

SYNOPSIS INC
Form 10-Q
March 06, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2012

OR

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

COMMISSION FILE NUMBER: 0-19807

SYNOPSIS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of

56-1546236
(I.R.S. Employer

incorporation or organization)

Identification Number)

700 EAST MIDDLEFIELD ROAD

MOUNTAIN VIEW, CA 94043

(Address of principal executive offices, including zip code)

(650) 584-5000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 No

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

Large accelerated filer

Accelerated Filer

Non-accelerated filer (Do not check if 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

As of February 29, 2012, there were 145,795,657 shares of the registrant's common stock outstanding.

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SYNOPSIS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE FISCAL QUARTER ENDED JANUARY 31, 2012

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SYNOPSYS, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value amounts)

	January 31, 2012	October 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 811,339	\$ 855,077
Short-term investments	132,150	148,997
Total cash, cash equivalents and short-term investments	943,489	1,004,074
Accounts receivable, net of allowances of \$2,685 and \$2,489, respectively	213,763	203,124
Deferred income taxes	58,670	58,536
Income taxes receivable	22,369	25,545
Prepaid and other current assets	51,359	46,776
Total current assets	1,289,650	1,338,055
Property and equipment, net	157,219	159,517
Goodwill	1,295,485	1,289,286
Intangible assets, net	181,515	196,031
Long-term deferred income taxes	267,078	281,056
Other long-term assets	108,053	103,389
Total assets	\$ 3,299,000	\$ 3,367,334
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 204,543	\$ 302,176
Accrued income taxes	6,630	3,079
Deferred revenue	652,655	703,555
Total current liabilities	863,828	1,008,810
Long-term accrued income taxes	82,203	92,940
Other long-term liabilities	111,031	108,076
Long-term deferred revenue	70,133	56,208
Total liabilities	1,127,195	1,266,034
Stockholders' equity:		
Preferred Stock, \$0.01 par value: 2,000 shares authorized; none outstanding		
Common Stock, \$0.01 par value: 400,000 shares authorized; 143,943 and 143,308 shares outstanding, respectively	1,439	1,433
Capital in excess of par value	1,540,528	1,521,327
Retained earnings	1,001,409	957,517
Treasury stock, at cost: 13,321 and 13,956 shares, respectively	(347,416)	(358,032)
Accumulated other comprehensive income (loss)	(24,155)	(20,945)

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Total stockholders' equity	2,171,805	2,101,300
Total liabilities and stockholders' equity	\$ 3,299,000	\$ 3,367,334

See accompanying notes to unaudited condensed consolidated financial statements.

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(in thousands, except per share amounts)

	Three Months Ended January 31,	
	2012	2011
Revenue:		
Time-based license	\$ 355,894	\$ 295,609
Upfront license	28,512	26,535
Maintenance and service	41,090	42,500
Total revenue	425,496	364,644
Cost of revenue:		
License	57,722	50,523
Maintenance and service	18,744	20,547
Amortization of intangible assets	13,388	13,235
Total cost of revenue	89,854	84,305
Gross margin	335,642	280,339
Operating expenses:		
Research and development	132,875	120,740
Sales and marketing	95,404	79,324
General and administrative	33,839	29,865
Amortization of intangible assets	3,521	3,748
Total operating expenses	265,639	233,677
Operating income	70,003	46,662
Other income (expense), net	3,826	5,670
Income before provision for income taxes	73,829	52,332
Provision (benefit) for income taxes	17,135	4,106
Net income	\$ 56,694	\$ 48,226
Net income per share:		
Basic	\$ 0.39	\$ 0.32
Diluted	\$ 0.39	\$ 0.31
Shares used in computing per share amounts:		
Basic	143,882	149,016
Diluted	147,113	153,640

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**SYNOPSISYS, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

	Three Months Ended January 31,	
	2012	2011
Cash flow from operating activities:		
Net income	\$ 56,694	\$ 48,226
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization and depreciation	31,965	31,676
Stock compensation	16,248	15,247
Allowance for doubtful accounts	497	550
Write-down of long-term investments		908
Deferred income taxes	14,533	3,371
Net changes in operating assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	(11,102)	10,614
Prepaid and other current assets	(8,972)	(14,786)
Other long-term assets	(3,457)	(4,920)
Accounts payable and other liabilities	(93,556)	(83,276)
Income taxes	(5,161)	(16,829)
Deferred revenue	(37,007)	(30,414)
Net cash used in operating activities	(39,318)	(39,633)
Cash flows from investing activities:		
Proceeds from sales and maturities of short-term investments	34,039	19,049
Purchases of short-term investments	(18,179)	(23,957)
Purchases of property and equipment	(11,016)	(10,217)
Cash paid for acquisitions and intangible assets, net of cash acquired	(5,623)	(2,741)
Capitalization of software development costs	(735)	(713)
Net cash used in investing activities	(1,514)	(18,579)
Cash flows from financing activities:		
Principal payments on capital leases	(1,081)	(655)
Issuances of common stock	41,106	52,464
Purchase of equity forward contract	(20,000)	
Purchases of treasury stock	(20,000)	(64,997)
Net cash provided by (used in) financing activities	25	(13,188)
Effect of exchange rate changes on cash and cash equivalents	(2,931)	(3,395)
Net change in cash and cash equivalents	(43,738)	(74,795)
Cash and cash equivalents, beginning of year	855,077	775,407
Cash and cash equivalents, end of period	\$ 811,339	\$ 700,612

See accompanying notes to unaudited condensed consolidated financial statements.

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SYNOPSYS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business

Synopsys, Inc. (Synopsys or the Company) is a world leader in supplying 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 provides 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 designing those circuits themselves. To complement these product offerings, the Company provides technical services to support our solutions and we help our customers develop chips and electronic systems.

Note 2. Summary of Significant Accounting Policies

The Company has prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Pursuant to these rules and regulations, the Company has condensed or omitted certain information and footnote disclosures it normally includes in its annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). In management's opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present its unaudited condensed consolidated balance sheets, results of operations and cash flows. The Company's interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in Synopsys' Annual Report on Form 10-K for the fiscal year ended October 31, 2011 as filed with the SEC on December 16, 2011.

To prepare financial statements in conformity with GAAP, management must make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates and may result in material effects on the Company's operating results and financial position.

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

Fiscal Year End. The Company's fiscal year generally ends on the Saturday nearest to October 31 and consists of 52 weeks, with the exception that approximately every five years, we have a 53-week year. When a 53-week year occurs, the Company includes the additional week in the first quarter to realign fiscal quarters with calendar quarters. Fiscal 2012 will be a 53-week year and will end November 3, 2012, and fiscal 2011 was a 52-week year and ended on October 29, 2011. Our results of operations for the first quarters of fiscal 2012 and 2011 included 14 weeks and 13 weeks, respectively, and ended on February 4, 2012 and January 29, 2011, respectively. For simplicity of disclosure, all fiscal periods are referred to as ending on a calendar month end.

Subsequent Events. The Company has evaluated subsequent events through the date that the financial statements were issued.

Note 3. Financial Assets and Liabilities

Cash, Cash Equivalents and Investments. Short-term investments include money market funds and municipal securities and are 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(1)
Balance at January 31, 2012					
Classified as current assets:					
Non-interest					