SYNOPSYS INC
Form 10-K/A
February 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the year ended October 31, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 0-19807

SYNOPSYS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**56-1546236**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

700 East Middlefield Road, Mountain View, California 94043

(Address of principal executive offices, including zip code)

(650) 584-5000

(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	**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 (§ 229.405 of this chapter) 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 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 Exchange 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 was approximately $2.2 billion. Aggregate market value excludes an aggregate of approximately 53.1 million shares of common stock held by officers and directors and by each person known by the registrant to own 5% or more of the outstanding common stock on such date. Exclusion of shares held by any of these persons should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

On December 4, 2010, 149.3 million shares of the registrant s Common Stock, $0.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement relating to the registrant s 2011 Annual Meeting of Stockholders, scheduled to be held on March 24, 2011, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Except as expressly incorporated by reference, the registrant s Proxy Statement shall not be deemed to be part of this report.

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Explanatory Note

Synopsys, Inc. (the Company) is filing this Amendment No. 1 (this Amendment) to its Annual Report on Form 10-K for the fiscal year ended October 31, 2010 (the Form 10-K) to (1) include KPMG LLP s conformed signature in the Report of Independent Registered Public Accounting Firm which was inadvertently omitted in the as-filed version and (2) move the fiscal 2010 net income amount from the treasury stock column to its correct position in the retained earnings column in its Consolidated Statements of Stockholders Equity and Comprehensive Income (the Statements of Stockholders Equity). This correction does not change any other numerical entries in the Statements of Stockholders Equity, including the ending balance at October 31, 2010, or otherwise affect the Company s financial statements in the Form 10-K. No other changes have been made to the Form 10-K.

This Amendment does not reflect events occurring after the filing of the Form 10-K, does not update disclosures contained in the Form 10-K and does not modify or amend the Form 10-K except as specifically described above. This Amendment contains the complete text of Item 8. Financial Statements and currently dated certifications of the Company s Principal Executive Officer and Principal Financial Officer pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, as well as updated XBRL exhibits.

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Item 8. ***Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Synopsys, Inc.:

We have audited the accompanying consolidated balance sheets of Synopsys, Inc. and subsidiaries (the Company) as of October 30, 2010 and October 31, 2009, and the related consolidated statements of operations, stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended October 30, 2010. We also have audited Synopsys, Inc. s internal control over financial reporting as of October 30, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Synopsys, Inc. s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting appearing under item 9A(b). Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Synopsys, Inc. and subsidiaries as of October 30, 2010 and October 31, 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended October 30, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, Synopsys, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 30, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As described in note 3, the Company changed its method of accounting for business combinations in fiscal 2010 and, as described in note 10, the Company changed its accounting for uncertainty in income taxes in fiscal 2008.

Mountain View, California

December 16, 2010

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SYNOPSYS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amounts)

	October 31, 2010	October 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 775,407	$ 701,613
Short-term investments	163,154	466,713
Total cash, cash equivalents and short-term investments	938,561	1,168,326
Accounts receivable, net of allowances of $2,727 and $3,587, respectively	181,102	127,010
Deferred income taxes	73,465	73,453
Income taxes receivable	18,425	51,191
Prepaid and other current assets	36,202	43,820
Total current assets	1,247,755	1,463,800
Property and equipment, net	148,580	146,910
Goodwill	1,265,843	932,691
Intangible assets, net	249,656	96,810
Long-term deferred income taxes	268,759	205,396
Other long-term assets	105,948	93,247
Total assets	$ 3,286,541	$ 2,938,854
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 312,850	$ 255,095
Accrued income taxes	8,349	5,508
Deferred revenue	600,569	553,990
Total current liabilities	921,768	814,593
Long term accrued income taxes	128,603	157,354
Other long-term liabilities	101,885	88,002
Long-term deferred revenue	34,103	34,739
Total liabilities	1,186,359	1,094,688
Stockholders equity:		
Preferred Stock, $0.01 par value: 2,000 shares authorized; none outstanding		
Common Stock, $0.01 par value: 400,000 shares authorized; 148,479 and 146,945 shares outstanding, respectively	1,485	1,469
Capital in excess of par value	1,541,383	1,500,166
Retained earnings	770,674	574,980
Treasury stock, at cost: 8,786 and 10,326 shares, respectively	(197,586)	(228,618)
Accumulated other comprehensive loss	(15,774)	(3,831)
Total stockholders equity	2,100,182	1,844,166
Total liabilities and stockholders equity	$ 3,286,541	$ 2,938,854

See accompanying notes to consolidated financial statements.

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SYNOPSYS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended October 31,		
	2010	**2009**	**2008**
Revenue:			
Time-based license	$ 1,158,418	$ 1,150,473	$ 1,140,036
Upfront license	68,618	57,551	57,192
Maintenance and service	153,625	152,021	139,723
Total revenue	1,380,661	1,360,045	1,336,951
Cost of revenue:			
License	180,245	175,620	171,974
Maintenance and service	64,746	65,368	63,596
Amortization of intangible assets	36,103	32,662	23,326
Total cost of revenue	281,094	273,650	258,896
Gross margin	1,099,567	1,086,395	1,078,055
Operating expenses:			
Research and development	449,229	419,908	394,747
Sales and marketing	339,759	324,124	334,779
General and administrative	114,887	119,100	103,852
In-process research and development		2,200	4,800
Amortization of intangible assets	11,582	12,812	20,765
Total operating expenses	915,457	878,144	858,943
Operating income	184,110	208,251	219,112
Other income (loss), net	14,548	24,819	(156)
Income before provision for income taxes	198,658	233,070	218,956
(Benefit) provision for income taxes	(38,405)	65,389	28,978
Net income	$ 237,063	$ 167,681	$ 189,978
Net income per share:			
Basic	$ 1.60	$ 1.17	$ 1.33
Diluted	$ 1.56	$ 1.15	$ 1.29
Shares used in computing per share amounts:			
Basic	148,013	143,752	143,258
Diluted	151,911	145,857	147,672

See accompanying notes to consolidated financial statements.

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SYNOPSYS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(In thousands)

	Common Stock						
	Shares	**Amount**	**Capital in Excess of Par Value**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
Balance at October 31, 2007	146,365	$ 1,464	$ 1,401,965	$ 263,977	$ (234,918)	$ 3,905	$ 1,436,393
Adjustments from adoption of new tax guidance(1)			7,675	4,987			12,662
Adjusted balance at November 1, 2007	146,365	1,464	1,409,640	268,964	(234,918)	3,905	1,449,055
Components of comprehensive income:							
Net income				189,978			189,978
Unrealized loss on investments, net of tax of $2,087						(3,160)	(3,160)
Deferred loss on cash flow hedges, net of tax of $1,350						(13,565)	(13,565)
Reclassification adjustment on deferred gains of cash flow hedges, net of tax of $684						(3,921)	(3,921)
Foreign currency translation adjustment						(18,538)	(18,538)
Other comprehensive loss							(39,184)
Total comprehensive income							150,794
Purchases of treasury stock	(9,638)	(96)	96		(220,053)		(220,053)
Common stock issued	5,059	50	(8,588)	(24,885)	112,115		78,692
Stock compensation expense			65,388				65,388
Stock awards assumed in acquisition			4,169				4,169
Tax benefit associated with exercise of stock options			326				326
Balance at October 31, 2008	141,786	$ 1,418	$ 1,471,031	$ 434,057	$ (342,856)	$ (35,279)	$ 1,528,371
Components of comprehensive income:							
Net income				167,681			167,681
Unrealized gain on investments, net of tax of $(1,583)						2,399	2,399
Deferred gain on cash flow hedges, net of tax of $(3,952)						16,726	16,726
Reclassification adjustment on deferred loss of cash flow hedges, net of tax of $(1,560)						8,840	8,840
Foreign currency translation adjustment						3,483	3,483
Other comprehensive income							31,448
Total comprehensive income							199,129
Common stock issued	5,159	51	(15,808)	(26,758)	114,238		71,723
Stock compensation expense			56,912				56,912
Tax adjustments(1)			(11,969)				(11,969)
Balance at October 31, 2009	146,945	$ 1,469	$ 1,500,166	$ 574,980	$ (228,618)	$ (3,831)	$ 1,844,166
Components of comprehensive income:							
Net income				237,063			237,063
Unrealized loss on investments, net of tax of $1,522						(2,307)	(2,307)
Deferred loss on cash flow hedges, net of tax of $1,520						(12,527)	(12,527)
Reclassification adjustment on deferred gain of cash flow hedges, net of tax of $2,923						(3,443)	(3,443)

Foreign currency translation adjustment						6,334	6,334
Other comprehensive income							(11,943)
Total comprehensive income							225,120
Purchases of treasury stock	(8,236)	(82)	82		(184,699)		(184,699)
Common stock issued	9,770	98	(28,672)	(41,369)	215,731		145,788
Stock compensation expense			59,979				59,979
Stock awards assumed in acquisition			4,598				4,598
Tax adjustments(1)			5,230				5,230
Balance at October 31, 2010	148,479	$ 1,485	$ 1,541,383	$ 770,674	$ (197,586)	$ (15,774)	$ 2,100,182

(1) See Note 10 to the consolidated financial statements.

See accompanying notes to consolidated financial statements.

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SYNOPSYS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended October 31, 2010	2009	2008
Cash flow from operating activities:			
Net income	$ 237,063	$ 167,681	$ 189,978
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and depreciation	101,201	101,453	97,143
Stock compensation	59,988	56,934	65,474
Allowance for doubtful accounts	(899)	2,461	135
Write-down of long-term investments	468	7,158	1,115
Gain on sale of investments	(3,995)	(716)	(1,404)
Deferred income taxes	38,356	25,942	(12,249)
In-process research and development		2,200	4,800
Net changes in operating assets and liabilities, net of acquired assets and liabilities:			
Accounts receivable	(16,202)	22,830	(8,571)
Prepaid expenses and other current assets	4,638	11,416	(22,338)
Other long-term assets	(5,923)	(12,248)	13,275
Accounts payable and accrued liabilities	10,566	(28,206)	3,834
Income taxes	(94,052)	(21,140)	(6,960)
Deferred revenue	9,827	(96,606)	6,856
Net cash provided by operating activities	341,036	239,159	331,088
Cash flows from investing activities:			
Proceeds from sales and maturities of short-term investments	547,686	290,709	597,902
Purchases of short-term investments	(243,515)	(386,431)	(564,978)
Proceeds from sales of long-term investments			77
Purchases of long-term investments		(771)	(7,694)
Purchases of property and equipment	(39,223)	(39,199)	(38,869)
Cash paid for acquisitions and intangible assets, net of cash acquired	(500,829)	(53,358)	(184,650)
Capitalization of software development costs	(2,852)	(2,852)	(2,874)
Net cash used in investing activities	(238,733)	(191,902)	(201,086)
Cash flows from financing activities:			
Principal payments on capital leases	(3,692)	(2,212)	(2,970)
Proceeds from credit facilities		1,279	
Payments on credit facilities		(1,533)	
Issuances of common stock	145,329	71,918	79,181
Purchases of treasury stock	(184,699)		(220,053)
Net cash (used in) provided by financing activities	(43,062)	69,452	(143,842)
Effect of exchange rate changes on cash and cash equivalents	14,553	7,272	12,145
Net change in cash and cash equivalents	73,794	123,981	(1,695)
Cash and cash equivalents, beginning of year	701,613	577,632	579,327
Cash and cash equivalents, end of year	$ 775,407	$ 701,613	$ 577,632

Supplemental Disclosure of Cash Flow Information:			
Cash paid for income taxes during the year:	$ 18,673	$ 59,904	$ 51,312
Interest payments on capital leases during the year	$ 171	$ 239	$ 192

See accompanying notes to consolidated financial statements.

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business

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

Note 2. Summary of Significant Accounting Policies

Fiscal Year End. The Company s fiscal year ends on the Saturday nearest October 31. The Company s current fiscal year ended October 30, 2010. Fiscal 2009 and 2008 ended on October 31, 2009 and November 1, 2008, respectively. Fiscal 2010, 2009 and 2008 were 52-week years. For presentation purposes, the consolidated financial statements and notes refer to the calendar month end.

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.

Use of Estimates. To prepare financial statements in conformity with U.S. generally accepted accounting principles, management must make assumptions, judgments and estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Basis of Presentation. Certain immaterial amounts within total revenue in prior year consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no impact on total revenue.

Foreign Currency Translation. The functional currency of each of the Company s active foreign subsidiaries is the foreign subsidiary s local currency except for the Company s principal Irish, Hungarian, and Swiss subsidiaries, whose functional currencies are the United States (U.S.) dollar. Assets and liabilities that are not denominated in the functional currency are remeasured into the functional currency with any related gain or loss recorded in earnings. The Company translates assets and liabilities of its non-U.S. dollar functional currency foreign operations into the U.S. dollar reporting currency at exchange rates in effect at the balance sheet date. The Company translates income and expense items of such foreign operations into U.S. dollars reporting currency at average exchange rates for the period. Accumulated translation adjustments are reported in stockholders equity, as a component of accumulated other comprehensive loss.

Foreign Currency Contracts. The Company operates internationally and is exposed to potentially adverse movements in currency exchange rates. The Company enters into hedges in the form of foreign currency forward contracts to reduce its exposure to foreign currency rate changes on non-functional currency denominated forecasted transactions and balance sheet positions. The Company accounts for the foreign currency forward contracts under Accounting Standard Codification

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(ASC) 815, *Derivatives and Hedging*. The assets or liabilities associated with the forward contracts are recorded at fair value in other current assets or other current liabilities in the consolidated balance sheet. The accounting for gains and losses resulting from changes in fair value depends on the use of the foreign currency forward contract and whether it is designated and qualifies for hedge accounting. See Note 5.

Fair Values of Financial Instruments. The Company s cash equivalents, short-term investments and foreign currency contracts are carried at fair value. The fair value of the Company s accounts receivable and accounts payable approximates the carrying amount due to their short duration. Long-term marketable equity investments are valued based on quoted market prices. Non-marketable equity securities are carried at cost. The Company performs periodic impairment analysis over these non-marketable equity securities. See Note 6.

Cash Equivalents and Short-Term Investments. The Company classifies investments with original maturities of three months or less when acquired as cash equivalents. All of the Company s short-term investments are classified as available-for-sale and are reported at fair value, with unrealized gains and losses included in stockholders equity as a component of accumulated other comprehensive (loss) income, net of tax. Those unrealized gains or losses deemed other than temporary are reflected in other income (loss), net. The cost of securities sold is based on the specific identification method and realized gains and losses are included in other income (loss), net. The Company has cash equivalents and investments with various high quality institutions and, by policy, limits the amount of credit exposure to any one institution. See Note 5.

Concentration of Credit Risk. The Company sells its products worldwide primarily to customers in the global electronics market. The Company performs on-going credit evaluations of its customers financial condition and does not require collateral. The Company establishes reserves for potential credit losses and such losses have been within management s expectations and have not been material in any year presented.

Allowance for Doubtful Accounts. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains allowances for doubtful accounts to reduce the Company s receivables to their estimated net realizable value. The Company provides a general reserve on all accounts receivable based on a review of accounts and a 15-quarter average of write-offs, net of recoveries. The following table presents the changes in the allowance for doubtful accounts.

Fiscal Year	Balance at Beginning of Period	Provisions(1)	Write-offs(2)	Balance at End of Period
		(in thousands)		
2010	$ 3,587	$ (899)	$ 39	$ 2,727
2009	$ 2,338	$ 4,698	$ (3,449)	$ 3,587
2008	$ 2,214	$ 236	$ (112)	$ 2,338

(1) Fiscal 2009 and fiscal 2008 include acquired bad debt reserves of $2.2 million and $0.1 million, respectively.
(2) Balances written off, net of recoveries.

Income Taxes. The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining whether it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. An uncertain tax position is considered effectively settled on completion of an examination by a taxing authority if certain other conditions are satisfied.

Property and Equipment. Property and equipment is recorded at cost less accumulated depreciation. Assets, excluding land, are depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized using the straight-line method over the lesser of the remaining term of the lease or the economic useful life of the asset, whichever is shorter. Depreciation was $50.3 million, $48.3 million and $49.9 million in fiscal 2010, 2009 and 2008, respectively. The cost of repairs and maintenance is charged to operations as incurred and was $19.0 million, $19.2 million and $17.7 million in fiscal 2010, 2009 and 2008, respectively. A detail of property and equipment is as follows:

	October 31,	
	2010	2009
	(in thousands)	
Computer and other equipment	$ 255,054	$ 225,820
Buildings	55,447	59,842
Furniture and fixtures	27,639	25,838
Land	20,414	21,977
Leasehold improvements	87,405	73,013
	445,959	406,490
Less accumulated depreciation and amortization	(297,379)	(259,580)
Total	$ 148,580	$ 146,910

The useful lives of depreciable assets are as follows:

	Useful Life in Years
Computer and other equipment	3-5
Buildings	30
Furniture and fixtures	5
Leasehold improvements (average)	5

Software Development Costs. Capitalization of software development costs begins upon the establishment of technological feasibility, which is generally the completion of a working prototype and ends upon general release of the product. Capitalized software development costs were $2.9 million, $3.0 million and $3.0 million in fiscal 2010, 2009 and 2008, respectively. Amortization of software

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

development costs is computed based on the straight-line method over the estimated economic life of approximately two years. The Company recorded amortization costs of $3.0 million in fiscal 2010 and $2.9 million in fiscal 2009 and fiscal 2008, respectively.

Goodwill. Goodwill represents the excess of the aggregate purchase price over the fair value of the net tangible and identifiable intangible assets acquired by the Company. The carrying amount of goodwill is tested for impairment annually or more frequently if facts and circumstances warrant a review. The Company determined that it is a single reporting unit for the purpose of goodwill impairment tests. For purposes of assessing the impairment of goodwill, the Company estimates the value of the reporting unit using its market capitalization as the best evidence of fair value. This fair value is then compared to the carrying value of the reporting unit. During fiscal 2010, 2009 and 2008, there were no indicators of impairments to goodwill.

Prior to fiscal 2010, the carrying value of goodwill was adjusted for the settlement of tax contingencies or the recognition of tax benefits from acquired companies. Beginning in fiscal 2010, adjustments to these related items have been recognized in income from continuing operations, rather than in goodwill, if such changes occurred after the measurement period.

Intangible Assets. Intangible assets consist of purchased technology, contract rights intangibles, customer installed base/relationships, trademarks and tradenames covenants not to compete, customer backlog, capitalized software and other intangibles. Intangible assets are amortized on a straight-line basis over their estimated useful lives which range from one to ten years.

The Company continually monitors events and changes in circumstances that could indicate carrying amounts of the long-lived assets, including property and equipment and intangible assets, may not be recoverable. When such events or changes in circumstances occur, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through the undiscounted future cash flow. If the undiscounted future cash flow is less than the carrying amount of these assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. The Company had no impairments of any long-lived assets in fiscal 2010, 2009 or 2008.

Accounts Payable and Accrued Liabilities. Accounts payable and accrued liabilities consist of:

	October 31,	
	2010	2009
	(in thousands)	
Payroll and related benefits	$ 216,079	$ 189,719
Other accrued liabilities	70,519	45,734
Accounts payable	16,331	10,136
Facility restructuring charge	2,711	4,538
Acquisition-related costs	7,210	4,968
Total	$ 312,850	$ 255,095

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Long-term Liabilities. Other long-term liabilities consist of:

	October 31, 2010	October 31, 2009
	(in thousands)	
Deferred compensation liability(1)	$ 83,330	$ 69,709
Other long-term liabilities	18,555	18,293
Total	$ 101,885	$ 88,002

(1) See Note 9.

Other Comprehensive Income (Loss). Other comprehensive income (loss) includes all changes in equity during a period from non-owner sources, such as accumulated net translation adjustments, unrealized gains on certain foreign currency forward contracts that qualify as cash flow hedges, reclassification adjustments related to cash flow hedges and unrealized gains on investments. Accumulated other comprehensive loss, net of tax, consists of the following:

	October 31, 2010	October 31, 2009
	(in thousands)	
Unrealized gain on investments	$ 557	$ 2,865
Deferred gain (loss) on cash flow hedges	(6,354)	9,615
Foreign currency translation adjustments	(9,977)	(16,311)
	$ (15,774)	$ (3,831)

Revenue Recognition. The Company recognizes revenue from software licenses and related maintenance and service revenue and, to a lesser extent, from hardware sales, in accordance with ASC 605, *Revenue Recognition.* Software license revenue consists of fees associated with the licensing of its software. Maintenance and service revenue consists of maintenance fees associated with perpetual and term licenses and professional service fees. Hardware revenue consists of Field Programmable Gate Array (FPGA) board-based products.

With respect to software licenses, the Company utilizes three license types:

Technology Subscription Licenses (TSLs) are time-based licenses for a finite term, and generally provide the customer limited rights to receive, or to exchange certain quantities of licensed software for, unspecified future technology. The Company bundles and does not charge separately for post-contract customer support (maintenance) for the term of the license.

Term Licenses are also for a finite term, but do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually for the balance of the term. The annual maintenance fee is typically calculated as a percentage of the net license fee.

Perpetual Licenses continue as long as the customer renews maintenance plus an additional 20 years. Perpetual licenses do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually.

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three software license types, the Company recognizes revenue as follows:

TSLs. The Company typically recognizes revenue from TSL fees (which include bundled maintenance) ratably over the term of the license period, or as customer installments become due and payable, whichever is later. Revenue attributable to TSLs is reported as time-based license revenue in the consolidated statement of operations.

Term Licenses. The Company recognizes revenue from term licenses in full upon shipment of the software if payment terms require the customer to pay at least 75% of the license fee and 100% of the maintenance fee within one year from shipment and all other revenue recognition criteria are met. Revenue attributable to these term licenses is reported as upfront license revenue in the consolidated statement of operations. For term licenses in which less than 75% of the license fee and 100% of the maintenance fee is payable within one year from shipment, the Company recognizes revenue as customer payments become due and payable. Such revenue is reported as time-based license revenue in the consolidated statement of operations.

Perpetual Licenses. The Company recognizes revenue from perpetual licenses in full upon shipment of the software if payment terms require the customer to pay at least 75% of the license fee and 100% of the maintenance fee within one year from shipment and all other revenue recognition criteria are met. Revenue attributable to these perpetual licenses is reported as upfront license revenue in the consolidated statement of operations. For perpetual licenses in which less than 75% of the license fee and 100% of the maintenance fee is payable within one year from shipment, the Company recognizes revenue as customer installments become due and payable. Such revenue is reported as time-based license revenue in the consolidated statement of operations.

The Company also enters into arrangements in which portions of revenue are contingent upon the occurrence of uncertain future events, for example, royalty arrangements. The Company refers to this revenue as contingent revenue. Contingent revenue is recognized if and when the applicable event occurs. It is reported as time-based revenue in the consolidated statement of operations. These arrangements were not material to our total revenue.

The Company recognizes revenue from hardware sales in full upon shipment if all other revenue recognition criteria are met. Revenue attributable to these hardware sales is reported as upfront license revenue in the consolidated statement of operations. If a technology subscription license is sold together with the hardware, the Company recognizes total revenue ratably over the term of the software license period, or as customer installments become due and payable, whichever is later. Revenue attributable to these hardware sales is reported as time-based license revenue in the consolidated statement of operations. Hardware sales were not material to our total revenue.

The Company recognizes revenue from maintenance fees ratably over the maintenance period to the extent cash has been received or fees become due and payable, and recognizes revenue from professional services and training fees as such services are performed and accepted by the customer. Revenue attributable to maintenance, professional services and training is reported as maintenance and service revenue in the consolidated statement of operations.

The Company also enters into arrangements to deliver software products, either alone or together with other products or services that require significant modification, or customization of the software. The Company accounts for such arrangements per the guidance provided in ASC 605-35*, Construction-Type and Production Type Contracts*. The Company uses the percentage of completion

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

method to account for such transactions, as it has the ability to make reasonably dependable estimates that relate to the extent of progress toward completion, contract revenues and costs. The Company measures the progress towards completion using the labor hours incurred to complete the project.

The Company s determination of fair value of each element in multiple element arrangements is based on vendor-specific objective evidence (VSOE). The Company limits its assessment of VSOE of fair value for each element to the price charged when such element is sold separately.

The Company has analyzed all of the elements included in our multiple-element software arrangements and has determined that it has sufficient VSOE to allocate revenue to the maintenance components of its perpetual and term license products and to professional services. Accordingly, assuming all other revenue recognition criteria are met, the Company recognizes license revenue from perpetual and term licenses upon delivery using the residual method, recognizes revenue from maintenance ratably over the maintenance term, and recognizes revenue from professional services as services are performed or as milestones are met and accepted. The Company recognizes revenue from TSLs ratably over the term of the license, assuming all other revenue recognition criteria are met, since there is not sufficient VSOE to allocate the TSL fee between license and maintenance services.

The Company makes significant judgments related to revenue recognition. Specifically, in connection with each transaction involving its products, the Company must evaluate whether: (1) persuasive evidence of an arrangement exists, (2) delivery of software or services has occurred, (3) the fee for such software or services is fixed or determinable, and (4) collectability of the full license or service fee is probable. All four of these criteria must be met in order for the Company to recognize revenue with respect to a particular arrangement. The Company applies these revenue recognition criteria as follows:

Persuasive Evidence of an Arrangement Exists. Prior to recognizing revenue on an arrangement, the Company s customary policy is to have a written contract, signed by both the customer and the Company or a purchase order from those customers that have previously negotiated a standard end-user license arrangement or purchase agreement.

Delivery Has Occurred. The Company delivers its products to its customers electronically or physically. For electronic deliveries, delivery occurs when the Company provides access to its customers to take immediate possession of the software through downloading it to the customer s hardware. For physical deliveries, the standard transfer terms are typically FOB shipping point. The Company generally ships its products or license keys promptly after acceptance of customer orders. However, a number of factors can affect the timing of product shipments and, as a result, timing of revenue recognition, including the delivery dates requested by customers and the Company s operational capacity to fulfill product orders at the end of a fiscal quarter.

The Fee is Fixed or Determinable. The Company s determination that an arrangement fee is fixed or determinable depends principally on the arrangement s payment terms. Its standard payment terms for perpetual and term licenses require 75% or more of the license fee and 100% of the maintenance fee to be paid within one year. If the arrangement includes these terms, the Company regards the fee as fixed or determinable, and recognizes all license revenue under the arrangement in full upon delivery (assuming all other revenue recognition criteria are met). If the arrangement does not include these terms, the Company does not consider the fee to be fixed or determinable and generally recognize revenue when customer installments are due and payable. In the case of a TSL, because of the right to exchange products or receive unspecified future technology and because VSOE for maintenance

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

services does not exist for a TSL, the Company recognizes revenue ratably over the term of the license, but not in advance of when customers installments become due and payable.

Collectability is Probable. The Company judges collectability of the arrangement fees on a customer-by-customer basis pursuant to its credit review policy. The Company typically sells to customers with whom it has a history of successful collection. For a new customer, or when an existing customer substantially expands its commitments, the Company evaluates the customer s financial position and ability to pay and typically assign a credit limit based on that review. The Company increases the credit limit only after it has established a successful collection history with the customer. If the Company determines at any time that collectability is not probable under a particular arrangement based upon its credit review process or the customer s payment history, it recognizes revenue under that arrangement as customer payments are actually received.

Warranties and Indemnities. The Company generally warrants its products to be free from defects in media and to substantially conform to material specifications for a period of 90 days for software products and for up to six months for hardware products. In certain case, the Company also provides its customers with limited indemnification with respect to claims that their use of the Company s software products infringe on United States patents, copyrights, trademarks or trade secrets. The Company is currently defending some of its customers against claims that their use of one of the Company s products infringes a patent held by a Japanese electronics company. The Company is unable to estimate the potential impact of these commitments on the future results of operations. To date, the Company has not been required to pay any material warranty claims.

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

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

	Year Ended October 31,		
	2010	2009	2008
		(in thousands)	
Numerator:			
Net income	$ 237,063	$ 167,681	$ 189,978
Denominator:			
Weighted average common shares for basic net income per share	148,013	143,752	143,258
Dilutive effect of common share equivalents from equity based compensation	3,898	2,105	4,414
Weighted average common shares for diluted net income per share	151,911	145,857	147,672
Net income per share:			
Basic	$ 1.60	$ 1.17	$ 1.33
Diluted	$ 1.56	$ 1.15	$ 1.29

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Diluted net income per share excludes 11.0 million, 17.3 million and 11.5 million anti-dilutive options and unvested restricted stock units for fiscal years ended October 31, 2010, 2009 and 2008, respectively. While these options and unvested restricted stock units were anti-dilutive for the respective periods, they could be dilutive in the future.

Note 3. Business Combinations

During the fiscal years presented, the Company made several acquisitions which were accounted for as business combinations. The Company does not consider these acquisitions to be material, individually or in the aggregate to the Company s balance sheet and results of operations. The consolidated financial statements include the operating results of each business from the date of acquisition.

Effective for fiscal 2010, the Company adopted new accounting guidance, ASC 805, *Business Combinations*. The fair values assigned to the acquired identifiable intangible assets were based upon future discounted cash flows related to the existing products projected income streams. In addition, the purchased in-process research and development (IPR&D) for fiscal 2010 has been capitalized at fair value as an intangible asset with an indefinite life (see Note 4) and will be assessed for impairment in subsequent periods. Upon completion of development, the underlying R&D intangible asset will be amortized over its estimated useful life. Prior to the adoption of ASC 805, IPR&D was expensed upon acquisition if it had no alternative future use.

Goodwill primarily relates to expected synergies and represents the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired in the acquisitions. Goodwill is not amortized but is assessed for impairment in subsequent periods and is generally not deductible for tax purposes except for certain asset acquisitions. Goodwill of $46.0 million and $33.4 million resulting from fiscal 2010 and fiscal 2009 acquisitions, respectively, is deductible for tax purposes.

Fiscal 2010 Acquisitions

Virage Logic Corporation

On September 2, 2010, the Company acquired all outstanding shares of Virage Logic Corporation (Virage). Virage was a leading provider of embedded memories with test and repair, non-volatile memories (NVMs), logic libraries, and configurable cores for control and multimedia sub-systems. The Company believes the acquisition will expand its Designware interface and analog IP portfolio.

Purchase Price. Synopsys paid $12.00 per share for all outstanding shares, including vested awards of Virage for an aggregate cash payment of $299.5 million, net of cash acquired. Additionally, the Company assumed unvested restricted stock units and stock appreciation rights, collectively called stock awards.

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Purchase Price Allocation. The total purchase consideration and the preliminary allocation consisted of:

		(in thousands)
Cash paid	$	311,982
Fair value of stock awards allocated to purchase consideration		4,598
Total purchase consideration	$	316,580
Tangible assets acquired		49,645
Identifiable intangibles assets acquired		96,700
IPR&D acquired		13,200
Goodwill		211,849
Liabilities assumed		(54,814)
Total purchase allocation	$	316,580

As of the end of the fiscal year, the Company s allocation is preliminary and has not been finalized for certain liabilities and tax allocations. Goodwill primarily resulted from the Company s expectation of sales growth and cost synergies from the integration of Virage s technology with the Company s technology and operations to provide an expansion of products and market reach. Identifiable intangible assets consisted of technology, customer relationships, contract rights and trademarks, were valued using the income method, and are being amortized over two to ten years.

Acquisition-related costs totaling $10.8 million were expensed as incurred in the statement of operations and consist primarily of professional services, severance and employee related costs, contract terminations and facilities closure costs.

Fair Value of Stock Awards Assumed. The Company assumed unvested restricted stock units (RSUs) and stock appreciation rights (SARs) with a fair value of $21.7 million. Of the total consideration, $4.6 million was allocated to the purchase consideration and $17.1 million was allocated to future services and will be expensed over their remaining service periods on a straight-line basis.

Other Fiscal 2010 Acquisitions

During fiscal 2010, the Company completed seven other acquisitions for cash and preliminarily allocated the total purchase consideration of $221.7 million to the assets acquired and liabilities assumed based on their respective fair values at the acquisition dates, resulting in total goodwill of $117.6 million. Acquired identifiable intangible assets totaling $86.3 million, were valued using the income method, and are being amortized over their respective useful lives ranging from one to ten years. Acquisition-related costs totaling $9.8 million were expensed as incurred in the statement of operations.

The purchase consideration for one of the acquisitions includes contingent consideration up to $10.0 million payable upon the achievement of certain technology milestones over three years. The contingent consideration was recorded as a liability at its estimated fair value determined based on the net present value of estimated payments of $7.8 million on the acquisition date and is being remeasured at fair value quarterly during the three-year contingency period with changes in its fair value recorded in the Company s statements of operations. The contingent consideration liability as of the end of fiscal 2010 was $8.1 million.

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During fiscal 2010, the Company also paid $3.6 million upon the achievement of certain milestones related to prior fiscal year acquisitions.

The Company continues to evaluate certain assets and liabilities related to business combinations completed during fiscal 2010. Additional information, which existed as of the acquisition date but is yet unknown to the Company, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Changes to amounts recorded as assets or liabilities will be recorded as retrospective adjustments to the provisional amounts recognized as of the acquisition date and may result in a corresponding adjustment to goodwill.

Fiscal 2009 Acquisitions

During fiscal 2009, the Company completed certain acquisitions for cash. The Company allocated the total purchase consideration of $61.2 million to the assets acquired and liabilities assumed, based on their respective fair values at the acquisition dates, resulting in aggregate goodwill of $33.4 million. Identifiable intangible assets of $27.5 million are being amortized over one to six years. In-process research and development expense related to these acquisitions was $2.2 million.

Fiscal 2008 Acquisition

On May 15, 2008, the Company acquired all outstanding shares of Synplicity, Inc. (Synplicity). Synplicity was a leading supplier of innovative field programmable gate array (FPGA) and IC design and verification solutions that served a wide range of communications, military/aerospace, semiconductor, consumer, computer, and other electronic applications markets. The Company believes the acquisition will expand its technology portfolio, channel reach and total addressable market by adding complementary products and expertise for FPGA solutions and rapid ASIC prototyping.

Purchase Price. Synopsys paid $8.00 per share for all outstanding shares including certain vested options of Synplicity for an aggregate cash payment of $223.3 million. Additionally, the Company assumed certain employee stock options and restricted stock units, collectively called stock awards. The total purchase consideration consisted of:

	(in thousands)
Cash paid, net of cash acquired	$ 180,618
Fair value of assumed vested or earned stock awards	4,169
Acquisition-related costs	7,465
Total purchase price consideration	$ 192,252

Acquisition-related costs consist primarily of professional services, severance and employee related costs and facilities closure costs of which $7.3 million have been paid as of October 31, 2010.

Fair Value of Stock Awards Assumed. The total fair value of stock awards assumed was $9.2 million, of which $4.2 million was allocated to the purchase price and $5.0 million was allocated to future services and expensed over the remaining service periods on a straight-line basis.

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Purchase Price Allocation. The Company allocated $80.0 million of the purchase price to identifiable intangible assets to be amortized over two to seven years. In-process research and development expense related to these acquisitions was $4.8 million. Goodwill, representing the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired, was $123.8 million.

Note 4. Goodwill and Intangible Assets

Goodwill consists of the following:

	(in thousands)
Balance at October 31, 2008	$ 899,640
Additions	35,212
Other adjustments(1)	(2,161)
Balance at October 31, 2009	$ 932,691
Additions	329,496
Other adjustments(1)	3,656
Balance at October 31, 2010	$ 1,265,843

(1) Adjustments relate to reduction of merger costs and income tax adjustments for prior year acquisitions.

Intangible assets as of October 31, 2010 consisted of the following:

	Gross Assets	Accumulated Amortization (in thousands)	Net Assets
Core/developed technology	$ 263,592	$ 118,587	$ 145,005
Customer relationships	113,020	55,040	57,980
Contract rights intangible	30,400	9,522	20,878
Covenants not to compete	2,200	1,884	316
Trademarks and trade names	6,200	1,541	4,659
In-process research and development (IPR&D)	17,525		17,525
Capitalized software development costs(1)	8,873	5,580	3,293
Total	$ 441,810	$ 192,154	$ 249,656

(1) During fiscal 2010, the Company retired fully amortized assets of $5.8 million.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible assets as of October 31, 2009 consisted of the following:

	Gross Assets	Accumulated Amortization (in thousands)	Net Assets
Core/developed technology	$ 146,266	$ 85,355	$ 60,911
Customer relationships	73,120	45,715	27,405
Contract rights intangible	8,100	5,661	2,439
Covenants not to compete	2,200	1,247	953
Trademarks and trade names	2,700	911	1,789
Capitalized software development costs	11,755	8,442	3,313
Total	$ 244,141	$ 147,331	$ 96,810

Total amortization expense related to intangible assets is set forth in the table below:

	Year Ended October 31,		
	2010	2009 (in thousands)	2008
Core/developed technology	$ 33,232	$ 29,644	$ 21,013
Customer relationships	9,325	11,109	19,065
Contract rights intangible	3,861	3,399	3,091
Covenant not to compete	637	741	642
Trademarks and tradenames	630	581	280
Capitalized software development costs(2)	2,964	2,948	2,899
Total	$ 50,649	$ 48,422	$ 46,990

(2) Amortization of capitalized software development costs is included in cost of license revenue in the consolidated statements of operations.
The following table presents the estimated future amortization of intangible assets:

Fiscal Year	(in thousands)
2011	$ 67,642
2012	56,654
2013	44,307
2014	26,636
2015	16,012
2016 and thereafter	20,880
IPR&D (to be amortized upon project completion or written off upon abandonment)	17,525

Total	$	249,656

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Financial Assets and Liabilities

Cash, Cash Equivalents and Investments. Short-term investments have been classified as available-for-sale securities. Cash, cash equivalents and investments are detailed as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months (in thousands)	Gross Unrealized Losses 12 Months or Longer	Estimated Fair Value
Balance at October 31, 2010					
Classified as current assets:					
Non-interest bearing cash (U.S. and International)	$ 45,687	$	$	$	$ 45,687
Money market funds (U.S.)	68,099				68,099
Cash deposits and money market funds (International)	661,621				661,621
Municipal obligations	162,440	723	(9)		163,154
	937,847	723	(9)		938,561
Classified as non-current assets:					
Strategic investments	7,360				7,360
Total	$ 945,207	$ 723	$ (9)	$	$ 945,921

	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months (in thousands)	Gross Unrealized Losses 12 Months or Longer	Estimated Fair Value
Balance at October 31, 2009					
Classified as current assets:					
Non-interest bearing cash (U.S. and International)	$ 40,390	$	$	$	$ 40,390
Money market funds (U.S.)	141,418				141,418
Cash deposits and money market funds (International)	519,805				519,805
Municipal obligations	463,966	2,827	(80)		466,713
	1,165,579	2,827	(80)		1,168,326
Classified as non-current assets:					
Strategic investments	8,002	1,796			9,798
Total	$ 1,173,581	$ 4,623	$ (80)	$	$ 1,178,124

As of October 31, 2010, the stated maturities of the Company s short-term investments were $32.8 million within one year, $67.7 million within one to five years, $25.0 million within five to ten years and $37.7 million after ten years. Actual maturities may differ from the stated maturities because borrowers may have the right to call or prepay certain obligations.

These investments are classified as available-for-sale and are recorded on the balance sheet at fair market value with unrealized gains or losses, net of tax, reported as a component of accumulated

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

other comprehensive income (loss), net of tax. Realized gains and losses on sales of short-term investments have not been material in any period presented.

Strategic Investments. The Company s strategic investment portfolio consists of minority equity investments in privately held companies. The cost basis of securities sold is based on the specific identification method. Securities of privately held companies are reported at cost net of impairment losses. As of October 31, 2010, the carrying value of the Company s strategic investments was $7.4 million.

Derivatives. In accordance with ASC 815, *Derivatives and Hedging*, the Company recognizes derivative instruments as either assets or liabilities in the consolidated financial statements at fair value and provides qualitative and quantitative disclosures about such derivatives.

The Company operates internationally and is exposed to potentially adverse movements in foreign currency exchange rates. The Company enters into hedges in the form of foreign currency forward contracts to reduce its exposure to foreign currency rate changes on non-functional currency denominated forecasted transactions and balance sheet positions including: (1) certain assets and liabilities, (2) shipments forecasted to occur within approximately one month, (3) future billings and revenue on previously shipped orders, and (4) certain future intercompany invoices denominated in foreign currencies.

The duration of forward contracts ranges from one month to 19 months, the majority of which are short term. The Company does not use foreign currency forward contracts for speculative or trading purposes. The Company enters into foreign exchange forward contracts with high credit quality financial institutions that are rated A or above and to date has not experienced nonperformance by counterparties. Further, the Company anticipates continued performance by all counterparties to such agreements.

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

Cash Flow Hedging Activities

Certain foreign exchange forward contracts are designated and qualify as cash flow hedges. These contracts have durations of one year or less, except for forward contracts denominated in the British pound, Canadian dollar, Chinese yuan, Euro, Indian rupee, Japanese yen or Taiwanese dollar, which can have durations of up to 19 months. Certain forward contracts are rolled over periodically to capture the full length of exposure to the Company s foreign currency risk, which can be up to three years. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge and the hedges must be highly effective in offsetting changes to future cash flows on the hedged transactions. The effective portion of gains or losses resulting from changes in fair value of these hedges is initially reported, net of tax, as a component of accumulated other comprehensive income (loss), or OCI, in stockholders equity and reclassified into revenue or operating expenses, as appropriate, at the time the hedged transactions affect earnings.

Hedging effectiveness is evaluated monthly using spot rates, with any gain or loss caused by hedging ineffectiveness recorded in other income (loss), net. The premium/discount component of the

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

forward contracts is recorded to other income (loss), net, and is not included in evaluating hedging effectiveness.

Non-designated Hedging Activities

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

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

During the year ended October 31, 2010, $2.8 million of losses were recorded in other income (loss), net, from changes in fair values of non-designated forward contracts. As of October 31, 2010, the Company had a total gross notional amount of $691.3 million of short-term foreign currency forward contracts outstanding with net fair value of ($7.5) million. As of October 31, 2009, the Company had a total gross notional amount of $525.4 million of short-term foreign currency forward contracts outstanding with net fair value of $11.2 million. The notional amounts for derivative instruments provide one measure of the transaction volume outstanding as of October 31, 2010 and October 31, 2009, respectively, and do not represent the amount of the Company s exposure to market gain or loss. The Company s exposure to market gain or loss will vary over time as a function of currency exchange rates. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

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

	Fair Values of derivative instruments designated as hedging instruments	Fair Values of derivative instruments not designated as hedging instruments
	(in thousands)	
As of October 31, 2010		
Other current assets	$ 5,680	$
Other current liabilities	$ 11,626	$ 1,554
As of October 31, 2009		
Other current assets	$ 10,273	$ 1,746
Other current liabilities	$ 846	$

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table represents the income statement location and amount of gains and losses on derivative instrument fair values for designated hedge instruments, net of tax, for the year ended October 31, 2010:

	Location of gain (loss) recognized in OCI on derivatives	Amount of gain (loss) recognized in OCI on derivatives (effective portion)	Location of gain (loss) reclassified from OCI	Amount of gain (loss) reclassified from OCI (effective portion)
		(in thousands)		
For year ended October 31, 2010				
Foreign exchange contracts	Revenue	$ (9,747)	Revenue	$ 1,689
Foreign exchange contracts	Operating expenses	(1,961)	Operating expenses	1,754
Total		$ (11,708)		$ 3,443
For year ended October 31, 2009				
Foreign exchange contracts	Revenue	$ 1,712	Revenue	$ 5,385
Foreign exchange contracts	Operating expenses	15,011	Operating expenses	(14,227)
Total		$ 16,723		$ (8,842)

The following table represents the ineffective portions and portions excluded from effectiveness testing of the hedge gains (losses) for derivative instruments designated as hedging instruments during the year ended October 31, 2010:

	Location of gain (loss) recognized in income on derivatives (ineffective portion and excluded from effectiveness testing)	Amount of gain (loss) recognized in income statement on derivatives (ineffective portion)(1)	Amount of gain (loss) recognized in income statement on derivatives (excluded from effectiveness testing)(2)
		(in thousands)	
For year ended October 31, 2010			
Foreign exchange contracts	Other income (loss), net	$ 788	$ (1,051)
For year ended October 31, 2009			
Foreign exchange contracts	Other income (loss), net	$ (59)	$ 2,977

(1) The ineffective portion includes forecast inaccuracies.

(2) The portion excluded from effectiveness includes the discount earned or premium paid for the contracts.

Credit Facility. On October 20, 2006, the Company entered into a five-year, $300.0 million senior unsecured revolving credit facility providing for loans to the Company and certain of its foreign subsidiaries. The amount of the facility may be increased by up to an additional $150.0 million through the fourth year of the facility. The facility contains financial covenants requiring the Company to maintain a minimum leverage ratio and specified levels of cash, as well as other non-financial covenants. The facility terminates on October 20, 2011. Borrowings under the facility bear interest at

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the greater of the administrative agent s prime rate or the federal funds rate plus 0.50%; however, the Company has the option to pay interest based on the outstanding amount at Eurodollar rates plus a spread between 0.50% and 0.70% based on a pricing grid tied to a financial covenant. In addition, commitment fees are payable on the facility at rates between 0.125% and 0.175% per year based on a pricing grid tied to a financial covenant. As of October 31, 2010, the Company had no outstanding borrowings under this credit facility and was in compliance with all the covenants.

Note 6. Fair Value Measures

ASC 820-10, *Fair Value Measurements and Disclosures*, defines fair value, establishes guidelines and enhances disclosure requirements for fair value measurements.

The accounting guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The accounting guidance also establishes a fair value hierarchy based on the independence of the source and objective evidence of the inputs used. There are three fair value hierarchies based upon the level of inputs that are significant to fair value measurement:

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

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

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

On a recurring basis, the Company measures fair value of its assets and liabilities which include cash equivalents, short-term investments, marketable equity securities, a non-qualified deferred compensation plan, foreign currency derivative contracts and contingent consideration associated with business combinations.

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

The assets of the Company s non-qualified deferred compensation plan consist of money market and mutual funds invested in domestic and international marketable securities. During fiscal 2009, the deferred compensation plan was classified within Level 2 as the assets were invested in funds with indirectly observable market prices. During the first quarter of fiscal 2010, the assets of the deferred compensation plan were transferred to mutual funds that are directly observable in active markets and are therefore classified within Level 1.

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

During fiscal 2010, the Company recorded a liability for contingent consideration of $7.8 million arising from a business combination (see Note 3 for further details). The fair value of the contingent

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

consideration was determined at the acquisition date using the income approach based on the net present value of estimated payments. The contingent consideration was classified within Level 3 as the management assumptions for the valuation included discount rates and estimated probabilities of achievement of certain technical milestones which are unobservable in the market. As of October 31, 2010, the balance was $8.1 million and the assumptions for the valuation did not materially change.

Assets/Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below as of October 31, 2010:

		Fair Value Measurement Using		
Description	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(in thousands)		
Assets				
Cash equivalents:				
Money market funds	$ 487,199	$ 487,199	$	$
Short-term investments:				
Municipal securities	163,154		163,154	
Prepaid and other current assets:				
Foreign currency derivative contracts	5,680		5,680	
Other long-term assets:				
Deferred compensation plan assets	83,330	83,330		
Total assets	$ 739,363	$ 570,529	$ 168,834	$
Liabilities				
Accounts payable and accrued liabilities:				
Foreign currency derivative contracts	$ 13,180	$	$ 13,180	$
Contingent consideration	3,121			3,121
Other long-term liabilities:				
Contingent consideration	4,935			4,935
Total liabilities	$ 21,236	$	$ 13,180	$ 8,056

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below as of October 31, 2009:

Description	Total	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets				
Cash equivalents:				
Money market funds	$ 461,068	$ 461,068	$	$
Short-term investments:				
Municipal securities	466,713		466,713	
Other current assets:				
Foreign currency derivative contracts	12,019		12,019	
Other long-term assets:				
Marketable equity security(1)	2,140	2,140		
Deferred compensation plan assets	73,968		73,968	
Total assets	$ 1,015,908	$ 463,208	$ 552,700	$
Liabilities				
Account payable and accrued liabilities:				
Foreign currency derivative contracts	$ 846	$	$ 846	$
Deferred compensation and other liabilities:				
Deferred compensation plan liabilities	69,709		69,709	
Total liabilities	$ 70,555	$	$ 70,555	$

(1) During the year ended October 31, 2009, the Company recorded a $0.9 million other-than-temporary impairment charge in other income (loss), net, due to the decline of the stock price of a public company in its long-term investment portfolio.

Equity investments in privately-held companies are accounted for under the cost method of accounting. These equity investments (also called non-marketable equity securities) are classified within Level 3 as they are valued using significant unobservable inputs or data in an inactive market,

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and the valuation requires management judgment due to the absence of market price and inherent lack of liquidity. The non-marketable equity securities are measured and recorded at fair value when an event or circumstance which impacts the fair value of these securities indicates an other-than-temporary decline in value has occurred. As a result of the fair value measurement, the Company recorded $0.5 million, $7.2 million, and $1.1 million of other-than-temporary impairments during fiscal 2010, 2009 and 2008, respectively. The fair value of these investments was calculated using the income approach.

The following tables present the non-marketable equity securities that were measured and recorded at fair value within long-term assets and the loss recorded during the following periods:

	Balance as of October 31, 2010	Significant Unobservable Inputs (Level 3) (in thousands)	Total (losses) for Fiscal 2010
Non-marketable equity securities	$ 452	$ 452	$ (468)

	Balance as of October 31, 2009	Significant Unobservable Inputs (Level 3) (in thousands)	Total (losses) for Fiscal 2009
Non-marketable equity investment	$ 3,306	$ 3,306	$ (7,158)

Note 7. Commitments and Contingencies

Lease Commitments

The Company leases certain of its domestic and foreign facilities and certain office equipment under non-cancelable lease agreements. The facilities generally require the Company to pay property taxes, insurance, maintenance and repair costs. Rent expenses were $49.7 million, $45.2 million and $44.6 million in fiscal 2010, 2009 and 2008, respectively. The Company charges operating lease payments to expense using the straight-line method. The Company subleases portions of its facilities and records sublease payments as a reduction of rent expense.

Anticipated future minimum lease payments on all non-cancelable operating leases with a term in excess of one year, net of sublease income, as of October 31, 2010 are as follows:

	Minimum Lease Payments	Sublease Income (in thousands)	Net
Fiscal Year			
2011	$ 42,768	$ 651	$ 42,117
2012	40,196	619	39,577
2013	31,267	587	30,680
2014	27,728	122	27,606
2015	15,032		15,032
Thereafter	29,891		29,891

Total	$ 186,882	$ 1,979	$ 184,903

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Legal Proceedings

The Company is subject to routine legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of its business. The ultimate outcome of any litigation is uncertain and unfavorable outcomes could have a negative impact on the Company s financial position and results of operations.

Note 8. Stock Repurchase Program

Stock Repurchase Program. In December 2002, the Company s Board of Directors (Board) approved a stock repurchase program pursuant to which the Company was authorized to purchase up to $500.0 million of its common stock. Since 2002, the Board has periodically replenished the stock repurchase program up to $500.0 million. On September 3, 2009, the Board replenished the stock repurchase program to $500.0 million. The Company repurchases shares to offset dilution caused by ongoing stock issuances from existing plans for equity compensation awards, acquisitions, and when management believes it is a good use of cash. Repurchases are transacted in accordance with Rule 10b-18 of the Securities Exchange Act of 1934 (Exchange Act) and may be made through any means including, but not limited to, open market purchases, plans executed under Rule 10b5-1(c) of the Exchange Act and structured transactions. As of October 31, 2010, $315.3 million remained available for further purchases under the program.

Stock repurchase activities are as follow:

	Year Ended October 31,		
	2010	2009	2008
	(in millions, except per share price)		
Shares repurchased	8.2		9.6
Average purchase price	$ 22.42		$ 22.83
Aggregate purchase price	$ 184.7		$ 220.1

9.8 million, 5.2 million and 5.0 million shares were reissued for employee stock option exercises, restricted stock and employee stock purchase plan requirements in fiscal 2010, 2009, and 2008, respectively.

Note 9. Employee Benefit Plans

Employee Stock Purchase Plan

Under the Company s Employee Stock Purchase Plan and International Employee Stock Purchase Plan (collectively, the ESPP), employees are granted the right to purchase shares of common stock at a price per share that is 85% of the lesser of the fair market value of the shares at (1) the beginning of a rolling two-year offering period or (2) the end of each semi-annual purchase period, subject to a plan limit on the number of shares that may be purchased in a purchase period.

On March 25, 2010, the Company s stockholders approved an amendment to the ESPP to increase the number of shares of common stock authorized for issuance under the plan by 5.0 million. During fiscal 2010, 2009 and 2008, the Company issued 2.5 million, 2.5 million, and 2.2 million shares, respectively, under the ESPP at average per share prices of $15.32, $15.55 and $16.29, respectively. As of October 31, 2010, 5.1 million shares of common stock were reserved for future issuance under the ESPP.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity Compensation Plans

2006 Employee Equity Incentive Plan. On April 25, 2006, the Company s stockholders approved the 2006 Employee Equity Incentive Plan (the 2006 Employee Plan), which provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights and other forms of equity compensation, including performance stock awards and performance cash awards, as determined by the plan administrator. The terms and conditions of each type of award are set forth in the 2006 Employee Plan. Options granted under this plan have a contractual term of seven years. As of October 31, 2010, an aggregate of 19.4 million stock options, and 3.7 million restricted stock units were outstanding, and 2.6 million shares were available for future issuance under the 2006 Employee Plan.

As a result of the stockholders approval of the 2006 Employee Plan, the Company s 1992 Stock Option Plan, 1998 Non-Statutory Stock Option Plan and 2005 Assumed Stock Option Plan (collectively, the Prior Plans) have been terminated for future grants. Should any options currently outstanding under such Prior Plans and plans assumed by the Company in acquisitions prior to fiscal 2006 (12.4 million as of October 31, 2010) cancel or expire unexercised; they shall become available for future grant under the 2006 Employee Plan.

2005 Non-Employee Directors Equity Incentive Plan. On May 23, 2005, the Company s stockholders approved the 2005 Non-Employee Directors Equity Incentive Plan (the 2005 Directors Plan) and the reservation of 0.3 million shares of common stock for issuance there under. The 2005 Directors Plan provides for annual equity awards to non-employee directors in the form of either stock options or restricted stock. Stockholders approved a 0.5 million share increase in the number of shares reserved for issuance under the 2005 Directors Plan on April 25, 2006.

As of October 31, 2010, the Company has issued an aggregate of 218,771 shares of restricted stock awards with an aggregate grant date fair value of approximately $4.6 million under the 2005 Directors Plan. The restricted stocks vest over a period of three years. In addition, the Company granted options to purchase 81,502 shares of common stock, which vest over a period of three to four years, with an aggregate grant date fair value of $2.2 million to non-employee directors during fiscal 2007. As of October 31, 2010, 56,658 shares of restricted stock and 81,502 stock options were outstanding and a total of 463,070 shares of common stock were reserved for future grant under the 2005 Directors Plan.

1994 Non-Employee Directors Stock Option Plan. An aggregate of 571,664 stock options remained outstanding under the Company s 1994 Non-Employee Directors Stock Option Plan as of October 31, 2010, which expired as to future grants in October 2004.

Other Assumed Stock Plans through Acquisitions. In connection with the acquisition of Synplicity, Inc. in fiscal 2008, the Company assumed 1.6 million equity awards outstanding under the Synplicity stock plans. In fiscal 2010, the Company assumed 1.2 million equity awards outstanding under stock plans assumed through acquisitions. The shares issuable pursuant to these equity awards do not become available for future grant if such awards are canceled, forfeited or expire unexercised. As of October 31, 2010, 1.7 million shares remained outstanding under these assumed stock plans from fiscal 2008 and fiscal 2010.

Restricted Stock Units. Since fiscal 2007, restricted stock units are granted as part of the Company s new hire and annual incentive compensation program under the 2006 Employee Plan.

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted stock units are valued based on the closing price of the Company s common stock on the grant date. In general, for non-executive officers, restricted stock units vest over three to four years and are subject to the employees continuing service to the Company. For each restricted stock unit granted under the 2006 Employee Plan, a share reserve ratio is applied for the purpose of determining the remaining number of shares reserved for future grants under the plan. Prior to the second quarter of fiscal 2009, the share reserve ratio was 1.36 for each restricted stock unit granted, and an equivalent of 1.36 shares was deducted from the share reserve for each restricted stock unit issued. Likewise, each forfeited restricted stock unit increased the number of shares available for issuance by the applicable rate at the time of forfeiture. In the second quarter of fiscal 2009, the shareholders approved to amend the 2006 Employee Plan to prospectively change the reserve ratio from 1.36 to 2.18.

The following table contains information concerning activities related to restricted stock units:

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In Years)	Aggregate Fair Value
	(in thousands, except per share and life amounts)			
Balance at October 31, 2007	1,443	$ 26.84	1.84	
Granted	1,630	$ 24.78		
Assumed(1)	85	$ 21.76		
Vested(2)(3)	(370)	$ 26.80		$ 8,344
Forfeited	(112)	$ 26.27		
Balance at October 31, 2008	2,676	$ 25.45	1.61	
Granted	1,311	$ 18.78		
Vested(2)(3)	(787)	$ 25.64		$ 14,859
Forfeited	(67)	$ 24.64		
Balance at October 31, 2009	3,133	$ 22.63	1.41	
Granted	1,228	$ 22.00		
Assumed(1)	713	$ 23.69		
Vested(2)(3)	(1,221)	$ 22.40		$ 27,345
Forfeited	(123)	$ 22.51		
Balance at October 31, 2010	3,730	$ 22.71	1.41	

(1) The Company assumed restricted stock units outstanding under various plans through acquisitions.
(2) Represents the market value of Synopsys common stock on the date the restricted stock unit vests.
(3) The number of vested restricted stock units includes shares that were withheld on behalf of employees to satisfy the statutory tax withholding requirements.

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table contains additional information concerning activities related to stock options and restricted stock units under all equity plans, other than the 2005 Directors Plan:

		Options(2)			
	Available for Grant	Options Outstanding	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
		(in thousands, except per share and life amounts)			
Balance at October 31, 2007	7,738	28,593	$ 21.14	4.06	$ 201,238
Options Granted	(1,872)	1,872	$ 24.83		
Options Assumed(2)		1,518	$ 18.96		
Options Exercised		(2,543)	$ 17.75		
Options Canceled/forfeited/expired	551	(663)	$ 23.42		
Restricted stock units granted(1)	(2,217)				
Restricted stock units forfeited(1)	147				
Balance at October 31, 2008	4,347	28,777	$ 21.52	3.43	$ 15,403
Options Granted	(1,395)	1,395	$ 18.16		
Options Exercised		(2,112)	$ 18.07		
Options Canceled/forfeited/expired	2,113	(2,242)	$ 26.06		
Restricted stock units granted(1)	(2,476)				
Restricted stock units forfeited(1)	114				
Additional shares reserved	4,000				
Balance at October 31, 2009	6,703	25,818	$ 21.22	2.89	$ 58,267
Options Granted	(1,995)	1,995	$ 21.30		
Options Assumed(2)		456	$ 18.10		
Options Exercised		(6,465)	$ 18.16		
Options Canceled/forfeited/expired	372	(620)	$ 23.19		
Restricted stock units granted(1)	(2,677)				
Restricted stock units forfeited(1)	203				
Additional shares reserved					
Balance at October 31, 2010	2,606	21,184	$ 21.83	2.80	$ 90,013
Vested and expected to vest as of October 31, 2010		20,917	$ 21.86	2.76	$ 88,551
Exercisable at October 31, 2010		17,601	$ 22.11	2.20	$ 71,257

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) These amounts do not reflect the actual number of restricted stock units granted or forfeited but rather the effect on the total remaining shares available for future grants after the application of the share reserve ratio. For more information about the share reserve ratio, please see *Restricted Stock Units* above.

(2) The Company assumed options and stock appreciation rights (SARs) outstanding under various plans through acquisitions.

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value based on stock options with an exercise price less than the Company s closing stock price of $25.58 as of October 31, 2010. The pretax intrinsic value of options exercised and their average exercise prices were:

	Year Ended October 31, 2010	2009	2008
	(in millions, except per share price)		
Exercise value	$ 29.8	$ 7.4	$ 18.0
Average exercise price per share	$ 18.16	$ 18.07	$ 17.75

The following table summarizes information about stock options outstanding as of October 31, 2010:

	Options Outstanding			Exercisable Options	
Range of Exercise Prices	Number Outstanding (in thousands)	Weighted-Average Remaining Contractual Life (In Years)	Weighted-Average Exercise Price	Number Exercisable (in thousands)	Weighted-Average Exercise Price
$ 1.19 - $17.16	3,150	2.52	$ 15.18	2,871	$ 15.78
$17.20 - $18.23	2,328	2.76	$ 17.92	1,803	$ 18.01
$18.33 - $20.73	2,325	2.90	$ 19.89	2,044	$ 19.97
$20.74 - $21.10	2,407	3.40	$ 21.07	1,736	$ 21.09
$21.12 - $22.73	2,349	3.89	$ 21.52	1,345	$ 21.70
$22.74 - $24.06	2,280	2.63	$ 23.46	1,906	$ 23.45
$24.22 - $26.09	2,550	1.96	$ 25.33	2,418	$ 25.34
$26.17 - $27.49	2,137	3.04	$ 26.69	1,830	$ 26.67
$27.78 - $53.26	1,658	2.07	$ 30.35	1,648	$ 30.36
	21,184	2.80	$ 21.83	17,601	$ 22.11

Restricted stock award activities during fiscal 2010 under the 2005 Director Plan are summarized as follows:

	Restricted Shares	Weighted-Average Grant Date Fair Value
	(in thousands)	
Unvested at October 31, 2009	59	$ 20.40
Granted	33	$ 22.55

Vested	(29)	$	21.17
Forfeited	(6)	$	19.89
Unvested at October 31, 2010	57	$	21.33

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Valuation and Expense of Stock Compensation. The Company estimates the fair value of stock based awards in the form of stock options, employee stock purchases under employee stock purchase plans, restricted stock, and restricted stock units on the grant date. The value of awards expected to vest is recognized as expense over the applicable service periods. The Company uses the straight-line attribution method to recognize stock compensation costs over the service period of the award. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options, stock appreciation rights and employee stock purchase plans awards under ASC 718, *Compensation Stock Compensation.* 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 stock purchase rights under the ESPP is estimated by a combination of implied volatility for publicly traded options of the Company s common stock with a term of six months or longer and the historical stock price volatility over the estimated expected term of the Company s stock-based awards. The expected term of the Company s stock-based awards is based on historical experience.

The assumptions used to estimate the fair value of stock options granted under the Company s stock option plans and stock purchase rights granted under the ESPP are as follows:

	Year Ended October 31,		
	2010	**2009**	**2008**
Stock Options			
Expected life (in years)	3.65 - 5.73	4.60	4.50
Risk-free interest rate	1.08% - 2.57%	1.43% - 2.43%	2.40% - 3.55%
Volatility	26.92% - 30.76%	31.28% - 44.86%	31.71% - 38.84%
Weighted average estimated fair value	$7.10	$6.66	$8.01
ESPP			
Expected life (in years)	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Risk-free interest rate	0.18% - 0.78%	0.32% - 0.94%	1.62% - 2.33%
Volatility	22.4% - 31.27%	30.93% - 45.14%	29.48% - 32.06%
Weighted average estimated fair value	$6.16	$3.37	$5.13

The following table presents stock compensation expense for the years ended October 31, 2010, 2009 and 2008, respectively:

	Year Ended October 31,		
	2010	**2009**	**2008**
		(in thousands)	
Cost of license	$ 6,497	$ 6,649	$ 7,665
Cost of maintenance and service	1,908	2,166	3,517
Research and development expense	26,551	24,222	27,482
Sales and marketing expense	12,372	12,231	15,560
General and administrative expense	12,660	11,666	11,250
Stock compensation expense before taxes	59,988	56,934	65,474
Income tax benefit	(14,525)	(12,862)	(15,224)
Stock compensation expense after taxes	$ 45,463	$ 44,072	$ 50,250

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of October 31, 2010, $84.8 million of total unrecognized stock compensation expense is expected to be recognized over a weighted average period of 2.5 years.

The cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense recorded for the options (excess tax benefits) are classified as cash flows from financing activities. The Company has not recorded any excess tax benefits in fiscal periods 2010, 2009 and 2008.

Deferred Compensation Plan. The Company maintains the Synopsys Deferred Compensation Plan (the Deferred Plan), which permits eligible employees to defer up to 50% of their annual cash base compensation and up to 100% of their eligible cash variable compensation. Amounts may be withdrawn from the plan pursuant to elections made by the employees in accordance with the terms of the plan. Since the inception of the Deferred Plan, the Company has not made any matching or discretionary contributions to the Deferred Plan. There are no Deferred Plan provisions that provide for any guarantees or minimum return on investments. Undistributed amounts under the Deferred Plan are subject to the claims of the Company s creditors. These securities held by the Deferred Plan are classified as trading securities.

As of October 31, 2010 and 2009, the fair value of assets held in the Deferred Plan totaled to $83.3 million and $74.0 million, respectively, and are recorded in Long-term other assets in the Company s consolidated balance sheets. As of October 31, 2010 and 2009, the Company has recorded $83.3 million and $69.7 million, respectively, in Other liabilities for undistributed deferred compensation due to participants. Income or loss from the change in fair value of the Deferred Plan assets is recorded in other income (loss), net. The increase or decrease in the fair value of the undistributed Deferred Plan obligation is recorded in total cost of revenue and operating expense. The following table summarizes the impact of the Deferred Plan:

	Year Ended October 31,		
	2010	2009	2008
		(in thousands)	
Increase (reduction) to cost of revenue and operating expense	$ 9,426	$ 8,957	$ (22,768)
Other income (loss), net	8,810	9,969	(23,083)
Net increase (decrease) to net income	$ (616)	$ 1,012	$ (315)

Other Retirement Plans. The Company sponsors various retirement plans for its eligible U.S. and non-U.S. employees. Total contributions to these plans were $14.7 million, $14.5 million and $15.4 million in fiscal 2010, 2009 and 2008, respectively. For employees in the U.S. and Canada, the Company matches pretax employee contributions up to a maximum of US $1,500 and Canadian $4,000, respectively, per participant per year.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10. Income Taxes

The domestic and foreign components of the Company s total income before provision for income taxes are as follows:

	Year Ended October 31, 2010	2009 (in thousands)	2008
United States	$ 57,795	$ 72,681	$ 79,144
Foreign	140,863	160,389	139,812
	$ 198,658	$ 233,070	$ 218,956

The components of the (benefit) provision for income taxes were as follows:

	Year Ended October 31, 2010	2009 (in thousands)	2008
Current:			
Federal	$ (17,097)	$ 1,813	$ (28,657)
State	8	8,236	1,078
Foreign	25,421	14,450	46,729
	8,332	24,499	19,150
Deferred:			
Federal	(25,156)	38,368	38,223
State	(9,309)	(2,875)	(1,663)
Foreign	(12,272)	5,397	(26,732)
	(46,737)	40,890	9,828
(Benefit) provision for income taxes	$ (38,405)	$ 65,389	$ 28,978

The (benefit) provision for income taxes differs from the taxes computed with the statutory federal income tax rate as follows:

	Year Ended October 31, 2010	2009 (in thousands)	2008
Statutory federal tax	$ 69,530	$ 81,575	$ 76,635
State tax, net of federal effect	(2,491)	2,055	581
Tax credits	(7,451)	(7,326)	(7,830)
Tax exempt income	(1,479)	(2,732)	(5,008)
Tax on foreign earnings less than U.S. statutory tax	(11,615)	(23,558)	(28,632)
Tax settlements	(73,045)		(33,324)

In-process research and development expenses			1,680
Stock based compensation	5,336	13,488	4,915
Changes in valuation allowance	(21,612)		19,739
Other	4,422	1,887	222
	$ (38,405)	$ 65,389	$ 28,978

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The significant components of deferred tax assets and liabilities were as follows:

	October 31, 2010	2009
	(in thousands)	
Net deferred tax assets:		
Deferred tax assets:		
Accruals and reserves	$ 15,375	$ 11,208
Deferred revenue	53,574	57,326
Deferred compensation	32,062	28,542
Capitalized costs	102,706	8,747
Capitalized research and development costs	30,214	32,243
Stock compensation	41,370	38,939
Tax loss carryovers	54,167	1,283
Foreign tax credit carryovers	29,549	61,058
Research and other tax credit carryovers	68,345	73,174
Capital loss carryovers	7,558	7,404
Other	2,357	5,484
Gross deferred tax assets	437,277	325,408
Valuation allowance	(14,684)	(34,626)
Total deferred tax assets	422,593	290,782
Deferred tax liabilities:		
Intangible assets	63,276	9,338
Undistributed earnings of foreign subsidiaries	17,331	7,431
Total deferred tax liabilities	80,607	16,769
Net deferred tax assets	$ 341,986	$ 274,013

The valuation allowance decreased by $19.9 million principally due to a release of a valuation allowance of $21.6 million for foreign tax credits which were utilized in connection with the IRS settlement of fiscal years 2002 through 2004 (see IRS Examinations, below). The remaining valuation allowance is related principally to capital loss carryforwards and certain state tax credits. It is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining deferred tax assets.

The Company has the following tax loss and credit carryforwards available to offset future income tax liabilities:

Carryforward	Amount (in thousands)	Expiration Date
Federal net operating loss carryforward	$ 120,340	2018-2030
Federal research credit carryforward	62,713	2020-2030
Foreign tax credit carryforward	36,700	2011-2030

State research credit carryforward	58,839	Indefinite

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The federal net operating loss carryforward is from acquired companies and the annual use of such loss is subject to significant limitations under Internal Revenue Code Section 382. Foreign tax credits may only be used to offset tax attributable to foreign source income.

The Company has unrecognized deferred tax assets of approximately $27.4 million as of October 31, 2010 attributable to excess tax deductions related to stock options, the benefit of which will be credited to equity when realized.

The Company has not provided taxes for undistributed earnings of its foreign subsidiaries except to the extent that the Company does not plan to reinvest such earnings indefinitely outside the United States. If the cumulative foreign earnings exceed the amount the Company intends to reinvest in foreign countries in the future, the Company would provide for taxes on such excess amount. As of October 31, 2010, there was approximately $411.1 million of earnings upon which U.S. income taxes of approximately $90 million have not been provided. The federal research tax credit expired as of December 31, 2009, and an exception to current U.S. taxation of certain foreign intercompany income expired at the end of fiscal year 2010.

The Company adopted new accounting guidance regarding uncertain tax positions at the beginning of fiscal year 2008. The gross unrecognized tax benefits decreased by approximately $39.9 million during fiscal 2010, resulting in gross unrecognized tax benefits of $213.9 million as of October 31, 2010. A reconciliation of the beginning and ending balance of gross unrecognized tax benefits is summarized as follows:

	2010	2009
	(in thousands)	
Beginning balance	$ 253,861	$ 216,627
Increases in unrecognized tax benefits related to prior year tax positions	9,243	18,376
Decreases in unrecognized tax benefits related to prior year tax positions	(78,464)	(13,529)
Increases in unrecognized tax benefits related to current year tax positions	38,505	36,518
Decreases in unrecognized tax benefits related to settlements with taxing authorities	(14,962)	
Reductions in unrecognized tax benefits due to lapse of applicable statute of limitations	(12,686)	(10,200)
Increases in unrecognized tax benefits acquired	15,966	4,048
Changes in unrecognized tax benefits due to foreign currency translation	2,460	2,021
Balance as of October 31	$ 213,923	$ 253,861

As of October 31, 2010 and 2009, approximately $202 million and $227 million, respectively, of the unrecognized tax benefits would affect our effective tax rate if recognized upon resolution of the uncertain tax positions.

Interest and penalties related to estimated obligations for tax positions taken in the Company s tax returns are recognized as a component of income tax expense in the consolidated statements of operations and totaled approximately $3.4 million, $2.0 million and ($1.7) million for fiscal 2010, 2009

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and 2008, respectively. As of October 31, 2010 and 2009, the combined amount of accrued interest and penalties related to tax positions taken on the Company s tax returns was approximately $7.3 million and $7.5 million, respectively.

In March 2010, in a case between Xilinx, Inc. and the IRS, the U.S. Court of Appeals for the Ninth Circuit issued a decision affirming an earlier U.S. Tax Court ruling that stock option compensation does not need to be included in the costs shared under a cost sharing arrangement. In July 2010 the IRS announced that it would acquiesce to the result of the Xilinx decision and issued an Action on Decision (AOD) in August 2010. As a result of this announcement, in fiscal year 2010 the Company reversed $5.2 million of liabilities out of $12.0 million of liabilities which were originally recorded in fiscal year 2009 and recorded a credit to additional paid-in capital.

The Company files income tax returns in the U.S. and various state and local jurisdictions. Its subsidiaries file tax returns in various foreign jurisdictions, including Ireland, Hungary, Taiwan and Japan. The Company remains subject to income tax examinations in the U.S and the aforementioned jurisdictions for fiscal years after 2005. See *IRS Examinations*, below for the status of our current federal income tax audits.

The timing of the resolution of income tax examinations is highly uncertain as well as the amounts and timing of various tax payments that are part of the settlement process. This could cause large fluctuations in the balance sheet classification of current and non-current assets and liabilities. The Company believes that before the end of fiscal 2011, it is reasonably possible that the statute of limitations on certain state and foreign income and withholding taxes will expire. Given the uncertainty as to ultimate settlement terms, the timing of payment and the impact of such settlements on other uncertain tax positions, the range of the estimated potential decrease in underlying unrecognized tax benefits is between $0 and $110 million.

IRS Examinations

The Company is regularly audited by the IRS.

In fiscal 2009, the Company reached a tentative settlement with the Examination Division of the IRS that resolved certain disputes related to the Company s acquisition of Avant! Corporation in 2002 that arose in the audit of its fiscal years 2002 through 2004. The Company was notified of final approval on January 4, 2010. This final settlement resulted in a decrease in the Company s tax expense for fiscal 2010 of approximately $94.3 million, which is due primarily to the release of previously established tax liabilities of $67.8 million**,** principally related to the acquisition of Avant! Corporation in 2002, as well as a release of a valuation allowance of $21.6 million for foreign tax credits which were utilized in connection with the settlement.

As a result of the IRS settlement, the Company s net deferred tax assets increased by $55.4 million. The change is due primarily to increases in its deferred tax assets of $72.3 million for certain costs that have been capitalized for tax purposes and will be amortized in future periods, partially offset by a decrease to deferred tax assets of $25.2 million, due to use of the Company s foreign tax credit carryover, net of the reversal of a valuation allowance.

The IRS is currently auditing the Company s fiscal years 2006-2009 as well as certain returns filed by Synplicity, Inc. prior to its acquisition by the Company in May 2008.

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Other Income (Loss), Net

Other income (loss), net consists of the following:

	Year Ended October 31,		
	2010	2009	2008
		(in thousands)	
Interest income	$ 5,396	$ 10,831	$ 21,211
Gain (loss) on sale of investment	3,846	(6,442)	302
Income (loss) on assets related to executive deferred compensation plan(1)	8,810	9,969	(23,083)
Foreign currency exchange gain (loss)	(1,514)	7,097	6,648
Other, net	(1,990)	3,364	(5,234)
Total	$ 14,548	$ 24,819	$ (156)

(1) See Note 9 regarding employee benefit plans for further information.

Note 12. Segment Disclosure

ASC 280, *Segment Reporting,* requires disclosures of certain information regarding operating segments, products and services, geographic areas of operation and major customers. Segment reporting is based upon the management approach, i.e., how management organizes the Company s operating segments for which separate financial information is (1) available and (2) evaluated regularly by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources and in assessing performance. Synopsys CODMs are the Company s Chief Executive Officer and Chief Operating Officer.

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

	Year Ended October 31,		
	2010	2009	2008
		(in thousands)	
Revenue:			
United States	$ 667,956	$ 664,911	$ 663,114
Europe	183,831	196,916	197,730
Japan	256,454	264,642	249,159
Asia Pacific and Other	272,420	233,576	226,948
Consolidated	$ 1,380,661	$ 1,360,045	$ 1,336,951

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SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of October 31,	
	2010	2009
	(in thousands)	
Property and Equipment, net:		
United States	$ 116,781	$ 108,999
Other countries	31,799	37,911
Total	$ 148,580	$ 146,910

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

One customer, in the aggregate, accounted for 10.9%, 10.8%, and 10.8% of the Company s consolidated revenue in fiscal 2010, 2009 and 2008, respectively.

Note 13. Effect of New Accounting Pronouncements

In October 2009, the FASB issued new guidance for revenue recognition on multiple element revenue arrangements. This new guidance impacts the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. Additionally, this provides guidance on estimating selling prices and modifies the manner in which the transaction consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration for arrangements that contain non-software elements. The new requirements are effective for the Company in the first quarter of fiscal 2011. The Company will adopt the guidance on a prospective basis effective the first quarter of fiscal 2011. The Company does not believe the adoption of the guidance will have a material impact on its consolidated financial statements.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) The following documents are filed as part of this report:

(1) Financial Statements
The following documents are included as Part II, Item 8. of this report:

(2) Financial Statement Schedules
None.

(3) Exhibits
See Item 15(b) below.

(b) Exhibits

EXHIBIT INDEX

Exhibit		**Incorporated By Reference**				
Number	**Exhibit Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed Herewith**
31.1	Certification of Chief Executive Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
31.2	Certification of Chief Financial Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
32.1	Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code					X
101.INS*	XBRL Instance Document					X
101.SCH*	XBRL Taxonomy Extension Schema Document					X

101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document	X

* XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not

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filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	SYNOPSYS, INC.	
Date: February 8, 2011	By:	/s/ BRIAN M. BEATTIE **Brian M. Beattie** ***Chief Financial Officer*** ***(Principal Financial Officer)***

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101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document					X

* XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.