

SYNOPSYS INC
Form 10-Q
March 12, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2008

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 0-19807

SYNOPSYS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

56-1546236

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

**700 EAST MIDDLEFIELD ROAD
MOUNTAIN VIEW, CA 94043**

(Address of principal executive offices, including zip code)

(650) 584-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

(Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

141,884,489 shares of Common Stock as of March 7, 2008

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SYNOPSYS, INC.

QUARTERLY REPORT ON FORM 10-Q

JANUARY 31, 2008

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SYNOPSYS, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value amounts)

	January 31, 2008	October 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 428,055	\$ 579,327
Short-term investments	432,260	405,126
Total cash, cash equivalents and short-term investments	860,315	984,453
Accounts receivable, net	142,054	123,900
Deferred income taxes	126,262	123,165
Income taxes receivable	40,684	42,525
Prepaid expenses and other current assets	52,187	53,496
Total current assets	1,221,502	1,327,539
Property and equipment, net	128,578	131,866
Goodwill	768,848	767,087
Intangible assets, net	67,173	78,792
Long-term deferred income taxes	181,404	216,642
Other assets	97,366	95,411
Total assets	\$ 2,464,871	\$ 2,617,337
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 165,054	\$ 246,209
Accrued income taxes	16,569	207,572
Deferred revenue	528,932	577,295
Total current liabilities	710,555	1,031,076
Deferred compensation and other liabilities	88,324	84,648
Long-term accrued income taxes	146,373	
Long-term deferred revenue	79,693	65,220
Total liabilities	1,024,945	1,180,944
Stockholders' equity:		
Preferred Stock, \$0.01 par value: 2,000 shares authorized; none outstanding		
Common Stock, \$0.01 par value: 400,000 shares authorized; 143,663 and 146,365 shares outstanding, respectively	1,437	1,464
Capital in excess of par value	1,423,949	1,401,965
Retained earnings	313,413	263,977
Treasury stock, at cost: 13,572 and 10,867 shares, respectively	(302,435)	(234,918)
Accumulated other comprehensive income	3,562	3,905
Total stockholders' equity	1,439,926	1,436,393
Total liabilities and stockholders' equity	\$ 2,464,871	\$ 2,617,337

See accompanying notes to unaudited condensed consolidated financial statements.

SYNOPSYS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended January 31,	
	2008	2007
Revenue:		
Time-based license	\$ 267,860	\$ 251,606
Upfront license	12,521	13,503
Maintenance and service	35,084	35,101
Total revenue	315,465	300,210
Cost of revenue:		
License	40,398	35,520
Maintenance and service	15,879	16,146
Amortization of intangible assets	5,033	6,709
Total cost of revenue	61,310	58,375
Gross margin	254,155	241,835
Operating expenses:		
Research and development	92,514	95,884
Sales and marketing	77,370	89,808
General and administrative	23,841	29,677
Amortization of intangible assets	6,591	6,644
Total operating expenses	200,316	222,013
Operating income	53,839	19,822
Other income, net	6,330	7,934
Income before income taxes	60,169	27,756
Provision for income taxes	13,724	4,399
Net income	\$ 46,445	\$ 23,357
Net income per share:		
Basic	\$ 0.32	\$ 0.16
Diluted	\$ 0.31	\$ 0.16
Shares used in computing per share amounts:		
Basic	146,001	142,772
Diluted	150,683	148,113

See accompanying notes to unaudited condensed consolidated financial statements.

SYNOPSYS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended January 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 46,445	\$ 23,357
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization and depreciation	25,333	27,179
Share-based compensation	15,644	16,215
Deferred income taxes	(1,858)	804
Provision for doubtful accounts		(130)
Net change in deferred gains and losses on cash flow hedges	2,104	1,306
Loss (gain) on sale of short and long-term investments	200	(3)
Net changes in operating assets and liabilities:		
Accounts receivable	(17,077)	(18,354)
Prepaid expenses and other current assets	(1,185)	(5,840)
Other assets	(488)	217
Accounts payable and accrued liabilities	(81,102)	(66,075)
Accrued income taxes	2,754	(6,206)
Deferred revenue	(42,969)	84,351
Deferred compensation and other liabilities	1,018	(756)
Net cash (used in) provided by operating activities	(51,181)	56,065
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of short-term investments	150,523	65,129
Purchases of short-term investments	(173,675)	(126,161)
Purchases of long-term investments	(1,500)	
Purchases of property and equipment	(9,726)	(11,510)
Capitalization of software development costs	(704)	(783)
Net cash used in investing activities	(35,082)	(73,325)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuances of common stock	12,097	81,583
Purchases of treasury stock	(82,865)	(18,070)
Net cash (used in) provided by financing activities	(70,768)	63,513
Effect of exchange rate changes on cash and cash equivalents	5,759	144
Net (decrease) increase in cash and cash equivalents	(151,272)	46,397
Cash and cash equivalents, beginning of period	579,327	330,759
Cash and cash equivalents, end of period	\$ 428,055	\$ 377,156

See accompanying notes to unaudited condensed consolidated financial statements.

SYNOPSYS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business

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Synopsys, Inc. (the Company) is a provider of electronic design automation (EDA) software for semiconductor design companies. The Company delivers technology-leading semiconductor design and verification platforms and integrated circuit (IC) manufacturing products to the global electronics market, enabling the development and production of complex systems-on-chips (SoCs). In addition, the Company provides intellectual property (IP) and design services to simplify the design process and accelerate time to market for the Company's customers. The Company also provides software and services that help customers prepare and optimize their designs for manufacturing.

Note 2. Summary of Significant Accounting Policies

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The Company has prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the Commission). Pursuant to these rules and regulations, the Company has condensed or omitted certain information and footnote disclosures it normally includes in its annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). In management's opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present its financial position, results of operations and cash flows. The Company's interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in Synopsys' Annual Report on Form 10-K for the fiscal year ended October 31, 2007 on file with the Commission.

To prepare financial statements in conformity with GAAP, management must make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates and may result in material effects on the Company's operating results and financial position. There have been no significant changes in new accounting pronouncements that were disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2007 other than the impact of the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) which affected our Accounting for Income Taxes policy (see Note 12 Taxes).

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

Fiscal Year End. The Company has adopted a fiscal year ending on the Saturday nearest to October 31. The Company's first fiscal quarter ended on February 2, 2008. Fiscal 2008 is a 52-week fiscal year and as a result, the three months ended January 31, 2008 had 13 weeks. Fiscal 2007 was a 53-week year and the three months ended January 31, 2007 had 14 weeks. For presentation purposes, the unaudited condensed consolidated financial statements and accompanying notes refer to the applicable calendar month end.

Note 3. Share-based Compensation

Accounting for Share-based Compensation

The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options and employee stock purchase plans awards under Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment*, (SFAS123(R)). The Black-Scholes option-pricing model incorporates various subjective assumptions including expected volatility, expected term and interest rates. The expected volatility for both stock options and employee stock purchase plan (ESPP) is estimated by a combination of implied volatility for publicly traded options of the Company's stock with a term of six months or longer and the historical stock price volatility over the estimated expected term of the Company's share-based awards. The expected term of the Company's share-based awards is based on historical experience.

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The assumptions used to estimate the fair value of stock options granted and employee stock purchase rights granted under the Company's stock option plans and ESPP for the three months ended January 31, 2008 and 2007 are as follows:

	Three Months Ended	
	January 31, 2008	January 31, 2007
Options		
Volatility	33.13% - 33.42%	31.79% - 32.11%
Expected term (years)	4.5	4.3
Risk free interest rate	3.46% - 3.55%	4.35% - 4.73%
Expected dividend yield	0%	0%
Weighted average grant date fair value	\$9.05	\$8.65
ESPP		
Volatility	19.61% - 44.85%	19.61% - 51.54%
Expected term (years)	0.5 - 2.0	0.5 - 2.0
Risk free interest rate	3.58% - 5.09%	3.00% - 5.09%
Expected dividend yield	0%	0%
Weighted average grant date fair value	\$6.33	\$6.22

The Company also granted restricted stock units as part of the Company's new hire and annual incentive compensation program starting in fiscal 2007. Restricted stock units are valued based on the closing price of the Company's common stock on the grant date. In general, restricted stock units vest over three to four years and are subject to the employees' continuing service to the Company. During the three months ended January 31, 2008 and 2007, the weighted average grant date fair value was \$27.14 per share and \$26.12, respectively.

As of January 31, 2008, there was \$80.6 million of unamortized share-based compensation expense which is expected to be amortized over a weighted-average period of approximately 1.7 years. The intrinsic values of options exercised during the three months ended January 31, 2008 and 2007, were \$5.1 million and \$32.8 million, respectively.

The compensation cost recognized in the unaudited condensed consolidated statements of operations for these share-based compensation arrangements was as follows for the first quarters of fiscal years 2008 and 2007:

(in thousands, except per share amounts)	Three Months Ended January 31,	
	2008	2007
Cost of license	\$ 1,328	\$ 1,851
Cost of maintenance and service	1,342	780
Research and development expense	6,419	4,728
Sales and marketing expense	3,700	5,665
General and administrative expense	2,855	3,191
Share-based compensation expense before taxes	15,644	16,215
Income tax benefit	(3,618)	(3,931)
Share-based compensation expense after taxes	\$ 12,026	\$ 12,284

Note 4. Stock Repurchase Program

