes the amortization of certain contract rights and the amortization of core/developed technology, trademarks, trade names, customer relationships, and covenants not to compete related to acquisitions.

The increase in cost of revenue for the three months ended January 31, 2015 compared to the same period in fiscal 2014 was primarily due to increases of (a) $12.3 million in personnel-related costs driven by higher headcount and increased professional services, (b) $1.6 million in product costs due to increased product sales, (c) $1.2 million in functionally allocated expenses and (d) $3.1 million in amortization costs due to the additions of intangible assets from our fiscal 2014 acquisitions and several in-process research and development (IPR&D) projects completed in fiscal 2014, which were partially offset by certain intangible assets being fully amortized.

Changes in other cost of revenue categories for the above-mentioned periods were not individually material.

Operating Expenses

Research and Development

	January 31,			
	2015	2014	$ Change	% Change
	(dollars in millions)			
Three months ended	$181.6	$167.5	$14.1	8 %
Percentage of total revenue	34 %	35 %		

The increase in research and development expenses for the three months ended January 31, 2015 compared to the same period in fiscal 2014 was primarily due to an increase of $9.6 million in personnel-related costs primarily as a result of headcount increases, including those from acquisitions, and functionally allocated expenses that were higher by $3.9 million.

Changes in other research and development expense categories for the above-mentioned periods were not individually material.

Sales and Marketing

	January 31,			
	2015	2014	$ Change	% Change
	(dollars in millions)			
Three months ended	$106.2	$105.8	$0.4	0%
Percentage of total revenue	20 %	22 %		

Sales and marketing expenses remained flat for the three months ended January 31, 2015 compared to the same period in fiscal 2014. Increases in personnel-related costs primarily as a result of headcount increases, including those from acquisitions, were offset by a decrease in expenses related to a sales conference in the first quarter of fiscal 2014 that did not occur in the current fiscal year.

Changes in other sales and marketing expense categories for the above-mentioned periods were not individually material.

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General and Administrative

	January 31,				
	2015	2014	$ Change	% Change	
	(dollars in millions)				
Three months ended	$36.4	$34.2	$2.2	6	%
Percentage of total revenue	7 %	7 %			

The increase in general and administrative expenses for the three months ended January 31, 2015 compared to the same period in fiscal 2014 was primarily due to increases of $6.8 million in facilities and depreciation expenses, $2.6 million of personnel-related costs primarily due to higher headcount, and $3.1 million of other items which were not individually material. The increases were partially offset by higher allocations of $6.8 million in expenses to other functions compared to the same period in fiscal 2014, resulting from increased headcount in other functions and higher spending in allocated costs, and a $3.6 million decrease in professional service costs.

Changes in other general and administrative expense categories for the above-mentioned periods were not individually material.

Amortization of Intangible Assets

	January 31,				
	2015	2014	$ Change	% Change	
	(dollars in millions)				
Three months ended					
Included in cost of revenue	$25.9	$22.7	$3.2	14	%
Included in operating expenses	6.4	5.4	1.0	19	%
Total	$32.3	$28.1	$4.2	15	%
Percentage of total revenue	6 %	6 %			

The increase in amortization of intangible assets for the three months ended January 31, 2015 compared to the same period in fiscal 2014 was due to the additions of intangible assets from our fiscal 2014 acquisitions and several IPR&D projects completed in fiscal 2014, which were partially offset by certain intangible assets being fully amortized. See Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements for a schedule of future amortization amounts.

Restructuring Charges

In November 2014, we initiated a restructuring program that included a voluntary retirement program (VRP) and a minimal headcount reduction program. The VRP was offered to certain eligible employees in the United States and enrollment for those employees was completed on November 21, 2014. The restructuring program is substantially complete and summarized below. See Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements.

The following is a summary of our restructuring activities:

	October 31, 2014	Costs Incurred	Cash Payments	January 31, 2015(1)
	(in millions)			
Severance and benefits	$—	$15.3	$(12.6)	$2.7

(1) The balance will be paid during fiscal 2015.

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Other Income (Expense), net

	January 31, 2015	2014	$ Change	% Change
	(dollars in millions)			
Three months ended				
Interest income	$1.2	$0.4	$0.8	200 %
Interest (expense)	(0.7)	(0.4)	(0.3)	75 %
Gain on assets related to executive deferred compensation plan assets	(0.7)	1.0	(1.7)	(170)%
Foreign currency exchange gain	3.7	0.9	2.8	311 %
Other, net	1.6	9.1	(7.5)	(82)%
Total	$5.1	$11.0	$(5.9)	(54)%

Other income (expense), net for the three months ended January 31, 2015 was lower compared to the same period in fiscal 2014 primarily due to (1) a gain from the sale of a non-marketable equity investment in the first quarter of fiscal 2014 and (2) losses in the market value of our executive deferred compensation plan assets in the current period compared with gains in the same period of fiscal 2014. The aforementioned decreases were partially offset by increased foreign currency exchange gains as a result of higher fluctuations in foreign currency exchange rates.

Taxes

The Company’s effective tax rate increased in the three months ended January 31, 2015, as compared to the same period in fiscal 2014, primarily due to the integration of acquired technologies, partially offset by the reinstatement of the U.S. federal research tax credit in the first quarter of fiscal 2015. The tax rate for the three months ended January 31, 2014 was also lower due to the tax benefits of settlement with the IRS for fiscal 2012. For further discussion of the provision for income taxes, see Note 14 of the Notes to Unaudited Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

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

As of January 31, 2015, we held an aggregate of $118.9 million in cash, cash equivalents and short-term investments in the United States and an aggregate of $798.2 million in our foreign subsidiaries. Funds held in our foreign subsidiaries are generated from revenue outside North America. At present, such foreign funds are considered to be indefinitely reinvested in foreign countries to the extent of indefinitely reinvested foreign earnings. However, in the event funds from foreign operations were needed to fund cash needs in the U.S. and if U.S. taxes have not already been previously accrued, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

The following sections discuss changes in our unaudited condensed consolidated balance sheets and statements of cash flow, and other commitments of our liquidity and capital resources during the three months ended January 31, 2015.

Cash, Cash Equivalents and Short-Term Investments

	January 31, 2015	October 31, 2014	$ Change	% Change
	(dollars in millions)			
Cash and cash equivalents	$796.8	$985.8	$(189.0)	(19)%
Short-term investments	$120.3	$—	$120.3	100 %
Total	$917.1	$985.8	$(68.7)	(7)%

Cash, cash equivalents and short-term investments decreased primarily due to cash used for stock repurchases under our accelerated stock repurchase agreement entered into in December 2014 (the 2015 ASR),

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debt repayments, purchases of property and equipment and cash used in our operating activities, which were partially offset by proceeds from our senior unsecured revolving credit facility.

Cash Flows

	January 31, 2015	2014	$ Change
	(dollars in millions)		
Three months ended			
Cash used in operating activities	$(87.3)	$(73.9)	$(13.4)
Cash used in investing activities	(140.9)	(9.4)	(131.5)
Cash provided by (used in) financing activities	57.8	(41.0)	98.8

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

Cash used in operating activities. Cash used in operating activities for the three months ended January 31, 2015 was higher compared to the same period in fiscal 2014 primarily due to higher disbursements, including for our Restructuring Program and taxes, which were partially offset by higher cash collections.

Cash used in investing activities. Cash used in investing activities for the three months ended January 31, 2015 was higher compared to the same period in fiscal 2014, primarily driven by net purchases of short-term investments of $120.4 million.

Cash provided by (used in) financing activities. Cash provided by financing activities for the three months ended January 31, 2015 was higher compared to the same period in fiscal 2014 primarily due to the proceeds from our senior unsecured revolving credit facility of $250.0 million, partially offset by a net increase of $125.3 million in use of cash due to $180.0 million of cash paid for the 2015 ASR compared with $54.7 million of purchases of treasury stock in the first quarter of fiscal 2014. Additionally, the increase in cash provided by financing activities was offset by an increase of $15.0 million for debt repayments and lower proceeds from issuances of common stock of $11.0 million.

Accounts Receivable, net

	January 31, 2015	October 31, 2014	$ Change	% Change
	(dollars in millions)			
Accounts Receivable, net	$283.0	$326.7	$(43.7)	(13)%

Our accounts receivable and days sales outstanding (DSO) are primarily driven by our billing and collections activities. Our DSO was 48 days at January 31, 2015, and 55 days at October 31, 2014. Accounts receivable and DSO decreased primarily due to increased cash collections.

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

	January 31, 2015	October 31, 2014	$ Change	% Change
	(dollars in millions)			
Current assets	$1,416.3	$1,504.7	$(88.4)	(6)%
Current liabilities	1,343.1	1,386.8	(43.7)	(3)%
Working capital	$73.2	$117.9	$(44.7)	(38)%

Decreases in our working capital were primarily due to (1) an increase of $235.0 million in short-term debt, (2) a decrease of $188.9 million in cash and cash equivalents, and (3) a decrease of $43.7 million in accounts

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receivable, net of allowances. These decreases in working capital were partially offset by (1) a decrease of $154.8 million in accounts payable and accrued liabilities due to timing of disbursements, (2) an increase of $120.2 million in short-term investments, (3) a decrease $104.5 million in current deferred revenue, and (4) a $38.0 million increase in prepaid and other current assets.

Other Commitments—Credit Facility

On February 17, 2012, we entered into an agreement with several lenders (the Credit Agreement) providing for (i) a $350.0 million senior unsecured revolving credit facility (the Revolver) and (ii) a $150.0 million senior unsecured term loan facility (the Term Loan). Principal payments on a portion of the Term Loan are due in equal quarterly installments of $7.5 million, with the remainder due when the Credit Agreement expires in October 2016. We can elect to make prepayments on the Term Loan, in whole or in part, without premium or penalty. Subject to obtaining additional commitments from lenders, the principal amount of the loans provided under the Credit Agreement may be increased by us by up to an additional $150.0 million through October 13, 2015. The Credit Agreement contains financial covenants requiring us to operate within a maximum leverage ratio and maintain specified levels of cash, as well as other non-financial covenants.

In December 2014, we drew down $250.0 million under the Revolver primarily to finance an accelerated share repurchase agreement. During the three months ended January 31, 2015, we made principal payments of $7.5 million under the Term Loan and $15.0 million under the Revolver. As of January 31, 2015, we had a $67.5 million outstanding balance under the Term Loan, of which $37.5 million is classified as long term, and a $235.0 million outstanding balance under the Revolver, which is all considered short term. As of October 31, 2014, we had a $75.0 million outstanding balance under the Term Loan, of which $45.0 million was classified as long term, and no outstanding balance under the Revolver. Borrowings bear interest at a floating rate based on a margin over our choice of market-observable base rates as defined in the Credit Agreement. As of January 31, 2015, borrowings under the Term Loan bore interest at LIBOR + 1.125% and the applicable interest rate for the Revolver was LIBOR + 0.975%. In addition, commitment fees are payable on the Revolver at rates between 0.150% and 0.300% per year based on our leverage ratio on the daily amount of the revolving commitment.

Other

Our available-for-sale securities as of January 31, 2015 consist of investment-grade U.S. government agency securities, asset-backed securities, corporate debt securities, commercial paper, certificates of deposit, money market funds, and others. We follow an established investment policy and set of guidelines to monitor, manage and limit our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer. As of January 31, 2015, we had no direct holdings in structured investment vehicles, sub-prime mortgage-backed securities or collateralized debt obligations and no exposure to these financial instruments through our indirect holdings in money market mutual funds. During the three months ended January 31, 2015, we had no impairment charge associated with our available-for-sale securities portfolio. While we cannot predict future market conditions or market liquidity, we regularly review our investments and associated risk profiles, which we believe will allow us to effectively manage the risks of our investment portfolio.

We proactively manage our cash equivalents and short-term investments balances and closely monitor our capital and stock repurchase expenditures to ensure ample liquidity. Additionally, we believe the overall credit quality of our portfolio is strong, with our global excess cash, and our cash equivalents and fixed income portfolio invested in banks and securities with a weighted-average credit rating exceeding AA. The majority of our investments are classified as Level 1 or Level 2 investments, as measured under fair value guidance. See Notes 4 and 5 of the Notes to Unaudited Condensed Consolidated Financial Statements.

We believe that our current cash and cash equivalents, short-term investments, cash generated from operations, and available credit under our Revolver will satisfy our routine business requirements for at least the next twelve months and the foreseeable future.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

See Other Commitments—Credit Facility, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, regarding borrowings under our senior unsecured revolving credit facility.

Interest Rate Risk. Our exposure to market risk for changes in interest rates has changed since October 31, 2014, due to the addition of our investments in the first quarter of fiscal 2015, which are classified as cash equivalents or short-term investments. The primary objective of our investment activities is to preserve the principal while at the same time maximizing yields without significantly increasing the risk. To achieve this objective, we maintain our portfolio of investments in a mix of tax-exempt and taxable instruments that meet high credit quality standards, as specified in our investment policy. None of these investments are held for trading purposes. Our policy also limits the amount of credit exposure to any one issue, issuer and type of instrument.

As of January 31, 2015 the stated maturities of our short-term investments are:

	Fair Value (in thousands)
Due in 1 year or less	64,414
Due in 1-5 years	55,824
Total	120,238

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

	Maturing in Year Ending October 31,				
	2015 (in thousands)	2016	2017	Total	Fair Value
Short-term investments (variable rate)	$—	$1,450	$2,000	$3,450	$3,450
Average interest rate	— %	0.51 %	0.52 %		
Short-term investments (fixed rate)	$63,243	$50,645	$2,900	$116,788	$116,788
Average interest rate	0.40 %	0.56 %	0.91 %		

As of January 31, 2015, our exposure to market risk has not changed materially other than for the short-term investments discussed above, since October 31, 2014. For more information on financial market risks related to changes in interest rates, reference is made to Item 7A. Quantitative and Qualitative Disclosure about Market Risk contained in Part II of our Annual Report on Form 10-K for the fiscal year ended October 31, 2014, filed with the SEC on December 15, 2014.

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. As of January 31, 2015, Synopsys carried out an evaluation under the supervision and with the participation of Synopsys' management, including the Co-Chief Executive Officers and Chief Financial Officer, of the effectiveness of the design and operation of Synopsys' disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives. Our Co-Chief Executive Officers and Chief Financial Officer have concluded that, as of January 31, 2015, Synopsys' disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports Synopsys files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required, and that such information is accumulated and communicated to Synopsys' management, including the Co-Chief Executive Officers and Chief Financial Officer, to allow timely decisions regarding its required disclosure.

(b) Changes in Internal Control over Financial Reporting. There were no changes in Synopsys' internal control over financial reporting during the three months ended January 31, 2015 that have materially affected, or are reasonably likely to materially affect, Synopsys' internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Mentor Patent Litigation

We are engaged in complex patent litigation with Mentor Graphics Corporation (Mentor) involving several actions in different forums. We acquired Emulation & Verification Engineering S.A. (EVE) on October 4, 2012. At the time of the acquisition, EVE and EVE-USA, Inc. (collectively, the EVE Parties) were defendants in three patent infringement lawsuits filed by Mentor. Mentor filed suit against the EVE Parties in federal district court in the District of Oregon on August 16, 2010 alleging that EVE's ZeBu products infringed Mentor's United States Patent No. 6,876,962. Mentor filed an additional suit in federal district court in the District of Oregon on August 17, 2012 alleging that EVE's ZeBu products infringed Mentor's United States Patent No. 6,947,882. Both cases sought compensatory damages, including lost profits and royalties, and a permanent injunction. Mentor also filed a patent infringement lawsuit against Nihon EVE K.K. in Tokyo District Court in 2010 alleging that EVE's ZeBu series of products infringes Mentor's Japanese Patent No. P3,588,324. This case seeks compensatory damages, a permanent injunction and destruction of inventory. On September 27, 2012, Synopsys and the EVE Parties filed an action for declaratory relief against Mentor in federal district court in the Northern District of California, seeking a determination that Mentor's United States Patents Nos. 6,009,531; 5,649,176 and 6,240,376, which were the subject of a patent infringement lawsuit filed by Mentor against EVE in 2006 and settled in the same year, are invalid and not infringed by EVE's products, and that Mentor is without right or authority to threaten or maintain suit against the plaintiffs on such patents. Mentor asserted patent infringement counterclaims in this action based on the same three patents and sought compensatory damages, including lost profits and royalties, and a permanent injunction. In April 2013, this action was transferred to the federal district court in Oregon and consolidated with the two Mentor lawsuits in that district (the Oregon Action).

The Oregon Action

In the Oregon Action, Synopsys and the EVE Parties further asserted patent infringement counterclaims against Mentor based on Synopsys' United States Patents Nos. 6,132,109 and 7,069,526, seeking compensatory damages and a permanent injunction. On February 21, 2014, the court granted Mentor's motion for partial summary judgment based on assignor estoppel, in which Mentor argued Synopsys was barred from challenging the validity of Mentor's '376 patent. In July 2014, the court granted Synopsys' motion for partial summary judgment on the '531 and '176 patents, finding that Mentor was barred from asserting those patents under the doctrine of res judicata. The court also granted cross-motions for partial summary judgment brought by both parties, finding that Mentor's '962 and '882 patents and Synopsys' '109 and '526 patents were non-infringed and/or invalid. As a result of these rulings, the only patent remaining at issue in the Oregon Action is Mentor's '376 patent.

The Oregon Action went to trial on the remaining Mentor patent, and a jury reached a verdict on October 10, 2014 finding that certain features of the ZeBu products infringed the '376 patent and assessing damages of approximately $36 million. Mentor has also filed a request for injunction based on the jury verdict. Synopsys is opposing Mentor's request for injunction and intends to appeal from the verdict.

The California Action

On December 21, 2012, Synopsys filed an action for patent infringement against Mentor in federal district court in the Northern District of California, alleging that Mentor's Veloce products infringe Synopsys' United States Patents Nos. 5,748,488, 5,530,841, 5,680,318 and 6,836,420 (the California Action). This case seeks compensatory damages and a permanent injunction. The court stayed the action as to the '420 patent pending the U.S. Patent and Trademark Office's inter partes review of that patent (discussed below). On January 20, 2015, the court granted Mentor's motion for summary judgment on the '488, '841, and '318 patents, finding that such patents were invalid.

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PTO Proceedings

On September 26, 2012, Synopsys filed two inter partes review requests with the U.S. Patent and Trademark Office (the PTO) challenging the validity of Mentor's '376 and '882 patents. The PTO granted review of the '376 patent and denied review of the '882 patent. On February 19, 2014, the PTO issued its final decision in the review of the '376 patent, finding some of the challenged claims invalid and some of the challenged claims valid. On April 22, 2014, Synopsys appealed to the Federal Circuit from the PTO's decision. Mentor filed a cross-appeal on May 2, 2014.

On December 21, 2013, Mentor filed an inter partes review request with the PTO challenging the validity of Synopsys' '420 patent. On June 12, 2014, the PTO granted review of the '420 patent.

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Item 1A. Risk Factors

We describe our risk factors below.

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

While the global economy has shown improvement, there are still uncertainties surrounding the strength of the recovery in many regions. Weakness in the global economy has adversely affected consumer confidence and the growth of the semiconductor industry in recent years, causing semiconductor companies to behave cautiously and focus on their costs, including their research and development budgets, which capture spending on electronic design automation (EDA) products and services. Further uncertainty caused by a global recession could lead some of our customers to postpone their decision-making, decrease their spending and/or delay their payments to us. Continuing caution by semiconductor companies could, among other things, limit our ability to maintain or increase our sales or recognize revenue from committed contracts and in turn could adversely affect our business, operating results and financial condition.

We cannot predict when widespread global economic confidence will be restored. Events such as the timing and execution of the tapering of asset purchases by the U.S. Federal Reserve may continue to drive stock market and interest rate volatility, consumer confidence and product demand. In addition, should further economic instability affect the banking and financial services industry and result in credit downgrades of the banks we rely on for foreign currency forward contracts, credit and banking transactions, and deposit services, or cause them to default on their obligations, it could adversely affect our financial results and our business. Accordingly, our future business and financial results are subject to uncertainty, and our stock price is at risk of volatile change. If economic conditions deteriorate in the future, or, in particular, if the semiconductor industry does not grow, our future revenues and financial results could be adversely affected. Conversely, in the event of future improvements in economic conditions for our customers, the positive impact on our revenues and financial results may be deferred due to our business model.

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

The growth of the EDA industry as a whole, and our business in particular, is dependent on the semiconductor and electronics industries. A substantial portion of our business and revenue depends upon the commencement of new design projects by semiconductor manufacturers and their customers. The increasing complexity of designs of systems-on-chips and integrated circuits, and customers' concerns about managing costs, have previously led and in the future could lead to a decrease in design starts and design activity in general, with some customers focusing more on one discrete phase of the design process or opting for less advanced, but less risky, manufacturing processes that may not require the most advanced EDA products. Demand for our products and services could decrease and our financial condition and results of operations could be adversely affected if growth in the semiconductor and electronics industries slows or stalls. Additionally, as the EDA industry matures, consolidation may result in stronger competition from companies better able to compete as sole source vendors. This increased competition may cause our revenue growth rate to decline and exert downward pressure on our operating margins, which may have an adverse effect on our business and financial condition.

Furthermore, the semiconductor and electronics industries have become increasingly complex ecosystems. Many of our customers outsource the manufacture of their semiconductor designs to foundries. Our customers also frequently incorporate third-party intellectual property (IP), whether provided by us or other vendors, into their designs to improve the efficiency of their design process. We work closely with major foundries to ensure that our EDA, IP, and manufacturing solutions are compatible with their manufacturing processes. Similarly, we work closely with other major providers of semiconductor IP, particularly microprocessor IP, to optimize our EDA tools for use with their IP designs and to assure that their IP and our own IP products, which may each provide for the design of separate components on the same chip, work effectively together. If we fail to optimize our EDA and IP solutions for use with major foundries' manufacturing processes or major IP providers' products, or if our access to such foundry processes or third-party IP products is hampered, then our solutions may become less desirable to our customers, resulting in an adverse effect on our business and financial condition.

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

Acquisitions are an important part of our growth strategy. We have completed a significant number of acquisitions in recent years. We expect to make additional acquisitions in the future, but we may not find suitable acquisition targets or we may not be able to consummate desired acquisitions due to unfavorable credit markets, commercially unacceptable terms, or other risks, which could harm our operating results. Acquisitions are difficult, time-consuming, and pose a number of risks, including:

- Potential negative impact on our earnings per share;
- Failure of acquired products to achieve projected sales;
- Problems in integrating the acquired products with our products;
- Difficulties entering into new markets in which we are not experienced or where competitors may have stronger positions;
- Potential downward pressure on operating margins due to lower operating margins of acquired businesses, increased headcount costs and other expenses associated with adding and supporting new products;
- Difficulties in retaining and integrating key employees;
- Substantial reductions of our cash resources and/or the incurrence of debt;
- Failure to realize expected synergies or cost savings;
- Difficulties in integrating or expanding sales, marketing and distribution functions and administrative systems, including information technology and human resources systems;
- Dilution of our current stockholders through the issuance of common stock as part of the merger consideration;
- Assumption of unknown liabilities, including tax and litigation, and the related expenses and diversion of resources;
- Disruption of ongoing business operations, including diversion of management’s attention and uncertainty for employees and customers, particularly during the post-acquisition integration process;
- Potential negative impact on our relationships with customers, distributors and business partners;
- Exposure to new operational risks, regulations, and business customs to the extent acquired businesses are located in regions where we are not currently conducting business;
- The need to implement controls, processes and policies appropriate for a public company at acquired companies that may have lacked such controls, processes and policies;
- Negative impact on our earnings resulting from the application of Accounting Standards Codification (ASC) 805, Business Combinations; and
- Requirements imposed by government regulators in connection with their review of an acquisition, including required divestitures or restrictions on the conduct of our business or the acquired business.

If we do not manage these risks, the acquisitions that we complete may have an adverse effect on our business and financial condition.

For example, we recently completed our acquisition of Coverity, Inc. (Coverity), a leading provider of software quality, testing, and security tools. This is a new, though adjacent, technology space for us. Coverity's customer base is more diverse and includes industries with which we do not have experience. We may need to develop new sales and marketing strategies and meet new customer service requirements. At the same time, Coverity competes with different competitors from those for our existing products, and these competitors may have more financial resources, industry experience or established customer relationships than we do. To successfully develop our Coverity offerings, we will need to skillfully balance our investment in the software quality, testing and security tools space with investment in our existing products, as well as attract and retain employees with expertise in these new fields. If we fail to do so, we may not realize the expected benefits of the Coverity acquisition, and it may have a negative effect on our earnings and financial condition.

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

A number of business combinations, including mergers, asset acquisitions and strategic partnerships, among our customers and in the semiconductor and electronics industries have occurred recently, and more could occur in the future. Consolidation among our customers could lead to fewer customers or the loss of customers, increased customer bargaining power, or reduced customer spending on software and services. The loss of customers or reduced customer spending could adversely affect our business and financial condition. In addition, we and our competitors from time to time acquire businesses and technologies to complement and expand our respective product offerings. If any of our competitors consolidate or acquire businesses and technologies which we do not offer, they may be able to offer a larger technology portfolio, a larger support and service capability, or lower prices, which could negatively impact our business and operating results.

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

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP). These principles are subject to interpretation by the Securities and Exchange Commission (SEC) and various bodies formed to interpret and create appropriate accounting principles and guidance. A change in existing principles, standards or guidance can have a significant effect on our reported results, may retroactively affect previously reported results, could cause unexpected financial reporting fluctuations, and may require us to make costly changes to our operational processes.

For example, the Financial Accounting Standards Board (FASB) is currently working together with the International Accounting Standards Board (IASB) to converge certain accounting principles and facilitate more comparable financial reporting between companies that are required to follow U.S. GAAP and those that are required to follow International Financial Reporting Standards (IFRS). In connection with this initiative, the FASB issued a new accounting standard for revenue recognition in May 2014 – Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" – that supersedes nearly all existing U.S. GAAP revenue recognition guidance. Although we are currently in the process of evaluating the impact of ASU 2014-09 on our consolidated financial statements, it could change the way we account for certain of our sales transactions. Adoption of the standard could have a significant impact on our financial statements and may retroactively affect the accounting treatment of transactions completed before adoption.

Further efforts by the FASB and IASB to converge U.S. GAAP and IFRS accounting principles may have a material impact on the way we report financial results in areas including, but not limited to, lease accounting and financial statement presentation. In addition, the SEC may make a determination in the future regarding the incorporation of IFRS into the financial reporting system for U.S. companies. Changes in accounting principles from U.S. GAAP to IFRS, or to converged accounting principles, may have a material impact on our financial statements and may retroactively affect the accounting treatment of previously reported transactions.

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

Our operating results are subject to quarterly and annual fluctuations, which may adversely affect our stock price. Our historical results should not be viewed as indicative of our future performance due to these periodic fluctuations.

Many factors may cause our revenue or earnings to fluctuate, including:

- Changes in demand for our products due to fluctuations in demand for our customers' products and due to constraints in our customers' budgets for research and development and EDA products and services;
- Product competition in the EDA industry, which can change rapidly due to industry or customer consolidation and technological innovation;
- Our ability to innovate and introduce new products and services or effectively integrate products and technologies that we acquire;
- Failures or delays in completing sales due to our lengthy sales cycle, which often includes a substantial customer evaluation and approval process because of the complexity of our products and services;
- Our ability to implement effective cost control measures;

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- Our dependence on a relatively small number of large customers, and on such customers continuing to renew licenses and purchase additional products from us, for a large portion of our revenue;
- Expenses related to our acquisition and integration of businesses and technology;
- Changes to our effective tax rate;
- Delays, increased costs or quality issues resulting from our reliance on third parties to manufacture our hardware products; and
- General economic and political conditions that affect the semiconductor and electronics industries.

The timing of revenue recognition may also cause our revenue and earnings to fluctuate, due to factors that include:

- Cancellations or changes in levels of license orders or the mix between upfront license revenue and time-based license revenue;
- Delay of one or more orders for a particular period, particularly orders generating upfront license revenue;
- Delay in the completion of professional services projects that require significant modification or customization and are accounted for using the percentage of completion method;
- Delay in the completion and delivery of IP products in development that customers have paid for early access to;
- Customer contract amendments or renewals that provide discounts or defer revenue to later periods;
- The levels of our hardware revenues, which are recognized upfront and are primarily dependent upon our ability to provide the latest technology and meet customer requirements, and which may also impact our levels of excess and obsolete inventory expenses; and
- Changes in or challenges to our revenue recognition model.

These factors, or any other factors or risks discussed herein, could negatively impact our revenue or earnings and cause our stock price to decline. Additionally, our results may fail to meet or exceed the expectations of securities analysts and investors, or such analysts may change their recommendation regarding our stock, which could cause our stock price to decline.

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

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

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

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

- Our ability to anticipate and lead critical development cycles and technological shifts, innovate rapidly and efficiently, improve our existing products, and successfully develop or acquire new products;
- Our ability to offer products that provide both a high level of integration into a comprehensive platform and a high level of individual product performance;

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- Our ability to enhance the value of our offerings through more favorable terms such as expanded license usage, future purchase rights, price discounts and other unique rights, such as multiple tool copies, post-contract customer support, "re-mix" rights that allow customers to exchange the software they initially licensed for other Synopsys products, and the ability to purchase pools of technology; and
- Our ability to compete on the basis of payment terms.

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

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

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

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

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

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

Our operating results could be adversely affected by an increase in our effective tax rate as a result of tax law changes, changes in our geographical earnings mix, an unfavorable government review of our tax returns, or by material differences between our forecasted and actual annual effective tax rates.

Our operations are subject to income and transaction taxes in the United States and in multiple foreign jurisdictions, with a significant amount of our foreign earnings generated by our subsidiaries organized in Ireland and Hungary. Because we have a wide range of statutory tax rates in the multiple jurisdictions in which we operate, any changes in our geographical earnings mix, including those resulting from our intercompany transfer pricing, could materially impact our effective tax rate. Furthermore, a change in the tax law of the jurisdictions where we do business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, could result in a material increase in our tax expense. In addition, U.S. income taxes and foreign withholding taxes have not been provided for on undistributed earnings for certain of our non-U.S. subsidiaries to the extent such earnings are considered to be indefinitely reinvested in the operations of those subsidiaries.

Further changes in the tax laws of foreign jurisdictions could arise as a result of the base erosion and profit shifting (BEPS) project being undertaken by the Organisation for Economic Co-operation and Development (OECD). The OECD, which represents a coalition of member countries, is contemplating changes to numerous long-standing tax principles. These contemplated changes, if finalized and adopted by countries, could increase tax uncertainty and may adversely affect our provision for income taxes. In the U.S., a number of proposals for broad reform of the corporate tax system are under evaluation by various legislative and administrative bodies, but it is not possible to accurately determine the overall impact of such proposals on our effective tax rate at this time.

Our tax filings are subject to review or audit by the Internal Revenue Service and state, local and foreign taxing authorities. We exercise significant judgment in determining our worldwide provision for income taxes and, in the ordinary course of our business, there may be transactions and calculations where the ultimate tax determination is uncertain. We are also liable for potential tax liabilities of businesses we acquire. Although we believe our tax estimates are reasonable, the final determination in an audit may be materially different than the

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treatment reflected in our historical income tax provisions and accruals. An assessment of additional taxes because of an audit could adversely affect our income tax provision and net income in the periods for which that determination is made.

Forecasting our annual effective tax rate is highly complex, as it depends on forward-looking financial projections of our annual income and geographical mix of earnings, our interpretations of the tax laws of numerous jurisdictions, and the possible outcomes of tax audits, among other estimates and assumptions. Some items cannot be forecasted or may be treated as discrete to the future periods when they occur. If our estimates and assumptions prove incorrect, then there may be a material difference between our forecasted and actual effective tax rates, which could have a material impact on our results of operations. In addition, we maintain significant deferred tax assets related to federal research credits and certain state tax credits. Our ability to use these credits is dependent upon having sufficient future taxable income in the relevant jurisdiction. Changes in our forecasts of future income could result in an adjustment to the deferred tax asset and a related charge to earnings that could materially affect our financial results.

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

We devote substantial resources to research and development. New competitors, technological advances in the semiconductor industry or by competitors, our acquisitions, our entry into new markets, or other competitive factors may require us to invest significantly greater resources than we anticipate. If we are required to invest significantly greater resources than anticipated without a corresponding increase in revenue, our operating results could decline. Additionally, our periodic research and development expenses may be independent of our level of revenue, which could negatively impact our financial results. Finally, there can be no guarantee that our research and development investments will result in products that create significant, or even any, revenue.

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

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

- Ineffective legal protection of intellectual property rights;
- International economic and political conditions, such as political tensions between countries in which we do business;
- Difficulties in adapting to cultural differences in the conduct of business, which may include business practices that we are prohibited from engaging in by the Foreign Corrupt Practices Act or other anti-corruption laws;
- Financial risks such as longer payment cycles and difficulty in collecting accounts receivable;
- Inadequate local infrastructure that could result in business disruptions;
- Government trade restrictions, including tariffs, export licenses, or other trade barriers;
- Additional taxes and penalties; and
- Other factors beyond our control such as natural disasters, terrorism, civil unrest, war and infectious diseases.

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

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

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Any violation individually or in the aggregate could have a material adverse effect on our operations and financial condition.

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

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

As of January 31, 2015, approximately 87.0% of our worldwide cash, cash equivalents and short-term investments balance is held by our international subsidiaries. At present, such foreign funds are considered to be indefinitely reinvested abroad, to the extent they derive from foreign earnings we have indefinitely reinvested in our foreign operations. We intend to meet our U.S. cash spending needs through our existing U.S. cash balances, ongoing U.S. cash flows, and available credit under our term loan and revolving credit facilities. As of January 31, 2015, we had outstanding debt of $67.5 million under our $150 million term loan facility and $235.0 million outstanding debt under our $350 million revolving credit facility. Should our cash spending needs in the U.S. rise and exceed these liquidity sources, we may be required to incur additional debt at higher than anticipated interest rates or access other funding sources, which could negatively affect our results of operations, capital structure or the market price of our common stock.

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

We are from time to time subject to claims alleging our infringement of third-party intellectual property rights, including patent rights. For example, we and Emulation & Verification Engineering S.A. (EVE), a company we acquired in October 2012, are party to ongoing patent infringement lawsuits involving Mentor Graphics Corporation. The jury in one of the lawsuits returned a verdict of approximately $36 million in assessed damages against us for patent infringement, which we plan to appeal. Further information regarding the EVE lawsuits is contained in Part II, Item 1, Legal Proceedings. In addition, under our customer agreements and other license agreements, we agree in many cases to indemnify our customers if our products infringe a third party’s intellectual property rights. Infringement claims can result in costly and time-consuming litigation, require us to enter into royalty arrangements, subject us to damages or injunctions restricting our sale of products, invalidate a patent or family of patents, require us to refund license fees to our customers or to forgo future payments or require us to redesign certain of our products, any one of which could harm our business and operating results.

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

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

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Cybersecurity threats or other security breaches could compromise sensitive information belonging to us or our customers and could harm our business and our reputation, particularly that of our Coverity security testing solutions.

We store sensitive data, including intellectual property, our proprietary business information and that of our customers, and confidential employee information, in our data centers and on our networks. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions that could result in unauthorized disclosure or loss of sensitive information. Because the techniques used to obtain unauthorized access to networks, or to sabotage 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 preventative measures. Furthermore, in the operation of our business we also use third-party vendors that store certain sensitive data, including confidential information about our employees, and these third parties are subject to their own cybersecurity threats. Any security breach of our own or a third-party vendor's systems could cause us to be non-compliant with applicable laws or regulations, subject us to legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence in our products and services, any of which could adversely affect our business.

We recently began offering software quality and security testing solutions as a result of our acquisition of Coverity. Cybersecurity attacks are increasingly sophisticated, change frequently, and often go undetected until after an attack has been launched. If we fail to identify these new and complex methods of attack, or fail to invest sufficient resources in research and development regarding new threat vectors, our Coverity security testing products may fail to detect vulnerabilities in our customers' software code. An actual or perceived failure to identify security flaws may harm the perceived reliability of our Coverity products and could result in a loss of customers, sales, or an increased cost to remedy a problem. Furthermore, our acquisition of Coverity may increase our visibility as a security-focused company and may make us a more attractive target for attacks on our own information technology infrastructure.

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

We may be subject to legal claims or regulatory matters involving stockholder, consumer, employment, competition, and other issues on a global basis. Litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or, in cases for which injunctive relief is sought, an injunction prohibiting us from manufacturing or selling one or more products. If we were to receive an unfavorable ruling on a matter, our business and results of operations could be materially harmed. Further information regarding material pending lawsuits, other than ordinary routine litigation incidental to our business, is contained in Part II, Item 1, Legal Proceedings.

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

We depend in large part upon the services of key members of our senior management team to drive our future success. If we were to lose the services of any member of our senior management team, our business could be adversely affected. To be successful, we must also attract and retain key technical, sales and managerial employees, including those who join Synopsys in connection with acquisitions. There are a limited number of qualified EDA and IC design engineers, and competition for these individuals is intense and has increased. Our employees are often recruited aggressively by our competitors and our customers. Any failure to recruit and retain key technical, sales and managerial employees could harm our business, results of operations and financial condition. Additionally, efforts to recruit and retain qualified employees could be costly and negatively impact our operating expenses.

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

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

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

There are inherent limitations on the effectiveness of our controls and compliance programs.

Regardless of how well designed and operated it is, a control system can provide only reasonable assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Moreover, although we have implemented compliance programs and compliance training for employees, such measures may not prevent our employees, contractors or agents from breaching or circumventing our policies or violating applicable laws and regulations. Failure of our control systems and compliance programs to prevent error, fraud or violations of law could have a material adverse impact on our business.

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

Our cash equivalent and short-term investment portfolio currently consists of investment-grade U.S. government agency securities, asset-backed securities, corporate debt securities, commercial paper, certificates of deposit, money market funds, municipal securities and other securities, and bank deposits. Our investment portfolio carries both interest rate risk and credit risk. Fixed rate debt securities may have their market value adversely impacted due to a credit downgrade or a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall or a credit downgrade occurs. As a result of capital pressures on certain banks, especially in Europe, and the continuing low interest rate environment, some of our financial instruments may become impaired.

Our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of investments held by us is judged to be other-than-temporary. In addition, we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in the issuer’s credit quality or changes in interest rates.

In preparing our financial statements we make certain assumptions, judgments and estimates that affect amounts reported in our consolidated financial statements, which, if not accurate, may significantly impact our financial results.

We make assumptions, judgments and estimates for a number of items, including the fair value of financial instruments, goodwill, long-lived assets and other intangible assets, the realizability of deferred tax assets, the recognition of revenue and the fair value of stock awards. We also make assumptions, judgments and estimates in determining the accruals for employee-related liabilities, including commissions and variable compensation, and in determining the accruals for uncertain tax positions, allowances for doubtful accounts, and legal contingencies. These assumptions, judgments and estimates are drawn from historical experience and various other factors that we believe are reasonable under the circumstances as of the date of the consolidated financial statements. Actual results could differ materially from our estimates, and such differences could significantly impact our financial results.

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

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

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

In December 2014, we entered into an accelerated share repurchase agreement (2015 ASR) to repurchase an aggregate of $180.0 million of our common stock. Pursuant to the 2015 ASR, we made a prepayment of $180.0 million and received an initial share delivery of shares valued at $144.0 million with an average purchase price of $43.77 per share. The remaining balance of $36.0 million will be settled within 6 months or earlier upon completion of the repurchase and is included within stockholders' equity as the forward instrument meets the criteria in the FASB authoritative guidance for equity treatment. Under the terms of the 2015 ASR, the specific number of shares that we ultimately repurchase will be based on the volume weighted average share price of our common stock during the repurchase period, less a discount.

The table below sets forth information regarding repurchases of Synopsys' common stock by Synopsys during the three months ended January 31, 2015:

Period (1)	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum dollar value of shares that may yet be purchased under the programs (1)
Month #1				
November 2, 2014 through December 6, 2014	—	—	—	$380,252,833
Month #2				
December 7, 2014 through January 3, 2015	3,289,924	$43.7700	3,289,924	$236,252,833
Month #3				
January 4, 2015 through January 31, 2015	—	—	—	$236,252,833
Total	3,289,924	$43.7700	3,289,924	$236,252,833

(1) Does not include $36.0 million equity forward contract related to the above-referenced 2015 ASR. As of January 31, 2015, $200.3 million remained available for future repurchases under the program.

See Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements for further information regarding our stock repurchase program.

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Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated By Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation	10-Q	000-19807	3.1	9/15/2003	
3.2	Amended and Restated Bylaws	8-K	000-19807	3.2	5/23/2012	
4.1	Specimen Common Stock Certificate	S-1	33-45138	4.3	02/24/92 (effective date)	
31.1	Certification of Co-Principal Executive Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
31.2	Certification of Co-Principal Executive Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
31.3	Certification of Principal Financial Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
32.1	Certification of Co-Principal Executive Officers and Principal Financial Officer furnished pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

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SIGNATURES

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

	SYNOPSYS, INC.
Date: February 24, 2015	By: /s/ TRAC PHAM
	Trac Pham
	Chief Financial Officer
	(Principal Financial Officer)

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31.3	Certification of Principal Financial Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
32.1	Certification of Co-Principal Executive Officers and Principal Financial Officer furnished pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code					X
101.INS	XBRL Instance Document					X
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101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X