

CADENCE DESIGN SYSTEMS INC

Form 10-Q

July 26, 2012

Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from            to

Commission file number 000-15867

**CADENCE DESIGN SYSTEMS, INC.**

Edgar Filing: CADENCE DESIGN SYSTEMS INC - Form 10-Q

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of

**77-0148231**  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

**2655 Seely Avenue, Building 5, San Jose, California**  
(Address of Principal Executive Offices)

**95134**  
(Zip Code)

**(408) 943-1234**

Registrant's Telephone Number, including Area Code

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

On June 30, 2012, 274,894,103 shares of the registrant's common stock, \$0.01 par value, were outstanding.

**Table of Contents****CADENCE DESIGN SYSTEMS, INC.****INDEX**

	<b>Page</b>
<b>PART I.      <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets:</u>	
<u>June 30, 2012 and December 31, 2011</u>	1
<u>Condensed Consolidated Income Statements:</u>	
<u>Three and Six Months Ended June 30, 2012 and July 2, 2011</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income:</u>	
<u>Three and Six Months Ended June 30, 2012 and July 2, 2011</u>	3
<u>Condensed Consolidated Statements of Cash Flows:</u>	
<u>Six Months Ended June 30, 2012 and July 2, 2011</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
Item 4. <u>Controls and Procedures</u>	46
<b>PART II.      <u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	47
Item 1A. <u>Risk Factors</u>	47
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	64
Item 3. <u>Defaults Upon Senior Securities</u>	65
Item 4. <u>Mine Safety Disclosures</u>	65
Item 5. <u>Other Information</u>	65
Item 6. <u>Exhibits</u>	65
<u>Signatures</u>	66

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CADENCE DESIGN SYSTEMS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 661,658	\$ 601,602
Short-term investments	51,304	3,037
Receivables	123,243	136,772
Inventories	41,066	43,243
2015 Notes Hedges	219,199	215,113
Prepaid expenses and other	61,976	64,216
<b>Total current assets</b>	<b>1,158,446</b>	<b>1,063,983</b>
Property, plant and equipment, net of accumulated depreciation of \$668,328 and \$658,990, respectively	251,920	262,517
Goodwill	192,238	192,125
Acquired intangibles, net of accumulated amortization of \$89,572 and \$91,542, respectively	159,807	173,234
Long-term receivables	7,750	11,371
Other assets	59,096	58,039
<b>Total Assets</b>	<b>\$ 1,829,257</b>	<b>\$ 1,761,269</b>

**LIABILITIES AND STOCKHOLDERS EQUITY**

Current Liabilities:		
Convertible notes	\$ 301,292	\$ 294,061
2015 Notes Embedded Conversion Derivative	219,199	215,113
Accounts payable and accrued liabilities	153,957	165,791
Current portion of deferred revenue	328,405	340,401
<b>Total current liabilities</b>	<b>1,002,853</b>	<b>1,015,366</b>
Long-Term Liabilities:		
Long-term portion of deferred revenue	58,213	73,959
Convertible notes	135,006	131,920
Other long-term liabilities	131,172	128,894
<b>Total long-term liabilities</b>	<b>324,391</b>	<b>334,773</b>

Commitments and Contingencies (Note 12)

Stockholders Equity:

Edgar Filing: CADENCE DESIGN SYSTEMS INC - Form 10-Q

Common stock and capital in excess of par value	1,741,869	1,733,884
Treasury stock, at cost	(266,820)	(290,462)
Accumulated deficit	(1,018,190)	(1,083,245)
Accumulated other comprehensive income	45,154	50,953
Total stockholders' equity	502,013	411,130
Total Liabilities and Stockholders' Equity	\$ 1,829,257	\$ 1,761,269

See notes to condensed consolidated financial statements.

**Table of Contents****CADENCE DESIGN SYSTEMS, INC.****CONDENSED CONSOLIDATED INCOME STATEMENTS****(In thousands, except per share amounts)****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
<b>Revenue:</b>				
Product	\$ 208,301	\$ 157,938	\$ 398,325	\$ 299,757
Services	28,966	29,477	58,508	57,282
Maintenance	89,209	95,855	185,473	192,333
<b>Total revenue</b>	<b>326,476</b>	<b>283,270</b>	<b>642,306</b>	<b>549,372</b>
<b>Costs and Expenses:</b>				
Cost of product	21,585	20,074	36,986	34,268
Cost of services	17,071	20,616	36,445	40,691
Cost of maintenance	10,821	10,716	22,632	21,614
Marketing and sales	80,418	77,006	164,213	155,378
Research and development	112,031	99,268	220,625	200,567
General and administrative	30,244	25,377	58,014	44,679
Amortization of acquired intangibles	3,643	4,505	7,429	8,964
Restructuring and other charges (credits)	43	751	(8)	710
<b>Total costs and expenses</b>	<b>275,856</b>	<b>258,313</b>	<b>546,336</b>	<b>506,871</b>
Income from operations	50,620	24,957	95,970	42,501
Interest expense	(8,566)	(10,768)	(17,103)	(21,754)
Other income, net	3,669	8,394	6,103	12,863
Income before provision (benefit) for income taxes	45,723	22,583	84,970	33,610
Provision (benefit) for income taxes	9,337	(4,325)	17,480	379
<b>Net income</b>	<b>\$ 36,386</b>	<b>\$ 26,908</b>	<b>\$ 67,490</b>	<b>\$ 33,231</b>
Basic net income per share	\$ 0.13	\$ 0.10	\$ 0.25	\$ 0.13
Diluted net income per share	\$ 0.13	\$ 0.10	\$ 0.24	\$ 0.12
Weighted average common shares outstanding basic	269,739	263,191	268,840	262,362
Weighted average common shares outstanding diluted	275,318	270,885	276,526	269,732

See notes to condensed consolidated financial statements.



**Table of Contents****CADENCE DESIGN SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net income	\$ 36,386	\$ 26,908	\$ 67,490	\$ 33,231
Other comprehensive loss, net of tax effects:				
Foreign currency translation loss	(2,366)	5,725	(4,832)	5,605
Changes in unrealized holding gains or losses on available-for-sale securities, net of reclassification adjustment for realized gains and losses	(1,017)	(7,709)	(1,021)	(8,078)
Changes in defined benefit plan liabilities	84	45	54	13
Total other comprehensive loss, net of tax effects	(3,299)	(1,939)	(5,799)	(2,460)
Comprehensive income	\$ 33,087	\$ 24,969	\$ 61,691	\$ 30,771

See notes to condensed consolidated financial statements.



**Table of Contents****CADENCE DESIGN SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Six Months Ended	
	June 30, 2012	July 2, 2011
Cash and Cash Equivalents at Beginning of Period	\$ 601,602	\$ 557,409
<b>Cash Flows from Operating Activities:</b>		
Net income	67,490	33,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43,736	46,283
Amortization of debt discount and fees	11,529	14,587
Stock-based compensation	21,886	19,698
Gain on investments, net	(4,169)	(13,676)
Non-cash restructuring and other charges	125	136
Deferred income taxes	459	(4,811)
Provisions (recoveries) for losses (gains) on trade and installment contract receivables, net		(5,885)
Other non-cash items	3,439	2,518
Changes in operating assets and liabilities, net of effect of acquired businesses:		
Current and long-term receivables	16,513	64,535
Inventories	499	(6,987)
Prepaid expenses and other	414	1,969
Other assets	(169)	1,479
Accounts payable and accrued liabilities	(4,694)	(48,650)
Deferred revenue	(27,446)	25,979
Other long-term liabilities	(1,424)	(4,628)
<b>Net cash provided by operating activities</b>	<b>128,188</b>	<b>125,778</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from the sale and maturity of available-for-sale securities	136	9,588
Purchases of available-for-sale securities	(49,083)	
Proceeds from the sale of long-term investments	44	2,785
Purchases of property, plant and equipment	(18,269)	(11,312)
Investment in venture capital partnerships and equity investments	(250)	(608)
Cash paid in business combinations and asset acquisitions, net of cash acquired, and acquisitions of intangibles	(1,041)	(22,865)
<b>Net cash used for investing activities</b>	<b>(68,463)</b>	<b>(22,412)</b>
<b>Cash Flows from Financing Activities:</b>		
Principal payments on receivable sale financing	(2,907)	(2,829)
Tax effect related to employee stock transactions allocated to equity	4,075	967
Payment of acquisition-related contingent consideration	(39)	
Proceeds from issuance of common stock	13,063	10,302
Stock received for payment of employee taxes on vesting of restricted stock	(9,897)	(7,389)
<b>Net cash provided by financing activities</b>	<b>4,295</b>	<b>1,051</b>

Edgar Filing: CADENCE DESIGN SYSTEMS INC - Form 10-Q

Effect of exchange rate changes on cash and cash equivalents	(3,964)	3,491
Increase in cash and cash equivalents	60,056	107,908
Cash and Cash Equivalents at End of Period	\$ 661,658	\$ 665,317

See notes to condensed consolidated financial statements.

**Table of Contents**

**CADENCE DESIGN SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1. BASIS OF PRESENTATION**

The Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q have been prepared by Cadence Design Systems, Inc., or Cadence, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission, or the SEC. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, Cadence believes that the disclosures contained in this Quarterly Report on Form 10-Q comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These Condensed Consolidated Financial Statements are meant to be, and should be, read in conjunction with the Consolidated Financial Statements and the Notes thereto included in Cadence's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Certain prior period balances have been reclassified to conform to current period presentation.

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

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

**NOTE 2. CONVERTIBLE NOTES**

**2015 Notes**

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

Cadence entered into hedge transactions, or the 2015 Notes Hedges, in connection with the issuance of the 2015 Notes. The purpose of the 2015 Notes Hedges was to limit Cadence's exposure to the additional cash payments above the principal amount of the 2015 Notes that may be due to the holders. As a result of the 2015 Notes Hedges, Cadence's maximum expected cash exposure upon conversion of the 2015 Notes is the \$350.0 million principal balance of the notes. In June 2010, Cadence also sold warrants in separate transactions, or the 2015 Warrants. As a result of the 2015 Warrants, Cadence will experience dilution to its

**Table of Contents**

diluted earnings per share if its average closing stock price exceeds \$10.78 for any fiscal quarter. To the extent that Cadence's stock price exceeds \$10.78 at expiration of the 2015 Warrants, Cadence will issue shares to settle the 2015 Warrants.

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

	2015 Notes (In thousands, except percentages)
Outstanding principal maturity value at June 30, 2012	\$350,000
Contractual interest rate	2.625%
Contractual maturity date	June 1, 2015
Initial conversion rate	132.5205 shares of common stock per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$7.55 per share of Cadence common stock.
Conversion feature (in addition to principal amount payable in cash)	Cash to the extent Cadence's stock price exceeds approximately \$7.55 per share, calculated based on the applicable conversion rate multiplied by the volume weighted average price of Cadence common stock over a specified period.
Early conversion conditions (or the Early Conversion Conditions)	Closing stock price greater than \$9.81 for at least 20 of the last 30 trading days in a fiscal quarter (convertible only for subsequent quarter).
	Specified corporate transactions.
	Note trading price falls below a calculated minimum.
Conversion immediately preceding maturity	From March 1, 2015 until the second trading day immediately preceding the maturity date, holders may convert their 2015 Notes at any time into cash as described above under Conversion feature.
Redemption at Cadence's option prior to maturity	None.

**Table of Contents**

Fundamental change put right	Upon certain fundamental corporate changes prior to maturity, the 2015 Note holders could require Cadence to repurchase their notes for cash equal to the principal amount of the notes plus accrued interest.
Make-whole premium	Upon certain fundamental changes prior to maturity, if Cadence's stock price were between \$6.16 and \$40.00 per share at that time, the holders of the notes would be entitled to an increase to the conversion rate. This is referred to as a make-whole premium.
Financial covenants	None.
<i>Impact of Early Conversion Conditions on Financial Statements</i>	

The 2015 Notes are convertible into cash from July 1, 2012 through September 29, 2012 because Cadence's closing stock price exceeded \$9.81 for at least 20 days in the 30-day period prior to June 30, 2012. Accordingly, the net balance of the 2015 Notes of \$301.3 million is classified as a current liability on Cadence's Condensed Consolidated Balance Sheet as of June 30, 2012. The classification of the 2015 Notes as current or long-term on the Condensed Consolidated Balance Sheet is evaluated at each balance sheet date and may change from time to time depending on whether Cadence's closing stock price has exceeded \$9.81 during the periods specified in the table above under Early conversion conditions.

If one of the 2015 Notes Early Conversion Conditions is met in any future fiscal quarter, Cadence would classify its net liability under the 2015 Notes as a current liability on the Condensed Consolidated Balance Sheet as of the end of that fiscal quarter. If none of the 2015 Notes Early Conversion Conditions have been met in a future fiscal quarter prior to the one-year period immediately preceding the maturity date, Cadence would classify its net liability under the 2015 Notes as a long-term liability on the Condensed Consolidated Balance Sheet as of the end of that fiscal quarter. If the note holders elect to convert their 2015 Notes prior to maturity, any unamortized discount and transaction fees will be expensed at the time of conversion. If the entire outstanding principal amount had been converted on June 30, 2012, Cadence would have recorded an expense of \$55.4 million associated with the conversion, comprised of \$48.7 million of unamortized debt discount and \$6.7 million of unamortized transaction fees.

As of June 30, 2012, the if-converted value of the 2015 Notes to the note holders of approximately \$509.7 million exceeded the principal amount of \$350.0 million. The fair value of the 2015 Notes was \$544.5 million as of June 30, 2012 and was \$527.8 million as of December 31, 2011. The 2015 Notes currently trade at a premium to the if-converted value of the notes. As of June 30, 2012, none of the note holders had elected to convert their 2015 Notes.

*2015 Notes Embedded Conversion Derivative*

The conversion feature of the 2015 Notes, or the 2015 Notes Embedded Conversion Derivative, requires bifurcation from the 2015 Notes and is accounted for as a derivative liability. The fair value of the 2015 Notes Embedded Conversion Derivative at the time of issuance of the 2015 Notes was \$76.6 million and was recorded as original debt discount for purposes of accounting for the debt component of the 2015 Notes. This discount is amortized as interest expense using the effective interest method over the term of the 2015 Notes. The 2015 Notes Embedded Conversion Derivative is carried on the Condensed Consolidated Balance Sheet at its estimated fair value. The fair value was \$219.2 million as of June 30, 2012 and \$215.1 million as of December 31, 2011.

**Table of Contents***2015 Notes Hedges*

The 2015 Notes Hedges expire on June 1, 2015 and must be settled in cash. The aggregate cost of the 2015 Notes Hedges was \$76.6 million. The 2015 Notes Hedges are accounted for as derivative assets and are carried on the Condensed Consolidated Balance Sheet at their estimated fair value. The fair value was \$219.2 million as of June 30, 2012 and \$215.1 million as of December 31, 2011. The 2015 Notes Embedded Conversion Derivative liability and the 2015 Notes Hedges asset are adjusted to fair value each reporting period and unrealized gains and losses are reflected in the Condensed Consolidated Income Statements. The 2015 Notes Embedded Conversion Derivative and the 2015 Notes Hedges are designed to have similar fair values. Accordingly, the changes in the fair values of these instruments offset during the three and six months ended June 30, 2012 and July 2, 2011 and did not have a net impact on the Condensed Consolidated Income Statements for the respective periods.

The classification of the 2015 Notes Embedded Conversion Derivative liability and the 2015 Notes Hedges asset as current or long-term on the Condensed Consolidated Balance Sheet corresponds with the classification of the 2015 Notes, is evaluated at each balance sheet date and may change from time to time depending on whether the closing stock price early conversion condition is met.

*2015 Warrants*

In June 2010, Cadence sold the 2015 Warrants in separate transactions for the purchase of up to approximately 46.4 million shares of Cadence's common stock at a strike price of \$10.78 per share, for total proceeds of \$37.5 million, which was recorded as an increase in stockholders' equity. The 2015 Warrants expire on various dates from September 2015 through December 2015 and must be settled in net shares of Cadence's common stock. Therefore, upon expiration of the 2015 Warrants Cadence will issue shares of common stock to the purchasers of the 2015 Warrants that represent the value by which the price of the common stock exceeds the strike price stipulated within the particular warrant agreement. Changes in the fair value of the 2015 Warrants will not be recognized in the Condensed Consolidated Financial Statements as long as the instruments remain classified as equity.

*Components of 2015 Notes*

The components of the 2015 Notes as of June 30, 2012 and December 31, 2011 were as follows:

	As of	
	June 30, 2012	December 31, 2011
	(In thousands)	
Principal amount	\$ 350,000	\$ 350,000
Unamortized debt discount	(48,708)	(55,939)
<b>Liability component</b>	<b>\$ 301,292</b>	<b>\$ 294,061</b>

**Table of Contents**

The effective interest rate and components of interest expense of the 2015 Notes for the three and six months ended June 30, 2012 and July 2, 2011 were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In thousands, except percentages)			
Effective interest rate	8.1%	8.1%	8.1%	8.1%
Contractual interest expense	\$ 2,289	\$ 2,289	\$ 4,578	\$ 4,578
Amortization of debt discount	\$ 3,638	\$ 3,376	\$ 7,231	\$ 6,713

**2013 Notes and 2011 Notes**

In December 2006, Cadence issued \$250.0 million principal amount of 1.500% Convertible Senior Notes Due December 15, 2013, or the 2013 Notes. At the same time, Cadence issued \$250.0 million principal amount of 1.375% Convertible Senior Notes Due December 15, 2011, or the 2011 Notes. The 2011 Notes matured on December 15, 2011, at which time Cadence paid the remaining balance on the 2011 Notes in full.

At maturity, the holders of the 2013 Notes will be entitled to receive the principal amount of the 2013 Notes plus accrued interest. The 2013 Notes are convertible into a combination of cash and shares of Cadence common stock upon the occurrence of certain conditions described in the table below. If a holder of the 2013 Notes elects to convert its notes prior to maturity, the holder of the notes will be entitled to receive cash for the principal amount of the notes plus shares for any additional conversion value as described in the table below under the heading Conversion feature. As of June 30, 2012, the 2013 Notes were not convertible.

Cadence entered into hedge transactions, or the 2013 Notes Hedges and the 2011 Notes Hedges, in connection with the issuance of the 2013 Notes and the 2011 Notes. The 2011 Notes Hedges expired unexercised on December 15, 2011. Pursuant to the 2013 Notes Hedges, Cadence has the option to receive the amount of shares that may be owed to the 2013 Notes holders. The purpose of the 2013 Notes Hedges was to limit Cadence's exposure to the dilution that may result from the issuance of shares upon conversion of the notes. In December 2006, Cadence also sold warrants in separate transactions, or the 2013 Warrants and the 2011 Warrants. As a result of the 2013 Warrants, Cadence will experience dilution to its diluted earnings per share to the extent its average closing stock price exceeds \$31.50 for any fiscal quarter. If Cadence's stock price is above \$31.50 at the expiration of the 2013 Warrants, Cadence will issue shares to settle the 2013 Warrants.

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

	2013 Notes (In thousands, except percentages)
Principal maturity value at issuance	\$ 250,000
Outstanding principal maturity value at June 30, 2012	\$ 144,461
Contractual interest rate	1.500%
Contractual maturity date	December 15, 2013

**Table of Contents**

Initial conversion rate	47.2813 shares of common stock per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$21.15 per share of Cadence common stock.
Conversion feature (in addition to principal amount payable in cash)	Shares to the extent Cadence's stock price exceeds \$21.15 per share, calculated based on the applicable conversion rate multiplied by the volume weighted average price of Cadence common stock over a specified period.
Early conversion conditions (or the Early Conversion Conditions)	Closing stock price greater than \$27.50 for at least 20 of the last 30 trading days in a calendar quarter (convertible only for subsequent quarter).
	Specified corporate transactions.
	Note trading price falls below calculated minimum.
Conversion immediately preceding maturity	From November 1, 2013 and until the trading day immediately preceding the maturity date, holders may convert their 2013 Notes at any time into cash and Cadence shares as described above under Conversion feature.
Redemption at Cadence's option prior to maturity	None.
Fundamental change put right	Upon a fundamental change prior to maturity, the 2013 Note holders could require Cadence to repurchase their notes for cash equal to the principal amount of the notes plus accrued interest.
Make-whole premium	Upon certain fundamental changes, prior to maturity, if Cadence's stock price were between \$18.00 and \$60.00 per share at that time, the holders of the notes would be entitled to an increase to the conversion rate. This is referred to as a make-whole premium.
Financial covenants	None.
<i>Impact of Early Conversion Conditions on Financial Statements</i>	

As of June 30, 2012, none of the 2013 Notes Early Conversion Conditions had been met and the 2013 Notes are classified as a long-term liability on the Condensed Consolidated Balance Sheet. The classification of the 2013 Notes as a current or long-term liability on the Condensed Consolidated Balance Sheet is evaluated at each balance sheet date and may change from time to time, depending on whether the closing stock price early conversion condition is met for that particular quarter.



**Table of Contents**

As of June 30, 2012, the if-converted value of the 2013 Notes to the note holders did not exceed the principal amount of the 2013 Notes. The total fair value of the 2013 Notes, including the equity component, was \$141.2 million as of June 30, 2012 and was \$142.3 million as of December 31, 2011.

*2013 and 2011 Notes Hedges*

The 2011 Notes Hedges expired unexercised on December 15, 2011. The 2013 Notes Hedges expire on December 15, 2013 and must be settled in net shares of Cadence common stock. Therefore, upon expiration of the 2013 Notes Hedges the counterparties will deliver shares of common stock to Cadence that represent the value, if any, by which the price of the common stock exceeds the price stipulated within the particular hedge agreement. The aggregate cost of the hedges entered into in connection with the 2011 Notes Hedges (which had similar conversion features as the 2013 Notes) and 2013 Notes Hedges was \$119.8 million and was recorded as a reduction to stockholders' equity. In connection with the purchase of a portion of the 2013 Notes and 2011 Notes in June 2010, and the purchase of a portion of the 2013 Notes in November 2010, Cadence also sold a portion of the 2013 Notes Hedges and the 2011 Notes Hedges representing options to purchase approximately 9.7 million shares of Cadence's common stock for proceeds of \$0.4 million. The estimated fair value of the remaining 2013 Notes Hedges was \$0.7 million as of June 30, 2012 and \$1.4 million as of December 31, 2011. Subsequent changes in the fair value of the 2013 Notes Hedges will not be recognized in the Condensed Consolidated Financial Statements as long as the instruments remain classified as equity.

*2013 and 2011 Warrants*

In December 2006, Cadence sold warrants in separate transactions, which consisted of the 2013 Warrants and the 2011 Warrants, for the purchase of up to 23.6 million shares of Cadence's common stock at a strike price of \$31.50 per share for proceeds of \$39.4 million, which was recorded as an increase in stockholders' equity. In connection with the purchase of some of the 2013 Notes and the 2011 Notes in June 2010 and November 2010, Cadence also purchased some of the 2013 Warrants and the 2011 Warrants, reducing the number of shares of Cadence common stock available for purchase by 9.7 million shares at a cost of \$0.1 million. The 2011 Warrants expired on various dates from February 2012 through April 2012 and the 2013 Warrants will expire on various dates from February 2014 through April 2014. The 2013 Warrants must be settled in net shares of Cadence's common stock. Therefore, upon expiration of the 2013 Warrants Cadence will issue shares of common stock to the purchasers of the warrants that represent the value, if any, by which the price of the common stock exceeds the strike price stipulated within the particular warrant agreement. During the six months ended June 30, 2012, the 2011 Warrants expired, reducing the number of shares of Cadence common stock available for purchase by 7.1 million shares. Changes in the fair value of the 2013 Warrants and the 2011 Warrants will not be recognized in the Condensed Consolidated Financial Statements as long as the instruments remain classified as equity.

*Components of the 2013 Notes*

The components of the 2013 Notes as of June 30, 2012 and December 31, 2011 were as follows:

	As of	
	June 30, 2012	December 31, 2011
	(In thousands)	
Equity component included in common stock	\$ 63,027	\$ 63,027
Principal amount	\$ 144,461	\$ 144,461
Unamortized debt discount	(9,633)	(12,719)
Liability component	\$ 134,828	\$ 131,742

**Table of Contents**

The effective interest rate and components of interest expense of the 2013 Notes for the three and six months ended June 30, 2012 and of the 2013 Notes and 2011 Notes for the three and six months ended July 2, 2011 were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In thousands, except percentages)			
Effective interest rate	6.4%	6.3%	6.4%	6.3%
Contractual interest expense	\$ 540	\$ 1,053	\$ 1,080	\$ 2,106
Amortization of debt discount	\$ 1,547	\$ 3,212	\$ 3,086	\$ 6,409

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

In August 2003, Cadence issued \$420.0 million principal amount of its Zero Coupon Zero Yield Senior Convertible Notes Due 2023, or the 2023 Notes. As of June 30, 2012 and December 31, 2011, the remaining balance and the total fair value of the 2023 Notes was \$0.2 million.

**NOTE 3. ACQUISITION-RELATED CONTINGENT CONSIDERATION**

For business combinations completed after January 3, 2009, contingent consideration is recorded at fair value on the acquisition date and adjusted to fair value at the end of each reporting period.

One of the fiscal 2011 acquisitions includes contingent consideration payments based on certain future financial measures associated with the acquired technology. This contingent consideration arrangement requires payments of up to \$5.0 million if certain financial measures are met during the three-year period subsequent to October 1, 2011. The fair value of the contingent consideration arrangement recorded on the date of the acquisition was \$3.5 million. The fair value of the contingent consideration as of June 30, 2012 was \$3.9 million.

Cadence may be obligated to make cash payments in connection with business combinations and asset acquisitions, based on, or subject to the satisfaction of, certain performance metrics. If performance is such that these payments are fully achieved, Cadence may be obligated to pay up to an aggregate of \$21.2 million over the next 46 months. Of the \$21.2 million, up to \$12.6 million would be recorded as operating expenses in the Condensed Consolidated Income Statements and up to \$1.2 million would be recorded as additional goodwill.

**NOTE 4. GOODWILL AND ACQUIRED INTANGIBLES****Goodwill**

The changes in the carrying amount of goodwill during the six months ended June 30, 2012 were as follows:

	Gross Carrying Amount (In thousands)
Balance as of December 31, 2011	\$ 192,125
Effect of foreign currency translation	113
Balance as of June 30, 2012	\$ 192,238

**Table of Contents****Acquired Intangibles, Net**

Acquired intangibles with finite lives as of June 30, 2012 were as follows, excluding intangibles that were fully amortized as of December 31, 2011:

	Gross Carrying Amount	Accumulated Amortization (In thousands)	Acquired Intangibles, Net
Existing technology	\$ 90,516	\$ (22,917)	\$ 67,599
Agreements and relationships	117,580	(32,212)	85,368
Distribution rights	30,100	(27,090)	3,010
Tradenames, trademarks and patents	11,183	(7,353)	3,830
<b>Total acquired intangibles</b>	<b>\$ 249,379</b>	<b>\$ (89,572)</b>	<b>\$ 159,807</b>

Acquired intangibles with finite lives as of December 31, 2011 were as follows, excluding intangibles that were fully amortized as of January 1, 2011:

	Gross Carrying Amount	Accumulated Amortization (In thousands)	Acquired Intangibles, Net
Existing technology	\$ 90,433	\$ (17,119)	\$ 73,314
Agreements and relationships	118,060	(27,123)	90,937
Distribution rights	30,100	(25,585)	4,515
Tradenames, trademarks and patents	26,183	(21,715)	4,468
<b>Total acquired intangibles</b>	<b>\$ 264,776</b>	<b>\$ (91,542)</b>	<b>\$ 173,234</b>

Amortization of acquired intangibles for the three and six months ended June 30, 2012 and July 2, 2011 was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In thousands)			
Cost of product	\$ 2,891	\$ 2,483	\$ 5,790	\$ 4,679
Amortization of acquired intangibles	3,643	4,505	7,429	8,964
<b>Total amortization of acquired intangibles</b>	<b>\$ 6,534</b>	<b>\$ 6,988</b>	<b>\$ 13,219</b>	<b>\$ 13,643</b>

Amortization of costs from existing technology is included in cost of product.

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

	(In thousands)
2012 remaining period	\$ 13,186
2013	23,099
2014	20,315

Edgar Filing: CADENCE DESIGN SYSTEMS INC - Form 10-Q

2015	20,001
2016	19,562
Thereafter	63,644
Total estimated amortization expense	\$ 159,807

**Table of Contents****NOTE 5. RESTRUCTURING AND OTHER CHARGES**

Cadence has initiated various restructuring plans in the past in an effort to operate more efficiently. These restructuring plans were primarily comprised of severance and termination costs related to headcount reductions and facility-related lease loss charges. As of June 30, 2012, all severance and termination benefits have been paid.

The following table presents activity for Cadence's restructuring plans for the three months ended June 30, 2012:

	Excess Facilities	Other (In thousands)	Total
Balance, March 31, 2012	\$ 4,792	\$ 5	\$ 4,797
Restructuring and other charges (credits), net	48	(5)	43
Cash payments	(155)		(155)
Effect of foreign currency translation	(173)		(173)
Balance, June 30, 2012	\$ 4,512	\$	\$ 4,512

The following table presents activity for Cadence's restructuring plans for the six months ended June 30, 2012:

	Severance and Benefits	Excess Facilities	Other	Total
	(In thousands)			
Balance, December 31, 2011	\$ 46	\$ 4,976	\$ 5	\$ 5,027
Restructuring and other charges (credits), net	(29)	26	(5)	(8)
Cash payments	(17)	(460)		(477)
Effect of foreign currency translation		(30)		(30)
Balance, June 30, 2012	\$	\$ 4,512	\$	\$ 4,512

**NOTE 6. ACCOUNTS RECEIVABLE AND ALLOWANCES FOR DOUBTFUL ACCOUNTS**

Cadence's current and long-term accounts receivable balances as of June 30, 2012 and December 31, 2011 were as follows:

	As of	
	June 30, 2012	December 31, 2011
	(In thousands)	
Accounts receivable	\$ 75,135	\$ 99,686
Installment contract receivables, short-term	48,108	37,086
Long-term receivables	7,750	11,371
Total receivables	\$ 130,933	\$ 148,143

Cadence's customers are primarily concentrated within the semiconductor and electronics systems industry. As of June 30, 2012 and December 31, 2011, no single customer accounted for more than 10% of Cadence's total receivables. As of June 30, 2012, approximately 49% of Cadence's total receivables were attributable to the ten customers with the largest balances of total receivables. As of December 31, 2011,

approximately 45% of Cadence's total receivables were attributable to the ten customers with the largest balances of total receivables.

**Table of Contents**

**NOTE 7. FAIR VALUE**

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

Level 1 Quoted prices for identical instruments in active markets;

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

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

This hierarchy requires Cadence to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value. Cadence recognizes transfers between levels of the hierarchy based on the fair values of the respective financial instruments at the end of the reporting period in which the transfer occurred. There were no transfers between levels of the fair value hierarchy during the three and six months ended June 30, 2012.

The carrying value of Cadence's cash and cash equivalents held in money market funds approximates fair value and is based on level 1 inputs. The carrying value of Cadence's receivables, interest receivable, accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these instruments and is based on level 2 inputs. The carrying values of Cadence's long-term receivables approximate their fair values and are based on level 2 inputs, including current market rates of interest. The fair values of Cadence's 2013 Notes and 2015 Notes, which differ from their carrying values, are influenced by interest rates and Cadence's stock price and stock price volatility and are determined by prices for the 2013 Notes and 2015 Notes observed in market trading, which are level 2 inputs. The fair values of Cadence's 2015 Notes Hedges and 2015 Notes Embedded Conversion Derivative are determined by level 1 and level 2 inputs, including interest rates, Cadence's stock price and stock price volatility.

**Table of Contents**

On a quarterly basis, Cadence measures at fair value certain financial assets and liabilities. The fair value of financial assets and liabilities was determined using the following levels of inputs as of June 30, 2012 and December 31, 2011:

	Fair Value Measurements as of June 30, 2012:			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
<b>Assets</b>				
Cash equivalents:				
Money market funds	\$ 520,546	\$ 520,546	\$	\$
Commercial paper	1,200		1,200	
Bank certificates of deposit	1,000		1,000	
Short-term investments:				
Corporate debt securities	26,084		26,084	
United States government agency securities	2,208	2,208		
United States Treasury securities	17,255	17,255		
Bank certificates of deposit	1,995		1,995	
Commercial paper	1,498		1,498	
Marketable equity securities	2,264	2,264		
Trading securities held in Non-Qualified Deferred Compensation Plan, or NQDC	24,009	24,009		
2015 Notes Hedges	219,199		219,199	
Foreign currency exchange contracts	942		942	
<b>Total Assets</b>	<b>\$ 818,200</b>	<b>\$ 566,282</b>	<b>\$ 251,918</b>	<b>\$</b>

	Fair Value Measurements as of June 30, 2012:			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
<b>Liabilities</b>				
Acquisition-related contingent consideration	\$ 3,997	\$	\$	\$ 3,997
2015 Notes Embedded Conversion Derivative	219,199		219,199	
<b>Total Liabilities</b>	<b>\$ 223,196</b>	<b>\$</b>	<b>\$ 219,199</b>	<b>\$ 3,997</b>

	Fair Value Measurements as of December 31, 2011:			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
<b>Assets</b>				
Cash equivalents money market funds	\$ 484,102	\$ 484,102	\$	\$
Short-term investments:				
Marketable equity securities	3,037	3,037		
Trading securities held in NQDC	24,058	24,058		
2015 Notes Hedges	215,113		215,113	
Foreign currency exchange contracts	200		200	
<b>Total Assets</b>	<b>\$ 726,510</b>	<b>\$ 511,197</b>	<b>\$ 215,313</b>	<b>\$</b>

	Fair Value Measurements as of December 31, 2011:			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
<b>Liabilities</b>				
Acquisition-related contingent consideration	\$ 3,911	\$	\$	\$ 3,911
2015 Notes Embedded Conversion Derivative	215,113		215,113	



Edgar Filing: CADENCE DESIGN SYSTEMS INC - Form 10-Q

Total Liabilities	\$ 219,024	\$	\$ 215,113	\$ 3,911
-------------------	------------	----	------------	----------

**Table of Contents****Level 1 Measurements**

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

**Level 2 Measurements**

The 2015 Notes Hedges and the 2015 Notes Embedded Conversion Derivative are measured at fair value using level 2 inputs. These instruments are not actively traded and are valued using an option pricing model that uses observable market data for all inputs, such as implied volatility of Cadence's common stock, risk-free interest rate and other factors. Cadence's available-for-sale corporate debt securities, bank certificates of deposit and commercial paper are measured at fair value using level 2 inputs. Cadence obtains the fair values of its level 2 available-for-sale securities from a professional pricing service and validates the fair values by assessing the pricing methods and inputs and by comparing the fair values to another independent source.

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

**Level 3 Measurements**

The liabilities included in level 3 represent the fair value of contingent consideration associated with certain of Cadence's 2011 and 2010 acquisitions. Cadence makes estimates regarding the fair value of contingent consideration liabilities on the acquisition date and at the end of each reporting period until the contingency is resolved. The fair value of these arrangements is determined by calculating the net present value of the expected payments using significant inputs that are not observable in the market, including revenue projections and discount rates consistent with the level of risk of achievement. The fair value of these contingent consideration arrangements is affected most significantly by the changes in the revenue projections, but is also impacted by the discount rate used to adjust the outcomes to their present values. If the revenue projections increase or decrease, the fair value of the contingent consideration will increase or decrease accordingly, in amounts that will vary based on the timing of the projected revenues, the timing of the expected payments and the discount rate used to calculate the present value of the expected payments. Cadence used discount rates ranging from 11% to 16% to value its contingent consideration liabilities as of June 30, 2012 and December 31, 2011. Cadence believes that its estimates and assumptions are reasonable, but significant judgment is involved.

Changes in the fair value of contingent consideration liabilities subsequent to the acquisition are recorded in general and administrative expense in the Condensed Consolidated Income Statements. For an additional description of the related business combinations, see Note 3.

The following table summarizes the level 3 activity for the six months ended June 30, 2012:

	(In thousands)
Balance as of December 31, 2011	\$ 3,911
Payments	(39)
Adjustments	125
Balance as of June 30, 2012	\$ 3,997

**Table of Contents****NOTE 8. CASH, CASH EQUIVALENTS AND INVESTMENTS****Cash and Cash Equivalents**

Cadence considers all highly liquid investments with original maturities of three months or less on the date of purchase to be cash equivalents. The following table summarizes Cadence's cash and cash equivalents at fair value as of June 30, 2012 and December 31, 2011:

	June 30, 2012	As of December 31, 2011
	(In thousands)	
Cash and interest bearing deposits	\$ 138,912	\$ 117,500
Money market funds	520,546	484,102
Commercial paper	1,200	
Bank certificates of deposit	1,000	
<b>Total cash and cash equivalents</b>	<b>\$ 661,658</b>	<b>\$ 601,602</b>

**Short-Term Investments**

Cadence's short-term investments include marketable debt securities with original maturities greater than three months on the date of purchase and marketable equity securities. Cadence considers its entire portfolio of marketable debt and equity securities to be available for sale and available to fund current operations. Available-for-sale debt securities are carried at fair value, with the unrealized gains and losses presented net of tax as a separate component of other comprehensive income. Unrealized and realized gains and losses are determined using the specific identification method.

Cadence recognizes gains on its available-for-sale securities when they are realized. Cadence recognizes losses on its available-for-sale securities when they are realized or when Cadence has determined that an other-than-temporary decline in fair value has occurred. Cadence reviews its available-for-sale securities each quarter to determine if an other-than-temporary decline in fair value has occurred. For an available-for-sale debt security, an other-than-temporary decline in fair value has occurred when the security's fair value is less than its amortized cost basis and Cadence intends to sell the security, or it is more likely than not that Cadence will be required to sell the security, before recovery of its amortized cost basis. Cadence records realized gains, realized losses and other-than-temporary impairments as part of other income, net in the Condensed Consolidated Income Statements.

The following tables summarize Cadence's short-term investments as of June 30, 2012 and December 31, 2011:

	Amortized Cost	As of June 30, 2012 Gross		Fair Value
		Unrealized Gains	Unrealized Losses	
	(In thousands)			
Corporate debt securities	\$ 26,101	\$ 7	\$ (24)	\$ 26,084
United States government agency securities	2,206	2		2,208
United States Treasury securities	17,258		(3)	17,255
Bank certificates of deposit	2,000		(5)	1,995
Commercial paper	1,497	1		1,498
Marketable equity securities	1,830	434		2,264
<b>Total short-term investments</b>	<b>\$ 50,892</b>	<b>\$ 444</b>	<b>\$ (32)</b>	<b>\$ 51,304</b>





**Table of Contents**

Amortization of premium or discount related to Cadence's marketable debt securities for the three and six months ended June 30, 2012 and July 2, 2011 was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In thousands)		(In thousands)	
Amortization of premium (discount)	\$ 20	\$	\$ 20	\$

**Non-Marketable Investments**

Cadence's non-marketable investments generally consist of voting preferred stock or convertible debt of privately-held companies and are included in other assets on Cadence's Condensed Consolidated Balance Sheets. If Cadence determines that it has the ability to exercise significant influence over the issuer, which may include considering whether the investments are in-substance common stock, the investment is accounted for using the equity method.

Cadence's non-marketable investments as of June 30, 2012 and December 31, 2011 were as follows:

	June 30,	As of
	2012	December 31, 2011
	(In thousands)	
Cost method	\$ 6,135	\$ 6,157
Equity method	4,320	4,303
<b>Total non-marketable investments</b>	<b>\$ 10,455</b>	<b>\$ 10,460</b>

Net realized gains on the sale of non-marketable investments during the three and six months ended June 30, 2012 and July 2, 2011 were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In thousands)		(In thousands)	
Gains on sale of non-marketable investments	\$	\$ 108	\$	\$ 2,729

**NOTE 9. NET INCOME PER SHARE**

Basic net income per share is computed by dividing net income during the period by the weighted average number of shares of common stock outstanding during that period, less unvested restricted stock awards. None of Cadence's outstanding grants of restricted stock contain nonforfeitable dividend rights. Diluted net income per share is impacted by equity instruments considered to be potential common shares, if dilutive, computed using the treasury stock method of accounting.

**Table of Contents**

The calculations for basic and diluted net income per share for the three and six months ended June 30, 2012 and July 2, 2011 are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In thousands, except per share amounts)			
Net income	\$ 36,386	\$ 26,908	\$ 67,490	\$ 33,231
Weighted average common shares used to calculate basic net income per share	269,739	263,191	268,840	262,362
2023 Notes	11	11	11	11
2015 Warrants	637		1,580	
Stock-based compensation	4,931	7,683	6,095	7,359
Weighted average common shares used to calculate diluted net income per share	275,318	270,885	276,526	269,732
Basic net income per share	\$ 0.13	\$ 0.10	\$ 0.25	\$ 0.13
Diluted net income per share	\$ 0.13	\$ 0.10	\$ 0.24	\$ 0.12

The following table presents shares of Cadence's common stock outstanding for the three and six months ended June 30, 2012 and July 2, 2011 that were excluded from the computation of diluted net income per share because the effect of including these shares in the computation of diluted net income per share would have been anti-dilutive:

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In thousands)			
2015 Warrants (various expiration dates through 2015)		46,382		46,382
2011 Warrants and 2013 Warrants (various expiration dates through 2014)	6,830	14,184	6,830	14,184
Options to purchase shares of common stock (various expiration dates through 2022)	14,228	18,812	14,149	18,564
Non-vested shares of restricted stock	203	9	118	25
Total potential common shares excluded	21,261	79,387	21,097	79,155

**Table of Contents****NOTE 10. ACCUMULATED DEFICIT**

The changes in accumulated deficit for the three and six months ended June 30, 2012 were as follows:

	Three Months Ended (In thousands)
Balance as of March 31, 2012	\$ (1,053,745)
Net income	36,386
Reissuance of treasury stock	(831)
Balance as of June 30, 2012	\$ (1,018,190)

	Six Months Ended (In thousands)
Balance as of December 31, 2011	\$ (1,083,245)
Net income	67,490
Reissuance of treasury stock	(2,435)
Balance as of June 30, 2012	\$ (1,018,190)

**NOTE 11. OTHER COMPREHENSIVE INCOME**

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

Changes in unrealized holding gains or losses on available-for-sale securities include the following for the three and six months ended June 30, 2012 and July 2, 2011:

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In thousands)		(In thousands)	
Unrealized holding gains or losses	\$ (1,019)	\$ 270	\$ (906)	\$ (34)
Reclassification of unrealized holding gains or losses to other income, net	2	(7,979)	(115)	(8,044)
Changes in unrealized holding gains or losses	\$ (1,017)	\$ (7,709)	\$ (1,021)	\$ (8,078)

Accumulated other comprehensive income was comprised of the following as of June 30, 2012 and December 31, 2011:



Edgar Filing: CADENCE DESIGN SYSTEMS INC - Form 10-Q

	June 30, 2012	December 31, 2011
	(In thousands)	
Foreign currency translation gain	\$ 49,158	\$ 53,990
Changes in defined benefit plan liabilities	(4,414)	(4,468)
Unrealized holding gains on available-for-sale securities	410	1,431
 Total accumulated other comprehensive income	 \$ 45,154	 \$ 50,953

**NOTE 12. CONTINGENCIES**

**Legal Proceedings**

From time to time, Cadence is involved in various disputes and litigation that arise in the ordinary course of business. These include disputes and lawsuits related to intellectual property, indemnification

## **Table of Contents**

obligations, mergers and acquisitions, licensing, contracts, distribution arrangements and employee relations matters. At least quarterly, Cadence reviews the status of each significant matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount or the range of loss can be estimated, Cadence accrues a liability for the estimated loss. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on Cadence's judgments using the best information available at the time. As additional information becomes available, Cadence reassesses the potential liability related to pending claims and litigation matters and may revise estimates.

During fiscal 2008, three complaints were filed in the United States District Court for the Northern District of California, or District Court, all alleging violations of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder, on behalf of a purported class of purchasers of Cadence's common stock. On March 4, 2009, the District Court entered an order consolidating these three complaints and captioning the consolidated case *In re Cadence Design Systems, Inc. Securities Litigation*. The District Court also named a lead plaintiff and lead counsel for the consolidated litigation. The lead plaintiff filed its consolidated amended complaint on April 24, 2009 (subsequently amended on October 13, 2009), naming Cadence, Michael J. Fister, Kevin S. Palatnik, William Porter and Kevin Bushby as defendants, and alleging violations of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder, on behalf of a purported class of purchasers of Cadence's common stock who traded Cadence's common stock between April 23, 2008 and December 10, 2008, or the Alleged Class Period. The amended complaint alleged that Cadence and the individual defendants made statements during the Alleged Class Period regarding Cadence's financial results that were false and misleading because Cadence had recognized revenue that should have been recognized in subsequent periods. The amended complaint requested certification of the action as a class action, unspecified damages, interest and costs, and unspecified equitable relief. On July 7, 2010, the parties agreed, and the District Court ordered, that the litigation be stayed in order to facilitate mediation.

On February 11, 2011, the parties to the securities litigation agreed to settle the securities litigation for consideration of \$38.0 million, of which approximately \$22.2 million was to be paid by Cadence's insurance carriers, with the balance to be paid by Cadence. Cadence agreed to this settlement without admitting any wrongdoing on the part of the company or any of its current or former directors or executive officers. On April 23, 2012, the District Court entered an order granting final approval of the securities litigation settlement, and entered its final judgment and order of dismissal with prejudice.

During fiscal 2008, two derivative complaints were filed in Santa Clara County Superior Court, or Superior Court. A motion to consolidate these complaints was granted on January 20, 2009, and the cases were captioned *In re Cadence Design Systems, Inc. Derivative Litigation*. The consolidated cases were then stayed by agreement of the parties. The plaintiffs filed a consolidated amended derivative complaint on June 1, 2010. The consolidated amended derivative complaint named as defendants Cadence (as a nominal defendant), James S. Miller, R.L. Smith McKeithen, John B. Shoven, Lip-Bu Tan, Alberto Sangiovanni-Vincentelli, Donald L. Lucas, Sr., Roger S. Siboni, George Scalise, Michael J. Fister, John A.C. Swainson, Kevin S. Palatnik, William Porter and Kevin Bushby. The consolidated amended derivative complaint alleged purported causes of action for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment (which is asserted against certain defendants). Many of the factual allegations of the consolidated amended derivative complaint were similar to those alleged in the securities class action case described above. In addition, the claims included allegations that the director defendants made inappropriate personnel decisions with respect to the former officers and that the former officers were unjustly enriched. The consolidated derivative complaint sought unspecified monetary damages and equitable relief, disgorgement of profits and compensation, and costs and attorneys' fees.

On April 28, 2010, a derivative complaint was filed in the District Court, captioned *Walter Hamilton, derivatively on behalf of nominal defendant Cadence Design Systems, Inc. v. Michael J. Fister*,

## **Table of Contents**

William Porter, James S. Miller, Jr., Kevin Bushby, R.L. Smith McKeithen, Lip-Bu Tan, Alberto Sangiovanni-Vincentelli, John B. Shoven, Donald L. Lucas, George M. Scalise, Roger S. Siboni, John A.C. Swainson and KPMG LLP. The allegations underlying these claims were similar or identical to the allegations in the consolidated securities class action lawsuits and consolidated derivative complaints described above. In addition, the claims included allegations that Cadence's independent auditors performed allegedly inadequate audits. The complaint sought unspecified monetary relief, injunctive relief relating to certain corporate governance matters, and attorneys' costs and fees. On June 28, 2010, the plaintiff dismissed Cadence's independent auditors from the case, without prejudice.

On August 17, 2010, two complaints were filed in the District Court: one captioned George Powers, derivatively on behalf of Cadence Design Systems, Inc. v. Michael J. Fister, Kevin Bushby, R.L. Smith McKeithen, James S. Miller, Jr., William Porter, James J. Cowie, Kevin S. Palatnik, John B. Shoven, PhD, Donald L. Lucas and Roger S. Siboni; the other captioned Arash Samani, derivatively on behalf of Cadence Design Systems, Inc. v. Michael J. Fister, Kevin Bushby, R.L. Smith McKeithen, James S. Miller, Jr., William Porter, James J. Cowie, Kevin S. Palatnik, John B. Shoven, PhD, Donald L. Lucas and Roger S. Siboni. These complaints were virtually identical to one another, and purported to bring suit derivatively, on behalf of Cadence, against certain of Cadence's current and former officers and directors for breach of fiduciary duty. Many of the allegations underlying this claim were similar or identical to the allegations in the consolidated securities class action lawsuits described above. The complaints sought unspecified monetary and equitable relief, as well as attorneys' fees and costs.

These cases were stayed while the parties participated in the mediation process. On February 8, 2011, the parties to these derivative cases agreed to settle all of them in exchange for certain corporate governance changes that Cadence agreed to put in place, along with an agreement that an application by plaintiffs' counsel to the Court for an attorneys' fee of approximately \$1.8 million is appropriate. The fee was paid by Cadence's insurance carriers during the three months ended June 30, 2012. Cadence agreed to this settlement without admitting any wrongdoing on the part of the company or any of its current or former directors or executive officers. On April 23, 2012, the District Court entered an order granting final approval of the derivative settlement, and entered its final judgment and order of dismissal with prejudice.

## **Other Contingencies**

Cadence provides its customers with a warranty on sales of hardware products, generally for a 90-day period. Cadence did not incur any significant costs related to warranty obligations during the three and six months ended June 30, 2012 or July 2, 2011.

Cadence's product license and services agreements typically include a limited indemnification provision for claims from third parties relating to Cadence's intellectual property. If the potential loss from any indemnification claim is considered probable and the amount or the range of loss can be estimated, Cadence accrues a liability for the estimated loss. The indemnification is generally limited to the amount paid by the customer. Cadence did not incur any significant losses from indemnification claims during the three and six months ended June 30, 2012 or July 2, 2011.

---

**Table of Contents****NOTE 13. STATEMENT OF CASH FLOWS**

The supplemental cash flow information for the six months ended June 30, 2012 and July 2, 2011 is as follows:

	Six Months Ended	
	June 30, 2012	July 2, 2011
	(In thousands)	
Cash Paid During the Period for:		
Interest	\$ 5,677	\$ 6,708