CADENCE DESIGN SYSTEMS INC
Form 10-K
February 24, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

¨ **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 0-15867

CADENCE DESIGN SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0148231**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2655 Seely Avenue, Building 5, San Jose, California	**95134**
(Address of Principal Executive Offices)	(Zip Code)

(408) 943-1234

(Registrant s Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Names of Each Exchange on which Registered
Common Stock, $0.01 par value per share	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [_]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [_] No [X]

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 [X] No [__]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

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

Large accelerated filer [X]	Accelerated filer [_]	Non-accelerated filer [__] (Do not check if 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 Act). Yes [__] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant s most recently completed second fiscal quarter ended July 2, 2011 was $2,874,022,123.

On February 4, 2012, approximately 273,972,723 shares of the Registrant s Common Stock, $0.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for Cadence Design Systems, Inc. s 2012 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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CADENCE DESIGN SYSTEMS, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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PART I.

Item 1. Business

This Annual Report on Form 10-K and the documents incorporated by reference in this Annual Report on Form 10-K contain statements that are not historical in nature, are predictive, or that depend upon or refer to future events or conditions or contain other forward-looking statements. These include, but are not limited to, statements regarding the extent and timing of future revenues and expenses and customer demand, statements regarding the deployment of our products, statements regarding our reliance on third parties and other statements using words such as anticipates, believes, could, estimates, expects, forecasts, intends, may, plans, projects, should, will and would, and words of similar import and the negatives thereof, constitute forward-looking statements. These statements are predictions based upon our current expectations about future events. Actual results could vary materially as a result of certain factors, including but not limited to, those expressed in these statements. We refer you to the Proprietary Technology, Competition, Risk Factors, Critical Accounting Estimates, Results of Operations, Quantitative and Qualitative Disclosures About Market Risk and Liquidity and Capital Resources sections contained in this Annual Report on Form 10-K and the risks discussed in our other Securities Exchange Commission, or SEC, filings, for some important risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements.

We urge you to consider these factors carefully in evaluating the forward-looking statements contained in this Annual Report on Form 10-K. All subsequent written or oral forward-looking statements attributable to our company or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date of this Annual Report on Form 10-K. We do not intend, and undertake no obligation, to update these forward-looking statements.

Overview

We develop software, hardware and intellectual property which are used by semiconductor and electronic system customers to develop and design integrated circuits and electronic devices. We license our software, and two categories of intellectual property, or IP, commonly referred to as verification IP, or VIP, and Design IP. In addition, we sell and lease hardware technology. We provide maintenance for our product offerings and provide engineering services related to methodology, education, and hosted design solutions which help customers manage and accelerate their electronics product development processes.

We were organized as a Delaware corporation in June 1988. Our headquarters is located at 2655 Seely Avenue, San Jose, California 95134. Our telephone number is (408) 943-1234. We use our website at www.cadence.com as a channel for distribution of important information about our company, including news releases and financial information. Our website permits investors to subscribe to e-mail notification alerts when we post new material information on our website. We also make available on our investor relations webpage, free of charge, copies of our SEC filings and submissions as soon as reasonably practicable after electronically filing or furnishing such documents with the SEC. Stockholders may also request copies of these documents by writing to our Corporate Secretary at the address above. Information on our website is not incorporated by reference in this Annual Report on Form 10-K unless expressly noted.

Factors Driving the Electronic Design Automation Industry

We deliver products and services that allow our customers to develop highly complex electronics systems and integrated circuit, or IC, products. The electronic design automation, or EDA, industry depends on continued investment by semiconductor and electronics systems companies in new designs and new products. According to a leading industry source, the semiconductor industry grew in 2010, but did not materially grow overall in 2011. Research firms are anticipating that 2012 semiconductor revenues will grow on average by 5%, which we believe may drive moderate growth for the EDA industry.

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In order to be competitive and profitable in the price-sensitive markets they serve, our customers demand high levels of productivity from their design teams, better predictability in their development schedules and high quality products. Semiconductor and electronics systems companies are responding to demand for increased functionality and miniaturization by combining subsystems such as radio frequency, or RF, wireless communication, video signal processing and microprocessors onto a single silicon chip, creating a system-on-chip, or SoC, or combining multiple chips into a single chip package in a format referred to as system-in-package, or SiP. The trend toward subsystem integration have required these chip makers to find solutions to challenges previously addressed by system companies, such as verifying system-level functionality and hardware-software interoperability.

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

The most significant issues that our customers face in creating their products include optimizing energy consumption, manufacturing microscopic circuitry, verifying device functionality, and achieving technical performance targets, all while meeting aggressive cost requirements. Our semiconductor and systems customers deliver a wide range of products in segments such as smart phones, tablets, televisions, communications and internet infrastructure, and computing platforms. Providers of EDA solutions must deliver products that address the technical challenges while improving the productivity, predictability, reliability and profitability of the design processes and products of their customers.

Products and Product Strategy

Our products are engineered to improve our customers design productivity and design quality by providing a comprehensive set of EDA solutions and a differentiated portfolio of Design IP and VIP. Product revenues include all fees earned from granting licenses to use our software and IP, and from sales and leases of our hardware products. See Product Licensing Arrangements for a discussion of our license types.

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

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

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

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

Digital IC Design

Digital IC Design offerings are used by our customers to create logical representations of a digital circuit or an IC that can be verified for correctness prior to implementation (see the discussion under the Functional

Verification section below). Once the logic is verified, the design representation is implemented, or converted to a format ready for silicon manufacturing, using additional software tools within this category. The manufacturing representation is also analyzed and verified (see the discussion under the Design for Manufacturing section below). Our Digital IC offerings include two major categories: Logic Design and Physical Implementation.

Our Logic Design offering is comprised of formal verification, equivalency checking, synthesis and test capabilities within the Encounter digital IC design platform and are typically used by customers in conjunction with certain Functional Verification capabilities. This offering provides chip planning, design, verification and test technologies and services to customers. Logic Design capabilities are aggregated into solutions that address our customers needs in areas such as power efficiency and advanced process nodes.

Our Physical Implementation offering is comprised of a range of the Encounter digital IC design platform capabilities. The Physical Implementation offering includes timing analysis, signal integrity, power analysis, extraction, physical verification, and place and route capabilities within the Encounter digital IC design platform. This offering enables customers to create a physical representation of logic models, analyze electrical and physical characteristics of a design and prepare a design for manufacturing.

Functional Verification and Design IP

Functional Verification products are used by our customers to efficiently and effectively verify that the circuitry they have designed will perform as intended. This is accomplished in advance of actually implementing or manufacturing the circuitry, which reduces the risk of discovering an error in the completed product. Our Functional Verification offerings are comprised of three major categories: Logic Verification, System Design and Verification, and Design IP.

Our Logic Verification offering consists of planning, property checking, testbench simulation, VIP, memory models and environment capabilities within the Incisive functional verification platform. This offering enables our customers to employ methodology-driven enterprise-level verification process automation, including metric-driven verification planning, process tracking and management that allow the coordination of verification activities across multiple teams and various specialists for rapid verification planning and closure.

Our System Design and Verification offerings consist of hardware-assisted verification with emulation and acceleration, including the verification computing platform Palladium® XP, Palladium and Xtreme® platforms, system-level design capabilities, VIP, estimation of SoC cost and performance, consulting services, and methodologies that provide customers with automation for hardware-software verification and effective system design. In addition, this offering provides system power exploration, analysis and optimization. The QuickCycles® offering allows customers access to our simulation acceleration and emulation products, either on their secure intranet site or remotely over a high-speed, secure network connection.

Our Design IP offerings consist of verified standards-based functional blocks which customers integrate into their ICs to accelerate the development process. Cadence offers many types of Design IP both Controllers and Physical Connections (PHY) for protocols such as Ethernet, PCI Express, DDR and NAND Flash Memory Controllers.

The products obtained through the 2010 acquisition of Denali Software, Inc., or Denali, including VIP, memory models, and Design IP, are included in this category of our offerings.

Custom IC Design

Custom IC Design and Verification offerings are used by our customers to create schematic representations of circuits down to the transistor level for analog, mixed-signal, custom digital, memory and RF designs. These logical representations are verified using simulation tools optimized for each type of design. The offering includes the environment, IC layout and simulation capabilities within the Virtuoso custom design platform. Other tools in the Custom IC portfolio are used to prepare the designs for manufacturing.

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Design for Manufacturing

Our primary focus in DFM is to address manufacturing effects as early in the product development process as possible. As a result, we are enhancing the DFM awareness of our core Encounter Digital IC and Virtuoso Custom IC product offerings. In addition to upstream integration of DFM technologies, we also offer stand-alone DFM products.

With the advent of silicon manufacturing technologies at geometries of 65 nanometer and below, our customers are concerned with the manufacturability and yield of their designs. The physical layout of each IC requires detailed analysis and optimization to ensure that the design can be manufactured in volume while performing as expected. Some of our DFM capabilities include electrical and physical lithography checking, chemical-mechanical polishing analysis and optimization, pattern matching, double patterning, and optical proximity checking.

System Interconnect Design

Our System Interconnect Design offerings are used by our customers to develop PCBs and IC packages. The offerings include the following capabilities within the Allegro system interconnect design platform: PCB authoring and implementation, IC package / SiP signal and power integrity analysis, PCB library design management and collaboration. Certain offerings also include the simulation capability within the Virtuoso custom design platform. These offerings enable engineers who are responsible for the capture, layout and analysis of advanced PCB and IC packages to design high-performance electronic products across the domains of IC, IC package and PCB, to increase functional density and to manage design complexity while reducing cost and time to market. For the mainstream PCB customers, where individual or small team productivity is a focus, we provide the OrCAD® family of offerings that is marketed worldwide through a network of resellers.

Third-Party Programs and Initiatives

In addition to our products, many customers use internally developed design tools or design tools provided by other EDA companies, as well as Design IP available from multiple suppliers. We support the use of third-party design products and Design IP through vehicles such as our Connections® program and through our participation in industry groups such as the Silicon Integration Initiative and Acellera System Initiative. We contribute to the development and deployment of EDA industry standards.

Maintenance

Customer service and support is critical to the adoption and successful use of our products. We provide our customers with technical support to facilitate their use of our software, IP and hardware solutions.

We offer maintenance to our customers as an integral, non-cancelable component of our subscription and most term license agreements, as a component of certain other term license agreements subject to annual renewal, or as a separate agreement subject to annual renewal for our perpetual license customers.

Services

We offer a number of fee-based services, including engineering, methodology, education and Hosted Design Solutions. These services may be sold separately or sold and performed in conjunction with the sale, lease or license of our products. As part of our services offerings we design advanced ICs and address industry design issues that may not be solved adequately by today s EDA technologies. This enables us to target and accelerate the development of new software technology and products to satisfy current and future design requirements.

We offer engineering services to collaborate with our customers in the design of complex ICs and the implementation of key design capabilities, including low power, IC packaging and board design, mixed-signal design, functional verification, digital implementation, analog/mixed-signal and system-level. The customers for these services primarily consist of semiconductor and systems companies developing products for the consumer, communications, military and aerospace and computing markets. These ICs range from digital SoCs, analog and RF designs to complex mixed-signal ICs.

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In delivering methodology services, we leverage our experience and knowledge of design techniques, our products, leading practices and different design environments to improve the productivity of our customers engineering teams. Depending on the customers projects and needs, we work with customers using outsourcing, consultative and collaborative offerings.

Our Hosted Design Solutions enable our engineering teams at one or more of our locations to assist our customers teams located elsewhere in the world during the course of their design and engineering projects through a secure network infrastructure. They also enable us to deliver software-as-a-service to those customers who do not have their own infrastructure.

Our education services offerings can be customized and include training programs that are conducted via the internet or in a classroom setting. The content of these offerings ranges from the latest IC design techniques to methodologies for using the most recent features of our EDA products. The primary focus of education services is to accelerate our customers path to productivity in the use of our products.

Product, Maintenance and Services Revenue

Revenue, and revenue as a percentage of total revenue, from our product, services and maintenance offerings for the last three fiscal years were as follows:

	2011		2010		2009	
	(In millions, except percentages)					
Product	$ 640.8	56%	$ 471.6	50%	$ 400.8	47%
Services	116.7	10%	100.9	11%	106.5	13%
Maintenance	392.3	34%	363.5	39%	345.3	40%
Total revenue	$ 1,149.8		$ 936.0		$ 852.6	

For an additional description of our product, services and maintenance revenue, see the discussion under the heading Results of Operations under Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Marketing and Sales

We generally market our products and provide maintenance and services to existing and prospective customers through a direct sales force consisting of sales people and applications engineers. Applications engineers provide technical pre-sales and post-sales support for software products. Due to the complexity of many of our EDA products and the electronic design process, the sales cycle is generally long, requiring three to six months or more. During the sales cycle, our direct sales force generally provides technical presentations, product demonstrations and support for on-site customer evaluation of our solutions. We also promote our products and services through advertising, direct mail, trade shows, public relations and the internet. We selectively utilize value-added resellers to broaden our reach and reduce cost of sales. All OrCAD and selected Incisive products are primarily marketed through these channels. With respect to international sales, we generally market and support our products and services through our subsidiaries. We also use a third-party distributor to sell our products and services to certain customers in Japan.

Product Arrangements

We sell software using three license types: subscription, term and perpetual. Customers who prefer to license technology for a specified, limited period of time will choose either a subscription or term license, and customers who prefer to have the right to use the technology continuously without time restriction will choose a perpetual license. Customers who desire to use new software technology during the life of the contract will select a subscription license, which allows them limited access to unspecified new technology on a when-and-if-available basis, as opposed to a term or perpetual license, which does not include rights to use new technology. Payment terms for subscription and term licenses generally provide for payments to be made in installments over the license period and payment terms for perpetual licenses generally are net 30 days.

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Our hardware products are either sold to customers or leased to them.

We generally license our Design IP under nonexclusive license agreements that provide usage rights for specific applications. Fees under these licenses are typically charged on a per-design basis.

For a further description of our license agreements, our hardware sale or lease agreements, revenue recognition policies and results of operations, please refer to the discussion under the heading Critical Accounting Estimates under Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Backlog

Our backlog was approximately $1.7 billion as of both December 31, 2011 and January 1, 2011. Although our total backlog as of December 31, 2011 has not changed significantly from the balance as of January 1, 2011, we believe our backlog has improved because our backlog as of December 31, 2011 contained contracts with a shorter weighted-average duration. Our backlog as of December 31, 2011 consisted of revenue to be recognized in fiscal periods after December 31, 2011 for fully executed arrangements with effective dates commencing no later than December 31, 2011, and from a variety of license types, which generally include, but are not limited to:

- Licenses for software products and Design IP;
- Maintenance contracts on hardware and software products;
- Bookings for the sale of hardware products that have expected delivery dates after December 31, 2011 and prior to March 31, 2012;
- Leases of hardware products;
- Licenses with payments that are outside our customary terms; and
- The undelivered portion of engineering services contracts.

The substantial majority of our backlog is generated by our product and maintenance businesses because customer licenses generally include both product and maintenance components. Historically, we have not experienced significant cancellations of our contracts with customers. However, we occasionally reschedule the required completion dates of engineering services contracts, deferring revenue recognition under those contracts beyond the original anticipated completion date. Changes in customer license types or payment terms also can affect the timing of revenue recognition. During fiscal 2011, approximately 75% of our revenue came from backlog as of January 1, 2011. We expect approximately 80% of our fiscal 2012 revenue to come from backlog as of December 31, 2011. The actual percentage of revenue coming from backlog in fiscal 2012 may change if our actual business levels in fiscal 2012 are different than our current expectations.

Revenue Seasonality

As a result of our transition to a more ratable license mix, our overall exposure to short term revenue seasonality has generally been reduced.

Research and Development

Our research and development expense was $400.7 million during fiscal 2011, $376.4 million during fiscal 2010 and $354.7 million during fiscal 2009.

The primary areas of our research and development include SoC design, the design of silicon devices, high-performance IC packaging, SiP and PCB design, system-level modeling and verification, high-performance logic verification technology, VIP, Design IP and hardware/software co-verification. The electronics industry combines rapid innovation with rapidly increasing design and manufacturing complexity, so we make significant investments in enhancing our current products, as well as creating new products and technologies and integrating those products and technologies together into differing solutions.

Our future performance depends largely on our ability to maintain and enhance our current product development and commercialization of newly developed products or capabilities, and to offer solutions that meet increasingly demanding productivity, quality, predictability and cost requirements. Our offerings must keep pace with our customers technical developments and industry standards.

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Manufacturing and Software Distribution

We perform final assembly and testing of our verification, acceleration and emulation hardware products at our headquarters in San Jose, California. Subcontractors manufacture all major subassemblies, including all individual PCBs and custom ICs, and supply them for qualification and testing before their incorporation into the assembled product.

Software and documentation are primarily distributed to customers by secure electronic delivery or on DVD.

Proprietary Technology

Our success depends, in part, upon our proprietary technology. We generally rely on patents, copyrights, trademarks and trade secret laws, licenses and restrictive agreements to establish and protect our proprietary rights in technology and products. Many of our products include software or other intellectual property licensed from third parties. We may have to seek new licenses or renew existing licenses for third-party software and other intellectual property in the future. As part of performing engineering services for customers, our engineering services business uses certain software and other intellectual property licensed from third parties, including that of our competitors.

Competition

We compete in EDA software products and maintenance most frequently with Synopsys, Inc., Mentor Graphics Corporation and Magma Design Automation, Inc., but also with numerous other EDA providers (such as Ansys, Inc., Atrenta, Inc., ATopTech, Inc., Berkeley Design Automation, Inc., EVE SA, SpringSoft, Inc. and Zuken Ltd., and many others offering point solutions), with manufacturers of electronic devices that have developed, acquired or have the capability to develop their own EDA products, and with numerous electronics design and consulting companies. Synopsys recently closed its acquisition of Magma, which will impact the competitive landscape of the industry. In the area of Design IP, we compete with Synopsys and numerous smaller IP companies. We generally compete on the basis of quality, product features, level of integration or compatibility with other tools, price, payment terms and maintenance offerings.

It is our strategy to use engineering services as a differentiator to further promote our products and maintenance businesses. Certain competitive factors in the engineering services business differ from those of the products and maintenance businesses. While we do compete with other EDA companies in the engineering services business, our principal competitors include independent engineering service businesses. These companies vary greatly in focus, geographic location, capability, cost structure and pricing. Business models of these companies range from services-only engineering work to delivery of completed ICs. Many of these companies are also customers, and therefore use our product offerings in the delivery of their services or products. We compete with these companies by focusing on the design of complex analog, digital and mixed-signal ICs and SoCs.

International Operations

We have 48 sales offices, design centers and research and development facilities, approximately 60% of which are located outside of the United States. We consider customer sales and support requirements, the availability of a skilled workforce, and costs and efficiencies, among other relative benefits, when determining what operations to locate internationally. For an additional description of our international operations, see the discussion under the heading The effect of foreign exchange rate fluctuations and other risks to our international operations may seriously harm our financial condition under Item 1A, Risk Factors and Note 21 in our Notes to Consolidated Financial Statements.

Employees

As of December 31, 2011, we employed approximately 4,700 individuals.

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Executive Officers of the Registrant

The following table provides information regarding our executive officers as of February 23, 2012:

Name	Age	Positions and Offices
Lip-Bu Tan	52	President, Chief Executive Officer and Director
James J. Cowie	47	Senior Vice President, General Counsel and Secretary
Chi-Ping Hsu	56	Senior Vice President, Research and Development
Charlie Huang	48	Senior Vice President, Worldwide Field Operations
Nimish H. Modi	49	Senior Vice President, Research and Development
Geoffrey G. Ribar	53	Senior Vice President and Chief Financial Officer

Our executive officers are appointed by the Board of Directors and serve at the discretion of the Board of Directors.

LIP-BU TAN has served as President and Chief Executive Officer of Cadence since January 2009. Mr. Tan has been a member of the Cadence Board of Directors since February 2004. In 1987, Mr. Tan founded Walden International, an international venture capital firm, and since that time has served as its Chairman. Mr. Tan also serves as a director of Flextronics International Ltd., Inphi Corporation, Semiconductor Manufacturing International Corporation and SINA Corporation. Mr. Tan received an M.S. in nuclear engineering from the Massachusetts Institute of Technology, an MBA from the University of San Francisco, and a B.S. from Nanyang University in Singapore.

JAMES J. COWIE has served as Senior Vice President and General Counsel of Cadence since April 2008 and Secretary of Cadence since May 2008. From August 2000 to March 2008, Mr. Cowie held several positions at Cadence, most recently as Corporate Vice President Business Development, Associate General Counsel and Assistant Secretary. Mr. Cowie holds a bachelor s degree in economics from Duke University and a J.D. from Stanford Law School.

CHI-PING HSU has served as Senior Vice President, Research and Development of Cadence since November 2008. From April 2003 to November 2008, Mr. Hsu held several positions at Cadence, most recently as Corporate Vice President, IC Digital and Power Forward. Before joining Cadence, Mr. Hsu served as President and Chief Operating Officer of Get2Chip Inc., a supplier of high-performance system-on-chip synthesis that was acquired by Cadence in April 2003. Mr. Hsu also serves as a director of MoSys, Inc. Mr. Hsu holds a Ph.D. degree in EECS from the University of California, Berkeley, and a BSEE degree from National Taiwan University.

CHARLIE HUANG has served as Senior Vice President, Worldwide Field Operations of Cadence since April 2011. From January 2009 to April 2011, Mr. Huang served as Senior Vice President and Chief Strategy Officer of Cadence. From April 2010 to April 2011, Mr. Huang also served as Chief of Staff. From April 2007 to January 2009, Mr. Huang served as Senior Vice President Business Development of Cadence. Mr. Huang was General Partner at Telos Venture Partners, a Cadence-affiliated venture capital firm, from 2004 to 2005. From 2001 to March 2007, Mr. Huang held several positions at Cadence in engineering management and business development. Before joining Cadence, Mr. Huang co-founded and was Chief Executive Officer of CadMOS Design Technology, Inc., an EDA company that was acquired by Cadence in 2001. Mr. Huang holds a B.S.E.E. from Shanghai Jiao Tong University and a Ph.D. from Carnegie Mellon University.

NIMISH H. MODI has served as Senior Vice President, Research and Development of Cadence since November 2008. From August 2006 to November 2008, Mr. Modi served as Corporate Vice President, Front-End Design. Before joining Cadence, from May 1988 to August 2006, Mr. Modi held several positions at Intel Corporation, a semiconductor company, most recently as Vice President in the Enterprise Platforms Group. Mr. Modi holds a Bachelor of Engineering degree in electrical engineering from the University of Bombay and a Masters degree in electrical engineering from Virginia Tech.

GEOFFREY G. RIBAR has served as Senior Vice President and Chief Financial Officer of Cadence since November 2010. Before joining Cadence in October 2010, Mr. Ribar served as Chief Financial Officer of Telegent Systems, Inc., a semiconductor company, from May 2008 to October 2010. From January 2006 to April

2008, Mr. Ribar served as Chief Financial Officer at SiRF Technology, Inc., a semiconductor company that was acquired by CSR plc in 2009. Mr. Ribar served as Chief Financial Officer at other semiconductor companies including Asyst Technology, Inc., Matrix Semiconductor, Inc., and nVidia Corporation. Mr. Ribar also held various positions including Corporate Controller at Advanced Micro Devices, Inc., a microchip manufacturing company. Mr. Ribar received his Bachelor of Science degree in Chemistry, as well as an MBA, from the University of Michigan.

Item 1A. Risk Factors

Our business faces many risks. Described below under the headings Risks Related to Our Business and Risks Related to Our Securities and Indebtedness are what we believe to be the material risks that we face. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could suffer.

Risks Related to Our Business

Uncertainty in the global economy in general, and any potential downturn in the semiconductor and electronics industries in particular, may negatively impact our business and reduce our bookings levels and revenue.

Purchases of our products and services are dependent upon the commencement of new design projects by IC manufacturers and electronics systems companies. The IC and electronics systems industries are cyclical and are characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand.

For example, the IC and electronics systems industries experienced a significant downturn in 2009. The IC and electronic systems industries have also experienced significant downturns in connection with, or in anticipation of, maturing product cycles of both these industries and their customers products. This economic downturn in the industries we serve contributed to the reduction in our revenue in 2009, as compared to prior years. Although the semiconductor industry experienced growth in 2010, semiconductor industry revenues for 2011 remained at levels similar to 2010. Spending on EDA products and services during 2012 may grow moderately as customers invest in new projects, or spending on EDA products and services may decline in 2012.

While we cannot predict global economic conditions, uncertainty about future economic conditions and future decline in consumer spending could negatively impact our customers businesses, reducing the number of new chip designs, their overall research and development spending, including their spending on EDA products and services, and as a result decrease demand for our products. Decreased bookings for our products and services, customer bankruptcies, or consolidation among our customers could also adversely affect our ability to grow our business. Our future business and financial results are subject to considerable uncertainty that could impact our stock price. If economic conditions deteriorate in the future, or, in particular, if semiconductor industry revenues do not grow, our future revenues and financial results could be adversely affected. However, if economic conditions improve for our customers, the positive impact on our revenues and financial results may be deferred due to cautious customer research and development spending and our ratable license mix.

We have experienced varied operating results, and our operating results for any particular fiscal period are affected by the timing of significant bookings for our products, fluctuations in customer preferences for license types and the timing of revenue recognition under those license types.

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

Our operating results are also affected by the mix of software license types and bookings for sales of hardware products executed in any given period. Revenue is affected by the timing of software license renewals, changes in existing contractual arrangements with customers and the mix of license types (i.e., perpetual, term or subscription) for existing customers. Our software license mix is such that a substantial proportion of licenses require ratable revenue recognition, and we expect the license mix, combined with the modest growth in

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spending by our customers in the semiconductor sector, may make it difficult for us to rapidly increase our revenue in future fiscal periods. The timing of our revenue recognition may be deferred until payments become due and payable from customers with nonlinear payment terms or as cash is collected from customers with low credit ratings.

Revenue related to our hardware business is generally recognized upon delivery. We expect revenue related to our hardware business to be cyclical, with our hardware related revenue generally increasing after the release of a new generation of hardware products and then declining gradually as that generation of hardware systems gets older, until eventually, a new generation of hardware products is released and the cycle restarts. Any variation from these expectations could have a material impact on our business.

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

The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results of operations (see Critical Accounting Estimates under Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that may lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

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

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

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

Migration to nanometer design the continuous shrinkage of the size of process features and other features, such as wires, transistors and contacts on ICs, due to the ongoing advances in the semiconductor manufacturing processes represents a major challenge for participants in the semiconductor industry, from IC design and design automation to design of manufacturing equipment and the manufacturing process itself. Shrinking transistor sizes are challenging the industry in the application of more complex physics and chemistry in order to produce advanced silicon devices. For EDA tools, models of each component s electrical properties and behavior become more complex as do requisite analysis, design and verification capabilities. Novel design tools and methodologies must be invented quickly to remain competitive in the design of electronics in the smallest nanometer ranges.

The challenges of nanometer design are leading some customers to work with older, less risky manufacturing processes that may reduce their need to upgrade or enhance their EDA products and design flows.

The ability to design SoCs increases the complexity of managing a design that, at the lowest level, is represented by billions of shapes on fabrication masks. In addition, SoCs typically incorporate microprocessors and digital signal processors that are programmed with software, requiring simultaneous design of the IC and the related software embedded on the IC.

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

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- Increased technological capability of the Field-Programmable Gate Array, or FPGA, which is a programmable logic chip, creates an alternative to IC implementation for some electronics companies. This could reduce demand for our IC implementation products and services.
- A growing number of low-cost engineering services businesses could reduce the need for some IC companies to invest in EDA products.
- Adoption of cloud computing technologies with accompanying new business models for an increasing number of software categories, including EDA.

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

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

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

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

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

Litigation could adversely affect our financial condition or operations.

We currently are, and in the future may be, involved in various disputes and litigation that arise in the ordinary course of business. These include disputes and lawsuits related to intellectual property, including customer indemnification, mergers and acquisitions, licensing, contracts, distribution arrangements and employee relations matters. We have been engaged in a consolidated securities class action lawsuit and shareholder derivative lawsuits. For information regarding the litigation matters in which we are currently engaged, please refer to the discussion under Item 3, Legal Proceedings and Note 16 in our Notes to Consolidated Financial Statements. We cannot provide any assurances that the final outcome of these lawsuits or any other proceedings that may arise in the future will not have a material adverse effect on our business, operating results, financial condition or cash flows. Litigation can be time consuming and expensive and could divert management s time and attention from our business, which could have a material adverse effect on our revenues and operating results.

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

Our installed customer base has traditionally generated additional new license, service and maintenance revenues. In future periods, customers may not necessarily license or buy additional products or contract for additional services or maintenance. In some cases, maintenance is renewable annually at a customer s option, and there are no mandatory payment obligations or obligations to license additional software. If our customers decide not to renew their maintenance agreements or license additional products or contract for additional services, or if they reduce the scope of the maintenance agreements, our revenue could decrease, which could have an adverse effect on our operating results. Our customers, many of which are large semiconductor and systems companies, often have significant bargaining power in negotiations with us. Mergers or acquisitions of our customers can reduce the total level of purchases of our software and services, and in some cases, increase customers bargaining power in negotiations with their suppliers, including us.

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

The EDA industry and the commercial electronics engineering services industry are highly competitive. If we fail to compete successfully in these industries, it could seriously harm our business, operating results or financial condition. To compete in these industries, we must identify and develop or acquire innovative and cost-competitive EDA products, integrate them into platforms and market them in a timely manner. We must also gain industry acceptance for our engineering services and offer better strategic concepts, technical solutions, prices and response time, or a combination of these factors, than those of our competitors and the internal design departments of electronics manufacturers. We may not be able to compete successfully in these industries. Factors that could affect our ability to succeed include:

- The development by others of competitive EDA products or platforms and engineering services, possibly resulting in a shift of customer preferences away from our products and services and significantly decreased revenue;
- Decisions by electronics manufacturers to perform engineering services internally, rather than purchase these services from outside vendors due to budget constraints or excess engineering capacity;
- The challenges of developing (or acquiring externally developed) technology solutions, including hardware offerings, that are adequate and competitive in meeting the rapidly evolving requirements of next-generation design challenges;
- The significant number of current and potential competitors in the EDA industry and the low cost of entry;
- Intense competition to attract acquisition targets, possibly making it more difficult for us to acquire companies or technologies at an acceptable price or at all;
- The combination of two or more of our EDA competitors or collaboration among many EDA companies to deliver more comprehensive offerings than they could individually; and
- Aggressive pricing competition by some of our competitors may cause us to lose our competitive position, which could result in lower revenues or profitability and could adversely impact our ability to realize the revenue and profitability forecasts for our software or hardware systems products.

We compete in EDA software products and maintenance most frequently with Synopsys, Inc., Mentor Graphics Corporation and Magma Design Automation, Inc., but also with numerous other EDA providers (such as Ansys, Inc., Atrenta, Inc., ATopTech, Inc., Berkeley Design Automation, Inc., EVE SA, SpringSoft, Inc. and Zuken Ltd., and many others offering point solutions), with manufacturers of electronic devices that have developed, acquired or have the capability to develop their own EDA products, and with numerous electronics design and consulting companies. Synopsys recently closed its acquisition of Magma, which will impact the competitive landscape of the industry. In the area of Design IP, we compete with Synopsys and numerous smaller IP companies.

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

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

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

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

- The adoption or expansion of government trade restrictions, including tariffs and other trade barriers;
- Limitations on repatriation of earnings;
- Limitations on the conversion of foreign currencies;
- Reduced protection of intellectual property rights in some countries;
- International economic downturn;
- Longer collection periods for receivables and greater difficulty in collecting accounts receivable;
- Difficulties in managing foreign operations;
- Political and economic instability;
- Unexpected changes in regulatory requirements;
- Inability to continue to offer competitive compensation in certain growing regions; and
- United States and other governments licensing requirements for exports, which may lengthen the sales cycle or restrict or prohibit the sale or licensing of certain products.

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

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

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

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

In addition, the NASDAQ Marketplace Rules require stockholder approval for new equity compensation plans and significant amendments to existing equity compensation plans, including increases in shares available for issuance under such plans, and prohibit NASDAQ member organizations from giving a proxy to vote on equity compensation plans unless the beneficial owner of the shares has given voting instructions. These regulations could make it more difficult for us to grant equity compensation to employees in the future. To the extent that these regulations make it more difficult or expensive to grant equity compensation to employees, we may incur increased compensation costs or find it difficult to attract, retain and motivate employees, which could materially and adversely affect our business.

We may not receive significant revenue from our current research and development efforts for several years, if at all.

Developing EDA technology and integrating acquired technology into existing platforms is expensive, and these investments often require a long time to generate returns. Our strategy involves significant investments in research and development and related product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain and improve our competitive position. However, we cannot ensure that we will receive significant, if any, revenue from these investments.

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

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

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

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

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

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

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

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

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

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

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

- Pay damages (including the potential for treble damages), license fees or royalties (including royalties for past periods) to the party claiming infringement;
- Stop licensing products or providing services that use the challenged intellectual property;
- Obtain a license from the owner of the infringed intellectual property to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or
- Redesign the challenged technology, which could be time consuming and costly, or not be accomplished.

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

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

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

The long sales cycle of our products and services makes the timing of our revenue difficult to predict and may cause our operating results to fluctuate unexpectedly.

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

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

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

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

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The effect of foreign exchange rate fluctuations may adversely impact our financial condition.

We have significant operations outside the United States. Our revenue from international operations as a percentage of total revenue was approximately 57% during fiscal 2011, 59% during fiscal 2010 and 57% during fiscal 2009, a substantial portion of which is denominated in United States dollars. We expect that revenue from our international operations will continue to account for a significant portion of our total revenue. We also transact business in various foreign currencies, primarily the Japanese yen. The volatility of foreign currencies in certain regions, most notably the Japanese yen, European Union euro, British pound and Indian rupee have had and may in the future have an effect on our revenue or operating results.

Fluctuations in the rate of exchange between the United States dollar and the currencies of other countries where we conduct business could seriously affect our business, operating results or financial condition. For example, when a foreign currency declines in value relative to the United States dollar, it takes more of the foreign currency to purchase the same amount of United States dollars than before the change. If we price our products and services in the foreign currency, we receive fewer United States dollars than we did before the change. If we price our products and services in United States dollars, the decrease in value of the local currency results in an increase in the price for our products and services compared to those products of our competitors that are priced in local currency. This could result in our prices being uncompetitive in markets where business is transacted in the local currency. On the other hand, when a foreign currency increases in value relative to the United States dollar, it takes more United States dollars to purchase the same amount of the foreign currency. As we use the foreign currency to pay for payroll costs and other operating expenses in our international operations, this results in an increase in operating expenses.

Exposure to foreign currency transaction risk can arise when transactions are conducted in a currency different from the functional currency of one of our subsidiaries. A subsidiary s functional currency is generally the currency in which it primarily conducts its operations, including product pricing, expenses and borrowings. Although we attempt to reduce the effect of foreign currency fluctuations, significant exchange rate movements may hurt our results of operations as expressed in United States dollars.

Our reported financial results may be adversely affected by changes in United States generally accepted accounting principles.

United States generally accepted accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. During fiscal 2010, the FASB issued exposure drafts of proposed accounting principles related to revenue recognition and leases which could change the way we account for certain of our transactions. The FASB has continued to discuss these proposed accounting principles during fiscal 2011. A change in these or other principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change. In addition, the SEC announced a multi-year plan that could ultimately lead to the use of International Financial Reporting Standards by United States issuers in their SEC filings. Any such change could have a significant effect on our reported financial results.

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

We have significant operations outside the United States. As of December 31, 2011, approximately 50% of our cash and cash equivalents balance was held by subsidiaries outside the United States, with the remainder of the balance held by us or our subsidiaries in the United States. We believe that the combination of our existing United States cash balances and future United States operating cash flows are sufficient to meet our ongoing United States operating expenses and debt repayment obligations. However, if these sources of cash were

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insufficient to meet our future funding obligations in the United States, we could be required to seek other available funding sources which could negatively impact our results of operations, financial position and the market price of our common stock.

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

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

- Changes in tax laws or the interpretation of such tax laws, including potential United States and international tax reforms;
- Earnings being lower than anticipated in countries where we are taxed at lower rates as compared to the United States federal and state statutory tax rates;
- An increase in expenses not deductible for tax purposes, including certain stock-based compensation and impairment of goodwill;
- Changes in the valuation allowance against our deferred tax assets;
- Changes in judgment from the evaluation of new information that results in a recognition, derecognition or change in measurement of a tax position taken in a prior period;
- Increases to interest or penalty expenses classified in the financial statements as income taxes;
- New accounting standards or interpretations of such standards;
- A change in our decision to indefinitely reinvest foreign earnings outside the United States; or
- Results of tax examinations by the Internal Revenue Service, or IRS, and state and foreign tax authorities.

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

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

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

The IRS and other tax authorities regularly examine our income tax returns. The calculation of our provision (benefit) for income taxes requires us to use significant judgment and involves dealing with uncertainties in the application of complex tax laws and regulations. In determining the adequacy of our provision (benefit) for income taxes, we regularly assess the potential settlement outcomes resulting from income tax examinations. However, the final outcome of tax examinations, including the total amount payable or the timing of any such payments upon resolution of these issues, cannot be estimated with certainty. In addition, we cannot be certain that such amount will not be materially different from the amount that is reflected in our historical income tax provisions and accruals. Should the IRS or other tax authorities assess additional taxes as a result of a current or a future examination, we may be required to record charges to operations in future periods that could have a material impact on our results of operations, financial position or cash flows in the applicable period or periods.

We depend on a sole supplier for certain hardware components, making us vulnerable to supply shortages and price fluctuation.

We are dependent on a sole supplier for certain hardware components. Our reliance on a sole supplier could result in product delivery problems and reduced control over product pricing and quality, as well as limit our ability to identify and qualify another supplier in a timely manner. While it is our goal to have multiple sources to procure certain key components, in some cases it is not practical or feasible to do so. We may suffer a disruption in the supply of certain hardware components if we are unable to purchase sufficient components on a timely basis or at all for any reason.

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

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

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

In recent fiscal years, we have initiated restructuring plans in an effort to decrease costs by reducing our workforce and by consolidating facilities. While those restructuring plans are almost complete, we may not be able to realize the expected long-term benefits of our restructuring plans, such as improvements in operating margins and cash flows. Our inability to realize these benefits may result in an inefficient business structure that could negatively affect our results of operations. Our restructuring plans may also subject us to litigation risks and expenses. In addition, our restructuring plans may have other consequences, such as attrition beyond our planned reduction in workforce, a negative effect on employee morale or our ability to attract highly skilled employees. Our competitors may also seek to gain a competitive advantage over us. The restructuring plans could also cause our remaining employees to leave or result in reduced productivity by our employees, and, in turn, this may affect our revenue and other operating results in the future.

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

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

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

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

- Loss of customers;
- Loss of market share;

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

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

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

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

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

- Our certificate of incorporation allows our Board of Directors to issue, at any time and without stockholder approval, preferred stock with such terms as it may determine. No shares of preferred stock are currently outstanding. However, the rights of holders of any of our preferred stock that may be issued in the future may be superior to the rights of holders of our common stock.
- Section 203 of the Delaware General Corporation Law generally prohibits a Delaware corporation from engaging in any business combination with a person owning 15% or more of its voting stock, or who is affiliated with the corporation and owned 15% or more of its voting stock at any time within three years prior to the proposed business combination, for a period of three years from the date the person became a 15% owner, unless specified conditions are met.

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

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

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

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

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Risks Related to Our Securities and Indebtedness

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

We have a substantial level of debt. As of December 31, 2011, we had outstanding indebtedness with a principal balance of $494.7 million as follows:

- $350.0 million related to our 2.625% Cash Convertible Senior Notes Due 2015, or our 2015 Notes;
- $144.5 million related to our 1.500% Convertible Senior Notes Due December 15, 2013, or our 2013 Notes; and
- $0.2 million related to our Zero Coupon Zero Yield Senior Convertible Notes Due 2023, or our 2023 Notes.

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

- Make it difficult for us to satisfy our payment obligations on our debt as described above;
- Make us more vulnerable in the event of a downturn in our business;
- Reduce funds available for use in our operations or for developments or acquisitions of new technologies;
- Make it difficult for us to incur additional debt or obtain any necessary financing in the future for working capital, capital expenditures, debt service, acquisitions or general corporate purposes;
- Impose operating or financial covenants on us;
- Limit our flexibility in planning for or reacting to changes in our business; or
- Place us at a possible competitive disadvantage relative to less leveraged competitors and competitors that have greater access to capital resources.

If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we fail to comply with the various requirements of our indebtedness, we would be in default, which would permit the holders of our indebtedness to accelerate the maturity of the indebtedness and could cause defaults under any other indebtedness as well.

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

Warrant transactions associated with our 2013 Notes and 2015 Notes will, in certain circumstances, dilute the ownership interests of existing stockholders.

We entered into separate warrant transactions concurrent with the issuance of the 2013 Notes for the purchase of up to approximately 23.6 million shares of Cadence s common stock at a strike price of $31.50 per share. We also entered into separate warrant transactions at the time of the issuance of the 2015 Notes 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. These warrants will be settled in net shares, meaning that upon expiration of the warrants we will issue shares of our common stock to the purchasers of the warrants that represent the value by which the price of our common stock exceeds the strike price stipulated within the particular warrant agreement. If Cadence s stock price is above the warrants strike price upon expiration of the warrants, the warrants will dilute the ownership interest to our existing stockholders. The warrants will also dilute our diluted earnings per share in periods when our average stock price exceeds the strike price of the particular warrant. Any sales in the public market of common stock issuable upon net settlement at expiration of the warrants could adversely affect then current market prices of our common stock.

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

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

In order for the 2015 Notes to be convertible into cash in a particular fiscal quarter, a conversion condition must be met during the preceding fiscal quarter. During the three months ended December 31, 2011, our closing stock price exceeded $9.81 for at least 20 days in the 30-day period prior to December 31, 2011. As a result, the 2015 Notes are convertible into cash from January 1, 2012 through March 31, 2012 and we have classified our 2015 Notes as a current liability on our Consolidated Balance Sheet as of December 31, 2011. The 2013 Notes are not currently convertible.

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

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

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

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

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

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

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

If any of the participants in the hedge transactions is unwilling or unable to perform its obligations for any reason, we would not be able to receive the benefit of such transaction. We cannot provide any assurances as to the financial stability or viability of any of the participants in the hedge transactions. Our 2015 Notes became convertible into cash at the end of the second quarter of fiscal 2011, were not convertible as of the end of the third quarter of fiscal 2011, but were again convertible as of December 31, 2011. The convertible note hedge transactions in connection with the 2015 Notes, or the 2015 Notes Hedges, are intended to reduce our exposure above the $350.0 million principal balance in the event of a cash conversion of the 2015 Notes. If the hedge participants fail to meet their obligations for any reasons, it could have a material adverse effect on our liquidity and financial condition.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own land and buildings at our headquarters located in San Jose, California. We also own buildings in India. As of December 31, 2011, the total square footage of our owned buildings was approximately 965,000.

We lease additional facilities in the United States and various other countries. We sublease certain of these facilities where space is not fully utilized or has been impacted as part of our restructuring plans.

We believe that these facilities are adequate for our current needs and that suitable additional or substitute space will be available as needed to accommodate any expansion of our operations.

Item 3. Legal Proceedings

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

In February 2011, we agreed to settle our pending derivative and securities litigation. For an additional description of our legal proceedings and these settlements, see Note 16 in our Notes to Consolidated Financial Statements.

Item 4. (Removed and Reserved)

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PART II.

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Market Price

Our common stock is traded on the NASDAQ Global Select Market under the symbol CDNS. We have never declared or paid any cash dividends on our common stock in the past, and we do not plan to pay cash dividends in the foreseeable future. As of February 4, 2012, we had approximately 882 registered stockholders and approximately 27,391 beneficial owners of our common stock.

The following table sets forth the high and low sales prices for Cadence common stock for each fiscal quarter in the two-year period ended December 31, 2011:

	High	Low
2011		
First Quarter	$ 10.28	$ 8.20
Second Quarter	11.07	8.96
Third Quarter	10.86	8.09
Fourth Quarter	11.72	8.71
2010		
First Quarter	$ 6.92	$ 5.36
Second Quarter	7.68	5.69
Third Quarter	7.92	5.58
Fourth Quarter	8.68	7.42

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Stockholder Return Performance Graphs

The following graph compares the cumulative 5-year total stockholder return on our common stock relative to the cumulative total return of the NASDAQ Composite index and the S&P 400 Information Technology index. The graph assumes that the value of the investment in our common stock and in each index (including reinvestment of dividends) was $100 on December 30, 2006 and tracks it through December 31, 2011.

	12/30/06	12/29/07	1/3/09	1/2/10	1/1/11	12/31/11
Cadence Design Systems, Inc.	**100.00**	**95.09**	**21.44**	**33.45**	**46.12**	**58.07**
NASDAQ Composite	**100.00**	**110.26**	**65.65**	**95.19**	**112.10**	**110.81**
S&P 400 Information Technology	**100.00**	**108.29**	**59.66**	**89.24**	**116.56**	**101.08**

The stock price performance included in this graph is not necessarily indicative of future stock price performance

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The following graph compares the cumulative 3-year total stockholder return on our common stock relative to the cumulative total return of the NASDAQ Composite index and the S&P 400 Information Technology index. The graph assumes that the value of the investment in our common stock and in each index (including reinvestment of dividends) was $100 on January 3, 2009 and tracks it through December 31, 2011.

	1/3/09	1/2/10	1/1/11	12/31/11
Cadence Design Systems, Inc.	**100.00**	**155.99**	**215.10**	**270.83**
NASDAQ Composite	**100.00**	**145.27**	**171.11**	**168.62**
S&P 400 Information Technology	**100.00**	**149.57**	**195.36**	**169.44**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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Issuer Purchases of Equity Securities

In February 2008, our Board of Directors authorized a program to repurchase shares of our common stock in the open market with a value of up to $500.0 million in the aggregate. In August 2008, our Board of Directors authorized another program to repurchase shares of our common stock in the open market with a value of up to an additional $500.0 million in the aggregate. The following table sets forth the repurchases we made during the three months ended December 31, 2011:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1) (In millions)
October 2, 2011 November 5, 2011	8,012	$ 9.95	----	$ 814.4
November 6, 2011 December 3, 2011	148,144	$ 11.07	----	$ 814.4
December 4, 2011 December 31, 2011	86,327	$ 10.58	----	$ 814.4
Total	242,483	$ 10.86	----	

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

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Item 6. Selected Financial Data Unaudited

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto and the information contained in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. Historical results are not necessarily indicative of future results. The notes below the table are provided for comparability purposes due to adoptions of accounting pronouncements on a prospective basis from the date of adoption or to describe significant, non-recurring transactions.

	Five fiscal years ended December 31, 2011				
	2011	2010	2009	2008	2007
	(In millions, except per share amounts)				
Revenue [1]	$ 1,149.8	$ 936.0	$ 852.6	$ 1,038.6	$ 1,615.0
Income (loss) from operations [1][2][3]	120.4	(29.0)	(123.6)	(1,573.3)	317.9
Net income (loss) [1][2][3]	72.2	126.5	(149.9)	(1,856.7)	286.8
Net income (loss) per share assuming dilution [1][2][3]	0.27	0.48	(0.58)	(7.30)	0.97
Total assets [2]	1,761.3	1,732.1	1,410.6	1,679.9	3,862.6
Convertible notes	426.0	549.7	436.0	416.6	397.8
Stockholders equity [2]	411.1	276.7	108.4	186.7	2,173.6

(1) We adopted new revenue recognition accounting standards on January 2, 2011 for revenue arrangements that include both hardware and software elements. For an additional description of and disclosures regarding this adoption, see Note 2 in our Notes to Consolidated Financial Statements.

(2) During fiscal 2008, we recorded a $1,317.2 million impairment of goodwill, a $47.1 million impairment of intangible and tangible assets and a $326.0 million valuation allowance against our deferred tax assets. For an additional description of the valuation allowance, see Note 6 in our Notes to Consolidated Financial Statements.

(3) During fiscal 2010, we recorded a $147.9 million benefit for income taxes due to the effective settlement of the IRS examination of our federal income tax returns for the tax years 2000 through 2002. We also recognized a $66.7 million benefit for income taxes due to the release of the deferred tax asset valuation allowance primarily resulting from the increase in deferred tax liabilities from the intangible assets acquired with our acquisition of Denali. For an additional description of, and disclosures regarding, our income tax provision or benefit, see Note 6 in our Notes to Consolidated Financial Statements.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K and with Item 1A, Risk Factors. Please refer to the cautionary language at the beginning of Part I of this Annual Report on Form 10-K regarding forward-looking statements.

Business Overview

We develop EDA software, hardware and IP. We license software and IP, sell or lease hardware technology, provide maintenance for our offerings and provide engineering and education services to help manage and accelerate product development processes for semiconductor and electronics systems companies. Our customers use our products and services to design and develop complex ICs and electronics systems.

Substantially all of our revenue is generated from IC and electronics systems manufacturers and designers and is dependent upon their commencement of new design projects. As a result, our revenue is significantly influenced by our customers business outlook and investment in the introduction of new products and the improvement of existing products.

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

Critical Accounting Estimates

In preparing our Consolidated Financial Statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, operating income (loss) and net income (loss), as well as on the value of certain assets and liabilities on our Consolidated Balance Sheets. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. At least quarterly, we evaluate our assumptions, judgments and estimates, and make changes as deemed necessary. We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition, income taxes, allowance for doubtful accounts, business combinations, intangible asset and goodwill impairments and fair value of financial instruments have the greatest potential impact on our Consolidated Financial Statements; therefore, we consider these to be our critical accounting estimates. For information on our significant accounting policies, see Note 2 in our Notes to Consolidated Financial Statements.

Revenue Recognition

We begin to recognize revenue from licensing and supporting our software, VIP and Design IP and hardware products when all of the following criteria are met:

- We have persuasive evidence of an arrangement with a customer;
- Delivery has occurred;
- The fee for the arrangement is considered to be fixed or determinable at the outset of the arrangement; and
- Collectibility of the fee is probable.

Significant judgment is involved in the determination of whether the facts and circumstances of an arrangement support that the fee for the arrangement is considered to be fixed or determinable and that collectibility of the fee is probable, and these judgments can affect the amount of revenue that we recognize in a particular reporting period. We must also make these judgments when assessing whether a contract amendment to a term arrangement (primarily in the context of a license extension or renewal) constitutes a concession. Our experience has been that we are able to determine whether a fee is fixed or determinable for term licenses, and we have established a history of collecting under contracts for which the fee has been assessed as fixed or determinable without providing concessions on payments, products or services.

For installment contracts that do not include a substantial up-front payment, we consider that a fee is fixed or determinable only if the arrangement has payment periods that are equal to or less than the term of the licenses and the payments are collected in equal or nearly equal installments, when evaluated over the entire term of the arrangement. While we do not expect our experience to change, if we no longer were to have a history of collecting under the original contract without providing concessions on term licenses, revenue from term licenses would be required to be recognized when payments under the installment contract become due and payable. Such a change could have a material adverse effect on our results of operations.

We are generally able to estimate whether collection is probable, but significant judgment is applied as we assess the creditworthiness of our customers to make this determination. If our experience were to change, it could have a material adverse effect on our results of operations. If, in our judgment, collection of a fee is not probable, we do not record revenue until the uncertainty is removed, which is generally upon receipt of cash payment.

For subscription licenses of our software products, and term and perpetual licenses that do not include a stated annual maintenance renewal rate, we generally recognize revenue ratably over the term of the license agreement beginning with delivery of the products, and such revenue is allocated between product and maintenance revenue. For term and perpetual licenses of our software products that include a stated annual maintenance renewal rate, we generally recognize revenue for software license fees up-front when all four of the revenue recognition criteria outlined above are met, generally commencing upon delivery. In either case, maintenance fees are recognized ratably over the maintenance term. A relatively small percentage of our revenue from software licenses is recognized on an up-front basis.

Sale of our hardware products generally involves the following deliverables: the hardware product and its related essential software, and maintenance for the hardware and the software. Consideration allocated to the hardware product and the essential software is recognized as revenue at the time of delivery, provided all other conditions for revenue recognition have been met. Consideration allocated to the maintenance is recognized ratably over the maintenance term.

Revenue from services contracts is recognized either on the time and materials method, as work is performed, or on the percentage-of-completion method. For contracts with fixed or not-to-exceed fees, we estimate on a monthly basis the percentage of completion based on the completion of milestones relating to the arrangement. We have a history of accurately estimating project status and the costs necessary to complete projects. A number of internal and external factors can affect our estimates, including labor rates, utilization and efficiency variances, and specification and testing requirement changes. If different conditions were to prevail such that accurate estimates could not be made, then the use of the completed contract method would be required and the recognition of all revenue and costs would be deferred until the project was completed. Such a change could have a material impact on our results of operations.

If a group of contracts is so closely related that they are, in effect, part of a single arrangement, such arrangements are deemed to be a multiple element arrangement, or MEA. We exercise significant judgment to evaluate the relevant facts and circumstances in determining whether the separate contracts should be accounted for individually as distinct arrangements or whether the separate contracts are, in substance, an MEA. Our judgments about whether a group of contracts is an MEA can affect the timing of revenue recognition under those contracts, which could have an effect on our results of operations for the periods involved. For example, when term license agreements that would otherwise result in up-front revenue upon delivery may be deemed part of an MEA when they are executed within close proximity, or in contemplation of, other license agreements that require ratable revenue recognition with the same customer, in which event all the revenue is recognized over the longest term of any component of the MEA instead of up-front.

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For a single transaction or MEA that includes software and nonsoftware elements, we allocate consideration to all deliverables based on their relative standalone selling prices. Revenue allocated to each deliverable is then recognized when all four criteria are met. In these circumstances, there is a hierarchy to determine the standalone selling price to be used for allocating consideration to the deliverables as follows:

- Vendor-specific objective evidence of fair value, or VSOE;
- Third-party evidence of selling price, or TPE; and
- Best estimate of the selling price, or ESP.

We calculate the ESP of our hardware products based on our pricing practices, including the historical average prices charged for comparable hardware products, because VSOE or TPE cannot be established. Our process for determining ESP for our software deliverables without VSOE or TPE takes into account multiple factors that vary depending upon the unique facts and circumstances related to each deliverable. Key external and internal factors considered in developing the ESPs include prices charged by us for similar arrangements, historical pricing practices and the nature of the product. In addition, when developing ESPs, we may consider other factors as appropriate, including the pricing of competitive alternatives if they exist, and product-specific business objectives. We exercise significant judgment to evaluate the relevant facts and circumstances in calculating the ESP of the deliverables in our arrangements.

Accounting for Income Taxes

We provide for the effect of income taxes in our Consolidated Financial Statements using the asset and liability method. We also apply a two-step approach to determining the financial statement recognition and measurement of uncertain tax positions.

We must make significant assumptions, judgments and estimates to determine our current provision (benefit) for income taxes, our deferred tax assets and liabilities and any valuation allowance to be recorded against our deferred tax assets. Our judgments, assumptions and estimates relating to the current provision (benefit) for income taxes include the geographic mix and amount of income (loss), our interpretation of current tax laws, and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Our judgments also include anticipating the tax positions we will take on tax returns before actually preparing and filing the tax returns. Changes in our business, tax laws or our interpretation of tax laws, and developments in current and future tax audits, could significantly impact the amounts provided for income taxes in our results of operations, financial position or cash flows.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to tax benefit carryforwards and to differences between the financial statement amounts of assets and liabilities and their respective tax basis. We regularly review our deferred tax assets for recoverability and establish a valuation allowance if there is a greater than 50% likelihood that some portion or all of the deferred tax assets will not be realized. To make this judgment, we must make predictions of the amount and category of taxable income from various sources and weigh all available positive and negative evidence about these possible sources of taxable income. We give greater weight to evidence that can be objectively verified. For example, we determined that our cumulative loss incurred in the United States for the three year period ended December 31, 2011 was significant negative evidence with a high level objectivity that outweighed our ability to rely on projections of future income. For the years ended December 31, 2011 and January 1, 2011, we concluded that a significant valuation allowance was required based on our evaluation and weighting of the positive and negative evidence. If, in the future, we determine that these deferred tax assets are more likely than not to be realized, a release of all or part of the related valuation allowance could result in a material income tax benefit in the period such determination is made. For an additional description of the valuation allowance, see Note 6 in our Notes to Consolidated Financial Statements.

We only recognize the tax benefit of an income tax position if we judge that there is a greater than 50% likelihood that the tax position will be sustained, solely on its technical merits, in a tax audit including resolution of any related appeals or litigation processes. To make this judgment, we must interpret complex and sometimes ambiguous tax laws, regulations and administrative practices. If we judge that an income tax position meets this recognition threshold, then we must measure the amount of the tax benefit to be recognized by estimating the

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largest amount of tax benefit that has a greater than 50% likelihood of being realized upon effective settlement with a taxing authority that has full knowledge of all of the relevant facts. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible settlement outcomes. To determine when a tax position is effectively settled, we must estimate the likelihood that a taxing authority would re-review a tax position after a tax examination has otherwise been completed. We must also determine when it is reasonably possible that the amount of unrecognized tax benefits will significantly increase or decrease in the 12 months after each fiscal year-end. These judgments are difficult because a taxing authority may change its behavior as a result of our disclosures in our financial statements or for other reasons. In addition, we are required by the IRS to disclose uncertain tax positions taken on our federal tax returns. We must reevaluate our income tax positions on a quarterly basis to consider factors such as changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision.

Allowance for Doubtful Accounts

We make judgments as to our ability to collect outstanding receivables and provide allowances for a portion of receivables when collection becomes doubtful. This allowance is based on our assessment of the creditworthiness of our customers, historical experience and the overall economic climate of the industries that we serve. While we believe that our allowance for doubtful accounts is adequate, we continue to monitor customer liquidity and other economic conditions, which may result in changes to our estimates regarding our ability to collect from our customers. Changes in circumstances, such as an unexpected change in a customer s ability to meet its financial obligation to us or a customer s payment trends, or a downward trend in the volume of business in the semiconductor sector, are hard to predict and may require us to adjust our estimates of the recoverability of amounts due to us. These changes could have a material adverse effect on our business, financial condition and operating results.

Business Combinations

When we acquire businesses, we allocate the purchase price to acquired tangible assets and liabilities, including deferred revenue, liabilities associated with the fair value of contingent consideration and acquired identifiable intangible assets. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires us to make significant estimates in determining the fair values of these acquired assets and assumed liabilities, especially with respect to intangible assets and goodwill. These estimates are based on information obtained from management of the acquired companies, our assessment of this information, and historical experience. These estimates can include, but are not limited to, the cash flows that an acquired business is expected to generate in the future, the cash flows that specific assets acquired with that business are expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable, and if different estimates were used, the purchase price for the acquisition could be allocated to the acquired assets and liabilities differently from the allocation that we have made to the acquired assets and liabilities. In addition, unanticipated events and circumstances may occur that may affect the accuracy or validity of such estimates, and if such events occur, we may be required to adjust the value allocated to acquired assets or assumed liabilities.

We also make significant judgments and estimates when we assign useful lives to the definite lived intangible assets identified as part of our acquisitions. These estimates are inherently uncertain and if we used different estimates, the useful life over which we amortize intangible assets would be different. In addition, unanticipated events and circumstances may occur that may impact the useful life over which we amortize our intangible assets, which would impact our amortization of intangible assets expense and our results of operations.

Intangible Asset and Goodwill Impairments

We assess the impairment of long-lived assets, including certain intangibles, whenever events or changes in circumstances indicate that we will not be able to recover an asset group s carrying amount.

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Recoverability of an asset group is measured by comparing its carrying amount to the expected future undiscounted cash flows expected to result from the use and eventual disposition of that asset group, excluding future interest costs that would be recognized as an expense when incurred. Any impairment to be recognized is measured by the amount by which the carrying amount of the asset group exceeds its fair market value. Significant management judgment is required in:

- Identifying a triggering event that arises from a change in circumstances;
- Forecasting future operating results; and
- Estimating the proceeds, if any, from the disposition of long-lived or intangible asset group.

We test goodwill for impairment annually, or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. The test is performed at the reporting unit level by comparing the reporting unit s carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting unit is estimated and if the carrying amount of the reporting unit exceeds its fair value, goodwill is considered to be impaired and a second step is performed to measure the amount of the impairment loss.

We completed our annual goodwill impairment test during the third quarter of fiscal 2011 and determined that the fair value of our single reporting unit substantially exceeded the carrying amount of our net assets and that no impairment existed.

Fair Value of Financial Instruments

Inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our 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 us to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value. We recognize transfers between levels of this hierarchy based on the fair values of the respective financial instruments at the end of the reporting period in which the transfer occurred.

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency, are generally classified within Level 2 of the fair value hierarchy.

Certain instruments are classified within Level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. For those instruments that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, our best estimate is used.

While we believe the observable inputs we use to measure the assets and liabilities included in Level 2 and the unobservable inputs we use to measure the assets and liabilities included in Level 3 are reasonable, different inputs or estimates may materially impact the resulting fair value measurements of these instruments and may also impact our results of operations. For an additional description of our fair value measurements see Note 9 in our Notes to Consolidated Financial Statements.

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Results of Operations

Overview of Fiscal 2011

Financial results for fiscal 2011, as compared to fiscal 2010 and fiscal 2009, reflect the following:

- An increase in revenue primarily because of:
  - Increased bookings of $1,158 million during fiscal 2011, as compared to $956 million during fiscal 2010 and $615 million during fiscal 2009, including bookings that resulted from our acquisition of Denali in the second quarter of fiscal 2010;
  - Increases in the sale and lease of our hardware products;
  - Our continuing transition to a ratable license mix, under which most orders made in any period generate revenue in future periods; and
  - Shorter average contract duration.
- An increase in the cost of hardware products sold due to increases in the sale and lease of our hardware products;
- An increase in employee-related costs for commissions and other employee incentive compensation primarily resulting from improving business levels, partially offset by decreased costs as a result of our 2009 and 2010 restructuring plans;
- An increase in operating expenses, primarily research and development, including incremental expenses attributable to the acquisition of Denali;
- Net recoveries of our allowance for doubtful accounts during fiscal 2010 and, to a lesser extent, fiscal 2011, from collection of certain receivables that had previously been included in our allowance for doubtful accounts as of the end of fiscal 2009;
- The agreements we reached in February 2011 to settle our pending derivative and securities litigation and the associated $15.8 million Litigation charge we recorded during fiscal 2010;
- Effective settlement during fiscal 2010 of the IRS examination of our federal income tax returns for the tax years 2000 through 2002, which resulted in a benefit for income taxes of $147.9 million; and
- The increase in deferred tax liabilities from the intangible assets acquired with Denali and the resulting benefit for income taxes because of the release of valuation allowance against our deferred tax assets during fiscal 2010.

Revenue

We primarily generate revenue from licensing our EDA software and IP, selling or leasing our hardware technology, providing maintenance for our software, IP and hardware and providing engineering services. We principally use three license types: subscription, term and perpetual. The different license types provide a customer with different conditions of use for our products, such as:

- The right to access new technology;
- The duration of the license; and
- Payment timing.

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

We seek to achieve a mix of bookings with approximately 90% of the aggregate value of our bookings of a type for which the revenue is recurring, or ratable, in nature, and approximately 10% of the resulting revenue recognized up-front, upon completion of delivery. Our ability to achieve this 90% to 10% ratio of ratable to up-front bookings may be impacted by an increase in hardware sales beyond our current expectations, because revenue for hardware sales is generally recognized up-front in the quarter in which it is installed and ready for use. For an additional description of the impact of hardware sales on the anticipated mix of bookings, see the discussion under the heading Critical Accounting Estimates Revenue Recognition above, and Note 2 in our Notes to Consolidated Financial Statements.

Approximately 90% of the aggregate value of our bookings during fiscal 2011 and fiscal 2010 was of a type for which the revenue is recurring, or ratable, in nature. Approximately 90% of our fiscal 2011 and fiscal 2010 revenue came from ratable bookings.

Customer decisions regarding these aspects of license transactions determine the license type, timing of revenue recognition and potential future business activity. For example, if a customer chooses a fixed duration of use, this will result in either a subscription or term license. A business implication of this decision is that, at the expiration of the license period, the customer must decide whether to continue using the technology and therefore renew the license agreement. Historically, larger customers generally have used products from two or more of our five product groups and rarely completely terminated their relationship with us upon expiration of the license. For an additional description of license types and timing of revenue recognition, see the discussion under the heading Critical Accounting Estimates Revenue Recognition above.

Although we believe that pricing volatility has not generally been a material component of the change in our revenue from period to period, we believe that the amount of revenue recognized in future periods will depend on, among other things, the:

- Competitiveness of our new technology;
- Length of our sales cycle; and
- Size, duration, timing, terms and type of:
  - Contract renewals with existing customers;
  - Additional sales to existing customers; and
  - Sales to new customers.

The value and renewal of contracts, and consequently product revenue recognized, are affected by the competitiveness of our products. Product revenue recognized in any period is also affected by the extent to which customers purchase subscription, term or perpetual licenses, and by the extent to which contracts contain flexible payment terms.

Revenue Mix

We analyze our software, VIP and Design IP and hardware businesses by product group, combining revenues for both product and maintenance because of their interrelationship. We have formulated a design solution strategy that combines our design technologies into categories, as described in the various product groups below:

Digital IC Design: Products in this group, including the Encounter digital IC design platform, are used to create and convert the high-level, logical representation of a digital IC into a detailed physical blueprint, and ultimately, produce the detailed design information describing how the IC will be manufactured. The final product of the design flow is a file that describes the various photomasks which are used to manufacture the IC.

Functional Verification and Design IP: Products in this group, including the Incisive functional verification platform are used to verify that the high-level, logical representation of an IC design is functionally correct, and for verification at the system and SoC levels. Our emulation hardware products, VIP products, memory sub-system models, and Design IP products are also included in this product group.

Custom IC Design: Our custom design products, including the Virtuoso custom design platform, are used to create ICs that must be designed at the transistor level, including analog, RF, memory, high-performance digital blocks and standard cell libraries. Included in this group are specialized verification products that simulate the operation of the design prior to manufacturing. The final product of the design flow is a file that describes the various photomasks which are used to manufacture the IC.

Design for Manufacturing: Included in the DFM product group are our physical verification, manufacturing optimization, and layout analysis products. These products are used to analyze, optimize, and verify that the physical blueprint of the IC has been constructed correctly and can be manufactured successfully. While our primary focus in DFM is to address manufacturing effects in the upstream digital and custom design flows, those products included in this DFM category also are offered separately from our other tools.

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System Interconnect Design: This product group consists of our PCB and IC package design products, including the Allegro and OrCAD® products. The Allegro system interconnect design platform enables consistent co-design of interconnects across ICs, IC packages and PCBs, while the OrCAD line focuses on cost-effective, entry-level PCB solutions.

For an additional description of our current product strategy, see the discussion under the heading Products and Product Strategy under Item 1, Business.

Revenue by Year

The following table shows our revenue for fiscal 2011, fiscal 2010 and fiscal 2009 with the dollar and percentage change in revenue between years:

	2011	2010	2009	Change 2011 vs. 2010		Change 2010 vs. 2009	
	(In millions, except percentages)						
Product	$ 640.8	$ 471.6	$ 400.8	$ 169.2	36%	$ 70.8	18%
Services	116.7	100.9	106.5	15.8	16%	(5.6)	(5%)
Maintenance	392.3	363.5	345.3	28.8	8%	18.2	5%
Total revenue	$ 1,149.8	$ 936.0	$ 852.6	$ 213.8	23%	$ 83.4	10%

Product revenue increased during fiscal 2011, as compared to fiscal 2010, primarily because of increased business levels, an increase in revenue related to the sale and lease of our hardware products, increased revenue recognized from bookings in prior periods, a decrease in the average contract duration and an increase in revenue from the business of Denali, which we acquired in the second quarter of fiscal 2010. We expect to recognize increased product revenue during fiscal 2012, as compared to fiscal 2011, due to higher business levels, increased revenue from our backlog and our continued transition to a more ratable license mix.

Product revenue increased during fiscal 2010, as compared to fiscal 2009, primarily because of higher business levels due to the timing of contract renewals with existing customers and from contracts executed in prior quarters due to our continued transition to a ratable license mix.

Services revenue increased during fiscal 2011, as compared to fiscal 2010, primarily because of cash collections from customers on orders fulfilled in years prior to 2011 for which revenue was recognized in fiscal 2011 upon receipt of cash payment, and because of higher utilization rates for our services personnel. We expect a decrease in services revenue during fiscal 2012, as compared to fiscal 2011, as certain of our design services engineers have been redeployed to internal research and development projects and to assist with pre-sales activities.

Maintenance revenue increased during fiscal 2011, as compared to 2010, and during 2010 as compared to 2009, primarily because of higher business levels due to the timing of contract renewals with existing customers.

We adopted new revenue recognition accounting standards on the first day of fiscal 2011 for revenue arrangements that include both hardware and software elements. If we had accounted for all MEAs entered into on or after January 2, 2011 under the software revenue recognition standards, regardless of whether they included hardware, revenue for fiscal 2011 would have been lower by $15.4 million. For an additional description of our adoption of these accounting standards, see Note 2 in our Notes to Consolidated Financial Statements.

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The following table shows the percentage of product and related maintenance revenue contributed by each of our five product groups and Services and other during fiscal 2011, fiscal 2010 and fiscal 2009:

	2011	2010	2009
Functional Verification and Design IP	30%	24%	22%
Digital IC Design	22%	23%	21%
Custom IC Design	22%	26%	27%
System Interconnect Design	9%	9%	11%
Design for Manufacturing	7%	7%	7%
Services and other	10%	11%	12%
Total	100%	100%	100%

The changes in the percentage of revenue contributed by the Functional Verification and Design IP product group for the fiscal years presented are generally related to increased hardware revenue and from our acquisition of Denali in June 2010.

As described in Note 2 in our Notes to Consolidated Financial Statements, certain of our licensing arrangements allow customers the ability to remix among software products. Additionally, we have arrangements with customers that include a combination of our products with the actual product selection and number of licensed users to be determined at a later date. For these arrangements, we estimate the allocation of the revenue to product groups based upon the expected usage of our products. The actual usage of our products by these customers may differ and, if that proves to be the case, the revenue allocation in the table above would differ.

Although we believe the methodology of allocating revenue to product groups is reasonable, there can be no assurance that such allocated amounts reflect the amounts that would result had the customer individually licensed each specific software solution at the onset of the arrangement.

Revenue by Geography

				Change			
				2011 vs.		2010 vs.	
	2011	2010	2009	2010		2009	
	(In millions, except percentages)						
United States	$ 489.4	$ 382.7	$ 370.0	$ 106.7	28%	$ 12.7	3%
Other Americas	25.1	22.2	20.9	2.9	13%	1.3	6%
Europe, Middle East and Africa	234.9	207.2	188.9	27.7	13%	18.3	10%
Japan	204.4	165.2	152.8	39.2	24%	12.4	8%
Asia	196.0	158.7	120.0	37.3	24%	38.7	32%
Total revenue	$ 1,149.8	$ 936.0	$ 852.6	$ 213.8	23%	$ 83.4	10%

The increase in revenue across our geographies is primarily because of increased business levels, an increase in revenue related to the sale and lease of our hardware products, increased revenue recognized from bookings in prior periods, a decrease in the average contract duration and an increase in revenue from the business of Denali, which we acquired in the second quarter of fiscal 2010.

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Revenue by Geography as a Percentage of Total Revenue

	2011	2010	2009
United States	43%	41%	43%
Other Americas	2%	2%	3%
Europe, Middle East and Africa	20%	22%	22%
Japan	18%	18%	18%
Asia	17%	17%	14%

No single customer accounted for 10% or more of total revenue during fiscal 2011, fiscal 2010 or fiscal 2009.

Most of our revenue is transacted in the United States dollar. However, certain revenue transactions are denominated in foreign currencies, primarily the Japanese yen, and we recognize additional revenue from those contracts in periods when the United States dollar weakens in value against the Japanese yen and reduced revenue from those contracts in periods when the United States dollar strengthens against the Japanese yen. For an additional description of how changes in foreign exchange rates affect our Consolidated Financial Statements, see the discussion under the heading Item 7A. Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Risk.

Stock-based Compensation Expense Summary

Stock-based compensation expense is recorded within the various components of our costs and expenses.

Stock-based compensation expense did not change significantly during fiscal 2011, as compared to fiscal 2010, and decreased by $11.2 million during fiscal 2010, as compared to fiscal 2009, primarily due to the following:

- The decrease in the maximum purchase limits under our Employee Stock Purchase Plan, or ESPP, and a lower weighted-average grant date fair value of purchase rights granted; and
- A decrease in stock bonuses.

We expect stock-based compensation to increase during fiscal 2012, as compared to fiscal 2011, due to higher grant date fair values of restricted stock, option awards and purchase rights granted under the ESPP, based on the assumption that our stock price will be higher during fiscal 2012 than in the prior years.

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Cost of Revenue

	2011	2010	2009	Change 2011 vs. 2010		Change 2010 vs. 2009	
	(In millions, except percentages)						
Product	$ 69.7	$ 31.4	$ 32.1	$ 38.3	122%	$ (0.7)	(2%)
Services	81.5	83.0	90.5	(1.5)	(2%)	(7.5)	(8%)
Maintenance	44.0	42.1	46.6	1.9	5%	(4.5)	(10%)

The following table shows cost of revenue as a percentage of related revenue for fiscal 2011, fiscal 2010 and fiscal 2009:

	2011	2010	2009
Product	11%	7%	8%
Services	70%	82%	85%
Maintenance	11%	12%	13%

Cost of Product

Cost of product includes costs associated with the sale and lease of our hardware and licensing of our software and Design IP products. Cost of product associated with our hardware products includes materials, assembly and overhead. These additional hardware manufacturing costs make our cost of hardware product higher, as a percentage of revenue, than our cost of software and Design IP products. Cost of product also includes the cost of employee salary, benefits and other employee-related costs, including stock-based compensation expense, amortization of acquired intangibles directly related to our products, as well as the costs of technical documentation and royalties payable to third-party vendors.

A summary of cost of product during the last three fiscal years is as follows:

	2011	2010	2009
		(In millions)	
Product related costs	$ 59.2	$ 25.8	$ 27.8
Amortization of acquired intangibles	10.5	5.6	4.3
Total cost of product	$ 69.7	$ 31.4	$ 32.1

The changes in cost of product were due to the following:

	Change 2011 vs. 2010	Change 2010 vs. 2009
	(In millions)	
Hardware costs	$ 31.0	$ (1.4)
Amortization of acquired intangibles	4.9	1.3
Other individually insignificant items	2.4	(0.6)
	$ 38.3	$ (0.7)

Hardware costs increased by $31.0 million during fiscal 2011, as compared to fiscal 2010, primarily due to an increase in hardware business. Amortization of acquired intangibles included in cost of product increased during fiscal 2011, as compared to fiscal 2010, primarily due to an increase in amortization of intangible assets associated with the Denali acquisition for a full fiscal year, as well as amortization from other acquisitions completed in 2011.

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Cost of product depends primarily upon the actual mix of hardware and software product sales in any given period, and upon the extent to which we acquire intangible assets, acquire or license third-parties intellectual property or technology and sell our products that include acquired or licensed intellectual property or technology.

Cost of Services

Cost of services primarily includes employee salary, benefits and other employee-related costs, costs to maintain the infrastructure necessary to manage a services organization, and provisions for contract losses, if any. The changes in cost of services were due to the following:

	Change 2011 vs. 2010	Change 2010 vs. 2009
	(In millions)	
Salary, benefits and other employee-related costs	$ (1.1)	$ (3.4)
Stock-based compensation	(0.1)	(1.1)
Professional services	0.5	(1.0)
Other individually insignificant items	(0.8)	(2.0)
	$ (1.5)	$ (7.5)

We expect cost of services to decrease during fiscal 2012, as compared to fiscal 2011, as certain of our design services engineers have been redeployed to internal research and development projects and to assist with pre-sales activities.

Cost of Maintenance

Cost of maintenance includes the cost of our customer support services, such as telephone, online and on-site support, employee salary, benefits and other employee-related costs, and documentation of maintenance updates, as well as amortization of intangible assets directly related to our maintenance contracts. The changes in cost of maintenance were due to the following:

	Change 2011 vs. 2010	Change 2010 vs. 2009
	(In millions)	
Salary, benefits and other employee-related costs	$ 2.2	$ 1.3
Amortization of acquired intangibles	(1.0)	(3.1)
Other individually insignificant items	0.7	(2.7)
	$ 1.9	$ (4.5)

Amortization of acquired intangibles decreased by $1.0 million during fiscal 2011, as compared to fiscal 2010, and decreased by $3.1 million during fiscal 2010, as compared to fiscal 2009, because certain acquired intangible assets became fully amortized during fiscal 2010 and fiscal 2011.

Operating Expenses

Our operating expenses include costs presented as marketing and sales, research and development and general and administrative. Changes in our overall operating expenses in any given period are primarily attributable to changes in employee salary and other compensation-related costs. Factors that may cause our headcount costs to fluctuate may include changes in the number of employees due to hiring, acquisitions, restructuring activities, foreign exchange rates, cost reduction strategies and the impact of our various incentive

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compensation programs which are driven by overall business performance. Our employee salary and other compensation-related costs increased during fiscal 2011, when compared to fiscal 2010, primarily due to improved business levels in 2011 resulting in higher sales commissions and other incentive compensation. Our operating expenses for 2010 and 2011 also included the incremental costs associated with our acquisition of Denali in June 2010.

We expect operating expenses to increase during fiscal 2012, as compared to fiscal 2011, primarily due to projected increases in salary, benefits, incentive compensation and other employee-related costs expected to be incurred in connection with the anticipated continued improvement in our business, and investment in our research and development activities.

Our operating expenses for fiscal 2011, fiscal 2010 and fiscal 2009 were as follows:

				Change			
	2011	2010	2009	2011 vs. 2010		2010 vs. 2009	
			(In millions, except percentages)				
Operating expenses	$ 817.4	$ 768.4	$ 764.2	$ 49.0	6%	$ 4.2	1%
Percentage of total revenue	71%	82%	90%				

Marketing and Sales

				Change			
	2011	2010	2009	2011 vs. 2010		2010 vs. 2009	
			(In millions, except percentages)				
Marketing and sales	$ 323.8	$ 305.6	$ 286.8	$ 18.2	6%	$ 18.8	7%
Percentage of total revenue	28%	33%	34%				

The changes in marketing and sales expense were due to the following:

	Change	
	2011 vs. 2010	2010 vs. 2009
	(In millions)	
Salary, commissions, benefits and other employee-related costs	$ 22.3	$ 19.5
Executive and other severance	2.5	0.6
Stock-based compensation	0.5	(2.5)
Depreciation	(1.7)	(4.4)
Marketing programs and events	(3.5)	4.2
Other individually insignificant items	(1.9)	1.4
	$ 18.2	$ 18.8

Research and Development

				Change			
	2011	2010	2009	2011 vs. 2010		2010 vs. 2009	
			(In millions, except percentages)				

Research and Development	$ 400.7	$ 376.4	$ 354.7	$ 24.3	6%	$ 21.7	6%
Percentage of total revenue	35%	40%	42%				

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The changes in research and development expense were due to the following:

	Change	
	2011 vs. 2010	2010 vs. 2009
	(In millions)	
Salary, benefits and other employee-related costs	$ 23.8	$ 35.5
Executive and other severance	2.2	----
Stock-based compensation	0.2	(8.0)
Facilities and other infrastructure costs	(3.4)	(2.5)
Other individually insignificant items	1.5	(3.3)
	$ 24.3	$ 21.7

We recorded employee-related costs in research and development expense of $1.5 million during fiscal 2011, and $10.2 million during fiscal 2010, related to deferred Denali acquisition payments and we expect to expense the remaining $0.9 million over the stated retention periods through 2014. For an additional description of the deferred Denali acquisition payments, see Note 4 in our Notes to Consolidated Financial Statements.

General and Administrative

				Change			
	2011	2010	2009	2011 vs. 2010		2010 vs. 2009	
	(In millions, except percentages)						
General and Administrative	$ 92.9	$ 86.4	$ 122.7	$ 6.5	8%	$ (36.3)	(30%)
Percentage of total revenue	8%	9%	14%				

The changes in general and administrative expense were due to the following:

	Change	
	2011 vs. 2010	2010 vs. 2009
	(In millions)	
Bad debt expense (recoveries), net	$ 9.9	$ (38.1)
Salary, benefits and other employee-related costs	3.4	6.6
Impairment of property, plant and equipment	----	(5.6)
Stock-based compensation	(0.5)	1.1
Facilities and other infrastructure costs	(1.2)	(3.5)
Legal and other professional services costs	(2.4)	0.6
Other individually insignificant items	(2.7)	2.6
	$ 6.5	$ (36.3)

We recorded net recoveries of our allowance for doubtful accounts of $6.6 million during fiscal 2011 and $16.5 million during fiscal 2010 because we collected certain receivables that previously had been included in our allowance for doubtful accounts. We had previously recorded reserves for certain customers based on changes in our assessment of collectability for those customers. The principal factor for the assessment at that time was a general deterioration of economic conditions having a significant impact on certain customers. As a result, we recorded $21.6 million of reserves during fiscal 2009 for certain customer balances estimated to be uncollectible at that time. These customers business prospects eventually improved, and we were able to collect the majority of those receivables that had previously been reserved, resulting in recoveries of previously reserved

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bad debts in excess of increases in bad debt reserves for both fiscal 2011 and fiscal 2010. For an additional description of our allowance for doubtful accounts, see Note 8 in our Notes to Consolidated Financial Statements.

Amortization of Acquired Intangibles

	2011	2010	2009	Change 2011 vs. 2010		Change 2010 vs. 2009	
	(In millions, except percentages)						
Amortization of Acquired Intangibles	$ 16.5	$ 14.2	$ 11.4	$ 2.3	16%	$ 2.8	25%

The changes in amortization of acquired intangibles were due to the following:

	Change 2011 vs. 2010	Change 2010 vs. 2009
	(In millions)	
Increase due to additions of acquired intangibles	$ 4.4	$ 5.1
Decrease due to completed amortization of acquired intangibles	(2.1)	(2.3)
	$ 2.3	$ 2.8

Restructuring and Other Charges (Credits)

We initiated multiple restructuring plans in previous years, including a 2009 restructuring plan and a 2010 restructuring plan. For an additional description of these restructuring plans, see Note 7 in our Notes to Consolidated Financial Statements.

Because the restructuring charges and related benefits are derived from management s estimates made during the formulation of the restructuring plans, based on then-currently available information, our restructuring plans may not achieve the benefits anticipated on the timetable or at the level contemplated. Demand for our products and services and, ultimately, our future financial performance, is difficult to predict with any degree of certainty. Accordingly, additional actions, including further restructuring of our operations, may be required in the future.

The following table presents restructuring and other charges (credits) for our restructuring plans:

	Severance and Benefits	Excess Facilities	Other	Total
	(In millions)			
Fiscal 2011	$ (0.9)	$ 1.3	$ ----	$ 0.4
Fiscal 2010	5.2	1.2	3.8	10.2
Fiscal 2009	32.1	(0.7)	----	31.4

Restructuring and other charges recorded during fiscal 2010 and fiscal 2009 consisted primarily of costs for severance and termination benefits related to our restructuring plans.

Litigation Charges

In February 2011, we agreed to settle our pending derivative and securities litigation, subject to completion of final settlement documentation by the parties and court approval. Accordingly, we recorded litigation charges of $15.8 million during fiscal 2010. Total settlement costs were $40.0 million, less $24.2 million paid by our insurance carriers. For an additional description of our legal proceedings and this settlement, see

Note 16 in our Notes to Consolidated Financial Statements.

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Interest Expense

	2011	2010 (In millions)	2009
Contractual cash interest expense:			
2011 Notes	$ 2.0	$ 2.7	$ 3.4
2013 Notes	2.1	2.9	3.8
2015 Notes	9.2	5.0	----
Amortization of debt discount:			
2011 Notes	6.8	8.6	10.4
2013 Notes	5.9	7.5	9.0
2015 Notes	13.7	7.0	----
Amortization of deferred financing costs:			
2011 Notes	0.7	0.8	1.0
2013 Notes	0.4	0.5	0.6
2015 Notes	1.9	0.9	----
Capitalized interest expense	(0.1)	(0.2)	(0.5)
Other interest expense	0.4	0.6	1.2
Total interest expense	$ 43.0	$ 36.3	$ 28.9

On December 15, 2011, we paid the remaining balance of our 2011 Notes in full. As a result, we expect interest expense to decrease during fiscal 2012, as compared to fiscal 2011, as we will not incur any interest expense or amortization of deferred financing costs for the 2011 Notes during fiscal 2012.

The increase in interest expense during fiscal 2011, as compared to fiscal 2010, was due to interest expense related to the 2015 Notes that were issued in June 2010. For an additional description of our 2015 Notes and 2013 Notes, see Note 3 in our Notes to Consolidated Financial Statements.

Other Income (Expense), net

Other income (expense), net, for fiscal 2011, fiscal 2010 and fiscal 2009 was as follows:

	2011	2010 (In millions)	2009
Interest income	$ 1.3	$ 1.2	$ 2.6
Gains on sale of non-marketable securities	8.3	4.9	----
Gains on available-for-sale securities and short-term investments	8.0	0.1	2.3
Gains (losses) on securities in the non-qualified deferred compensation trust	(0.5)	2.6	(1.0)
Loss on early extinguishment of debt	----	(5.7)	----
Gains on foreign exchange	0.7	0.4	0.4
Equity loss from investments	(0.1)	(0.1)	(0.5)
Write-down of investments	----	(1.5)	(5.2)
Other income	0.4	0.6	0.4
Total other income (expense), net	$ 18.1	$ 2.5	$ (1.0)

Certain of our non-marketable securities became marketable during fiscal 2011, and we sold them and recognized a gain of $8.0 million.

Certain of non-marketable securities were other-than-temporarily impaired and we wrote down these non-marketable securities by $1.5 million during fiscal 2010 and $5.2 million during fiscal 2009.

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Provision (Benefit) for Income Taxes

The provision (benefit) for income taxes and the effective tax rates during fiscal 2011, fiscal 2010 and fiscal 2009 were as follows:

	2011	2010	2009
	(In millions, except percentages)		
Provision (benefit) for income taxes	$ 23.2	$ (189.3)	$ (3.6)
Effective tax rate	24%	302%	2%

Our fiscal 2011 provision for income taxes is primarily related to $11.4 million of tax expense on certain of our foreign subsidiaries, $5.4 million of excess tax benefits from employee stock compensation that were allocated to stockholder s equity, and $4.1 million of interest expense on unrecognized tax benefits that was partially offset by $5.0 million of tax benefit from the release of valuation allowance due to the recognition of deferred tax liabilities resulting from a fiscal 2011 business combination.

Our fiscal 2010 benefit for income taxes is primarily related to the decrease in net unrecognized tax benefits and accrued interest of $147.9 million as a result of our effective settlement of certain tax matters with the IRS in August 2010 and the release of $66.7 million of valuation allowance against our deferred tax assets primarily due to the recognition of deferred tax liabilities related to the acquisition of intangibles with Denali in June 2010. Our fiscal 2010 benefit for income taxes included $4.6 million of tax expense for uncertain tax positions that should have been recognized during fiscal 2008 and fiscal 2009. The effects of this tax expense on our Consolidated Financial Statements for fiscal 2010, and prior fiscal years, are not considered material.

During fiscal 2009, a change in United States federal tax law allowed companies to elect to carry back the fiscal 2009 net operating loss for a period of three, four or five years instead of the general two-year carryback period. Our benefit for income taxes during fiscal 2009 is primarily due to $27.3 million of tax benefit from the fiscal 2009 United States federal net operating losses that can be utilized to offset taxable income in prior years, that is partially offset by current year interest expense related to unrecognized tax benefits of $13.3 million, and an increase in unrecognized tax benefits, penalties and interest related to prior year tax positions of $14.5 million. With the exception of the fiscal 2009 United States federal net operating loss that can be utilized in prior years, we recorded a valuation allowance that offset the tax benefit from other fiscal 2009 United States losses and tax credits. The $14.5 million increase in unrecognized tax benefits, penalties and interest during fiscal 2009 included $7.3 million of unrecognized tax benefits, penalties and interest that should have been recognized during multiple periods between fiscal 2004 through fiscal 2008. The effects on our Consolidated Financial Statements for fiscal 2009 and prior periods are not considered material.

We intend to indefinitely reinvest approximately $173.8 million of undistributed earnings of our foreign subsidiaries as of December 31, 2011, to meet the working capital and long-term capital needs of our foreign subsidiaries. The unrecognized deferred tax liability for these indefinitely reinvested foreign earnings was approximately $83.5 million as of December 31, 2011.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more than 50% likely that some portion or all of the deferred tax assets will not be realized. We concluded that a valuation allowance of $375.9 million was required as of December 31, 2011. This represents an increase in valuation allowance of $1.2 million in comparison with the year ended January 1, 2011. If, in the future, we determine that these deferred tax assets are more likely than not to be realized, a release of all or part of the related valuation allowance could result in a material income tax benefit in the period such determination is made.

For an additional description of our income taxes, including the calculation of our valuation allowance, our deferred tax assets, and the status of the IRS examinations, see Note 6 in our Notes to Consolidated Financial Statements.

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Liquidity and Capital Resources

	As of			Change	
	December 31, 2011	January 1, 2011	January 2, 2010	2011 vs. 2010	2010 vs. 2009
			(In millions)		
Cash, cash equivalents and Short-term investments	$ 604.6	$ 570.1	$ 571.3	$ 34.5	$ (1.2)
Net working capital*	$ 48.6	$ 181.9	$ 452.8	$ (133.3)	$ (270.9)

				Change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
			(In millions)		
Cash provided by operating activities	$ 240.3	$ 199.1	$ 25.6	$ 41.2	$ 173.5
Cash used for investing activities	$ (56.5)	$ (285.1)	$ (50.5)	$ 228.6	$ (234.6)
Cash provided by (used for) financing activities	$ (144.8)	$ 59.9	$ 21.0	$ (204.7)	$ 38.9

* The decrease in our net working capital as of December 31, 2011, as compared to January 1, 2011, is primarily due to the classification of our 2015 Notes as a current liability as of December 31, 2011.

Cash and Cash Equivalents and Short-term Investments

As of December 31, 2011, our principal sources of liquidity consisted of $604.6 million of cash and cash equivalents and short-term investments, as compared to $570.1 million as of January 1, 2011 and $571.3 million as of January 2, 2010.

Our primary sources of cash during fiscal 2011 and fiscal 2010 were:

- Customer payments for products, maintenance and services;
- Proceeds from the issuance of our 2015 Notes during fiscal 2010;
- Proceeds from the sale of our 2015 Warrants during fiscal 2010;
- Proceeds from the sale of available-for-sale securities and long-term investments; and
- Cash received for common stock from stock purchases under our employee stock purchase plan and from the exercise of employee stock options.

Our primary uses of cash during fiscal 2011 and fiscal 2010 were:

- Payments relating to salaries, benefits, other employee-related costs and other operating expenses, including our restructuring plans;
- Repurchase of a portion of our 2011 Notes and 2013 Notes during fiscal 2010, and payment of the remaining principal balance of the 2011 Notes during fiscal 2011;
- Acquisitions payments, net of cash acquired;
- Payments made to purchase the 2015 Notes Hedges during fiscal 2010;
- Purchases of treasury stock during fiscal 2010;
- Purchases of inventory related to our hardware products;
- Purchases of property, plant and equipment; and
- Payments related to the anticipated settlement of our securities litigation.

Approximately 50% of our cash, cash equivalents and short-term investments were held by our foreign subsidiaries as of December 31, 2011. Our intent is to permanently reinvest our earnings from certain foreign operations. We do not anticipate we will need to repatriate dividends from foreign operations that are permanently reinvested in order to fund our domestic operations. In the event that dividends from foreign operations that are currently permanently reinvested are needed to fund United States liquidity, we could be required to accrue and pay additional taxes in order to repatriate these funds.

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We expect that current cash, cash equivalents and short-term investment balances and cash flows that are generated from operations will be sufficient to meet our working capital, other capital and liquidity requirements for at least the next 12 months.

Net Working Capital

The changes in net working capital were due to the following:

	Change	
	2011 vs. 2010	2010 vs. 2009
	(In millions)	
Increase in convertible notes	(150.8)	(143.3)
Decrease in receivables, net	(55.1)	(8.7)
Increase (decrease) in prepaid expenses and other	(14.1)	23.7
Increase (decrease) in short-term investments	(9.7)	10.5
Increase in current portion of deferred revenue	(3.0)	(89.7)
Increase in inventories	4.2	14.9
Increase (decrease) in cash and cash equivalents	44.2	(11.7)
Decrease (increase) in accounts payable and accrued liabilities	51.1	(66.7)
Other individually insignificant items	(0.1)	0.1
	$ (133.3)	$ (270.9)

The decrease in our net working capital as of December 31, 2011, as compared to January 1, 2011, is primarily due to the classification of our 2015 Notes as a current liability as of December 31, 2011.

As of December 31, 2011, the 2015 Notes are convertible into cash from January 1, 2012 through March 31, 2012, because Cadence s stock price exceeded $9.81 for at least 20 days in the 30 day period prior to December 31, 2011. Accordingly, we classified the net balance of the 2015 Notes of $294.1 million as a current liability on our Consolidated Balance Sheet as of December 31, 2011. The classification of the 2015 Notes as current or long-term on the Consolidated Balance Sheet is evaluated at each balance sheet date and may change from time to time depending on whether the stock price conversion condition, as described above, has been met in a particular 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 December 31, 2011, we would have recorded an expense of $63.6 million associated with the conversion, comprised of $55.9 million of unamortized debt discount and $7.7 million of unamortized transaction fees.

The classification of the liability associated with the cash conversion feature of the 2015 Notes, or the 2015 Notes Embedded Conversion Derivative, and the 2015 Notes Hedges asset as current or long-term on our Consolidated Balance Sheet corresponds with the classification of the 2015 Notes. As such, we classified the fair value of the 2015 Notes Embedded Conversion Derivative as a current liability on our Consolidated Balance Sheet as of December 31, 2011, which increased our total current liabilities by $215.1 million. We also classified the fair value of the 2015 Notes Hedges as current assets on our Consolidated Balance Sheet as of December 31, 2011, which increased total current assets by $215.1 million. The value of the 2015 Notes Embedded Conversion Derivative liability and the value of the 2015 Notes Hedges asset were offsetting and resulted in no net change to our net working capital as of December 31, 2011.

If the holders of our 2015 Notes elect to convert their notes into cash, we would be required to make cash payments of up to $350.0 million prior to the maturity of the 2015 Notes. In connection with the 2015 Notes, we entered into the 2015 Notes Hedges and sold warrants to limit our exposure to the additional cash payments above the $350.0 million principal balance in the event of a cash conversion of the 2015 Notes. The 2015 Notes currently trade at a premium to their if-converted value, so we do not anticipate a conversion of the 2015 Notes

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by the note holders between January 1, 2012 and March 31, 2012. However, if the holders of the 2015 Notes elect to convert their notes between January 1, 2012 and March 31, 2012, we expect to have sufficient cash to fund any payment resulting from this conversion.

For an additional description of our 2015 Notes, see Other Factors Affecting Liquidity and Capital Resources and Note 3 in our Notes to Consolidated Financial Statements.

Cash Flows from Operating Activities

The changes in net cash provided by operating activities were due to the following:

	Change	
	2011 vs. 2010	2010 vs. 2009
	(In millions)	
Net income (loss), net of non-cash related gains and losses	$ 10.8	$ 161.3
Changes in operating assets and liabilities, net of effect of acquired businesses	30.4	18.0
Proceeds from the sale of receivables, net	----	(5.8)
	$ 41.2	$ 173.5

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

If our customers experience adverse changes in the future, are not successful in generating sufficient cash or are precluded from securing financing, they may delay purchasing our products and services, or they may not be able to pay, or may delay payment of, accounts receivable that are owed to us, although these obligations are generally not cancelable. Our customers inability to fulfill payment obligations may adversely affect our cash flow. Additionally, our customers may seek to renegotiate pre-existing contractual commitments. Though we have not yet experienced a material level of defaults, any material payment default by our customers or significant reductions in existing contractual commitments would have a material adverse effect on our financial condition and cash flows from operations. For an additional description of our accounts receivable and our allowances for doubtful accounts, see Note 8 in our Notes to Consolidated Financial Statements.

In February 2011, all parties to our securities and derivative litigation agreed to settle the litigation for total consideration of $40.0 million, of which $24.2 million was to be paid by our insurance carriers. During fiscal 2011, we paid $16.4 million into a securities litigation settlement fund, which amount included our portion of the settlement consideration plus accrued interest. As of December 31, 2011, we have paid, and our insurance carriers have paid, all amounts specified by the settlement agreement into the securities litigation settlement fund. The settlements are subject to court approval.

We expect to pay an additional $5.0 million related to our previous restructuring activities, primarily for payments related to vacated facilities, net of expected sublease income.

During fiscal 2011, we determined that uncertain tax positions that were subject to the IRS examination of our federal corporation income tax returns for the tax years 2003 through 2009 were effectively settled. We do not expect the effective settlement to result in significant cash payments.

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

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Cash Flows from Investing Activities

The changes in net cash from investing activities were due to the following:

	Change	
	2011 vs. 2010	2010 vs. 2009
	(In millions)	
Cash paid in business combinations and asset acquisitions, net of cash acquired, and acquisitions of intangibles	$	