

CADENCE DESIGN SYSTEMS INC

Form 10-Q

July 21, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended June 28, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-15867

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CADENCE DESIGN SYSTEMS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

00-0000000

(I.R.S. Employer  
Identification No.)

2655 Seely Avenue, Building 5, San Jose, California

(Address of Principal Executive Offices)

(408) 943-1234

Registrant's Telephone Number, including Area Code

95134

(Zip Code)

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

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

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

Large accelerated filer ☒ Accelerated filer ☐

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

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

On June 28, 2014, approximately 290,040,000 shares of the registrant's common stock, \$0.01 par value, were outstanding.

CADENCE DESIGN SYSTEMS, INC.  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CADENCE DESIGN SYSTEMS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	June 28, 2014	December 28, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$557,416	\$536,260
Short-term investments	97,910	96,788
Receivables, net	101,924	107,624
Inventories	58,311	50,220
2015 notes hedges	455,844	306,817
Prepaid expenses and other	143,314	123,382
Total current assets	1,414,719	1,221,091
Property, plant and equipment, net of accumulated depreciation of \$584,613 and \$568,494, respectively	239,314	238,715
Goodwill	559,957	456,905
Acquired intangibles, net of accumulated amortization of \$121,797 and \$139,820, respectively	395,430	311,693
Long-term receivables	5,611	3,672
Other assets	170,802	196,525
Total assets	\$2,785,833	\$2,428,601
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Revolving credit facility	\$100,000	\$—
Convertible notes	333,333	324,826
2015 notes embedded conversion derivative	455,844	306,817
Accounts payable and accrued liabilities	216,959	216,594
Current portion of deferred revenue	301,911	299,973
Total current liabilities	1,408,047	1,148,210
Long-term liabilities:		
Long-term portion of deferred revenue	46,800	52,850
Other long-term liabilities	70,502	71,436
Total long-term liabilities	117,302	124,286
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock and capital in excess of par value	1,812,175	1,757,242
Treasury stock, at cost	(154,839)	(140,142)
Accumulated deficit	(428,973)	(485,306)
Accumulated other comprehensive income	32,121	24,311
Total stockholders' equity	1,260,484	1,156,105
Total liabilities and stockholders' equity	\$2,785,833	\$2,428,601

See notes to condensed consolidated financial statements.



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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Revenue:				
Product and maintenance	\$354,468	\$337,983	\$711,818	\$666,254
Services	24,320	24,498	45,520	50,493
Total revenue	378,788	362,481	757,338	716,747
Costs and expenses:				
Cost of product and maintenance	37,707	28,095	79,904	57,942
Cost of services	16,706	15,148	31,608	33,492
Marketing and sales	98,611	95,277	196,934	185,679
Research and development	152,672	136,395	299,138	260,479
General and administrative	32,042	34,441	60,786	64,251
Amortization of acquired intangibles	5,579	5,327	10,789	9,118
Restructuring and other charges (credits)	(26	) 2,656	370	2,508
Total costs and expenses	343,291	317,339	679,529	613,469
Income from operations	35,497	45,142	77,809	103,278
Interest expense	(7,369	) (9,528	) (14,637	) (18,790
Other income, net	1,635	2,018	5,017	4,193
Income before provision for income taxes	29,763	37,632	68,189	88,681
Provision for income taxes	6,500	28,203	11,856	643
Net income	\$23,263	\$9,429	\$56,333	\$88,038
Net income per share – basic	\$0.08	\$0.03	\$0.20	\$0.32
Net income per share – diluted	\$0.08	\$0.03	\$0.19	\$0.30
Weighted average common shares outstanding – basic	283,344	277,146	282,480	276,018
Weighted average common shares outstanding – diluted	305,755	294,443	303,395	293,274

See notes to condensed consolidated financial statements.

## CADENCE DESIGN SYSTEMS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income	\$23,263	\$9,429	\$56,333	\$88,038
Other comprehensive income (loss), net of tax effects:				
Foreign currency translation adjustments	2,377	(11,705	) 6,828	(17,867
Changes in unrealized holding gains or losses on available-for-sale securities, net of reclassification adjustment for realized gains and losses	775	(99	) 595	(383
Changes in defined benefit plan liabilities	(21	) 65	387	383
Total other comprehensive income (loss), net of tax effects	3,131	(11,739	) 7,810	(17,867
Comprehensive income (loss)	\$26,394	\$(2,310	) \$64,143	\$70,171

See notes to condensed consolidated financial statements.

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## CADENCE DESIGN SYSTEMS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	June 28, 2014	June 29, 2013
Cash and cash equivalents at beginning of period	\$536,260	\$726,357
Cash flows from operating activities:		
Net income	56,333	88,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53,609	46,977
Amortization of debt discount and fees	9,814	12,625
Stock-based compensation	37,941	28,921
Gain on investments, net	(5,128)	(2,477)
Deferred income taxes	4,778	(4,413)
Other non-cash items	3,694	433
Changes in operating assets and liabilities, net of effect of acquired businesses:		
Receivables	5,336	8,719
Inventories	(12,266)	(2,672)
Prepaid expenses and other	(13,602)	26,516
Other assets	(1,273)	(45,274)
Accounts payable and accrued liabilities	(13,550)	10,023
Deferred revenue	(23,740)	(24,359)
Other long-term liabilities	(4,983)	7,174
Net cash provided by operating activities	96,963	150,231
Cash flows from investing activities:		
Purchases of available-for-sale securities	(77,490)	(63,705)
Proceeds from the sale of available-for-sale securities	54,601	46,857
Proceeds from the maturity of available-for-sale securities	23,799	15,716
Proceeds from the sale of long-term investments	—	6,102
Purchases of property, plant and equipment	(17,715)	(23,739)
Cash paid in business combinations and asset acquisitions, net of cash acquired	(163,685)	(392,139)
Net cash used for investing activities	(180,490)	(410,908)
Cash flows from financing activities:		
Proceeds from revolving credit facility	100,000	100,000
Principal payments on receivable financing	—	(2,526)
Payment of acquisition-related contingent consideration	(1,835)	(582)
Tax effect related to employee stock transactions allocated to equity	2,642	7,300
Proceeds from issuance of common stock	36,482	30,227
Stock received for payment of employee taxes on vesting of restricted stock	(12,292)	(11,758)
Payments for repurchases of common stock	(25,032)	—
Net cash provided by financing activities	99,965	122,661
Effect of exchange rate changes on cash and cash equivalents	4,718	(11,108)
Increase (decrease) in cash and cash equivalents	21,156	(149,124)
Cash and cash equivalents at end of period	\$557,416	\$577,233
Supplemental cash flow information:		
Cash paid for interest	\$4,831	\$6,294
Cash paid for taxes, net	\$10,231	\$6,598

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Non-cash investing and financing activities:

Stock options assumed in acquisitions	\$—	\$529
Available-for-sale securities received from customer	\$1,695	\$232

See notes to condensed consolidated financial statements.

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## CADENCE DESIGN SYSTEMS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 1. BASIS OF PRESENTATION

The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared by Cadence Design Systems, Inc., or Cadence, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission, or the SEC. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, Cadence believes that the disclosures contained in this Quarterly Report on Form 10-Q comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These condensed consolidated financial statements are meant to be, and should be, read in conjunction with the consolidated financial statements and the Notes thereto included in Cadence's Annual Report on Form 10-K for the fiscal year ended December 28, 2013. Certain prior period balances have been reclassified to conform to current period presentation.

The unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q reflect all adjustments (which include only normal, recurring adjustments and those items discussed in these Notes) that are, in the opinion of management, necessary to state fairly the results of operations, cash flows and financial position for the periods and dates presented. The results for such periods are not necessarily indicative of the results to be expected for the full fiscal year. Management has evaluated subsequent events through the issuance date of the unaudited condensed consolidated financial statements.

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

## NOTE 2. DEBT

Cadence's outstanding debt as of June 28, 2014 and December 28, 2013 was as follows:

	June 28, 2014 (In thousands)			December 28, 2013		
	Principal	Unamortized Discount	Carrying Value	Principal	Unamortized Discount	Carrying Value
2015 Notes	\$350,000	\$(16,667)	\$333,333	\$350,000	\$(25,174)	\$324,826
Revolving credit facility	100,000	—	100,000	—	—	—
Total outstanding debt	\$450,000	\$(16,667)	\$433,333	\$350,000	\$(25,174)	\$324,826

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

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

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

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

2015 Notes  
(In thousands, except percentages and per share amounts)

Outstanding principal maturity value – at June 28, 2014	\$350,000
Contractual interest rate	2.625%
Contractual maturity date	June 1, 2015
Initial conversion rate	132.5205 shares of common stock per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$7.55 per share of Cadence common stock.
Conversion feature (in addition to principal amount payable in cash)	Cash to the extent Cadence's stock price exceeds approximately \$7.55 per share, calculated based on the applicable conversion rate multiplied by the volume weighted average price of Cadence common stock over a specified period.
Early conversion conditions (or the Early Conversion Conditions)	<ul style="list-style-type: none"> <li>• Closing stock price greater than \$9.81 for at least 20 of the last 30 trading days in a fiscal quarter (convertible only for subsequent quarter);</li> <li>• Specified corporate transactions; or</li> <li>• Note trading price falls below a calculated minimum.</li> </ul>
Conversion immediately preceding maturity	From March 1, 2015 until the second trading day immediately preceding the maturity date, holders may convert their 2015 Notes at any time into cash as described above under "Conversion feature."
Redemption at Cadence's option prior to maturity	None.
Fundamental change put right	Upon certain fundamental corporate changes prior to maturity, the 2015 Note holders could require Cadence to repurchase their notes for cash equal to the principal amount of the notes plus accrued interest.
Make-whole premium	Upon certain fundamental changes prior to maturity, if Cadence's stock price were between \$6.16 and \$40.00 per share at that time, the holders of the notes would be entitled to an increase to the conversion rate. This is referred to as a "make-whole premium."
Financial covenants	None.
Impact of Early Conversion Conditions on Financial Statements	

The 2015 Notes mature on June 1, 2015 and therefore are classified as a current liability as of June 28, 2014. The 2015 Notes are convertible into cash from June 29, 2014 through September 27, 2014 because Cadence's closing stock price exceeded \$9.81 for at least 20 days in the 30-day period prior to June 28, 2014.

If the note holders elect to convert their 2015 Notes prior to maturity, any unamortized discount and transaction fees will be expensed at the time of conversion. If the entire outstanding principal amount had been converted on June 28, 2014, Cadence would have recorded an expense of \$19.0 million associated with the conversion, comprised of \$16.7 million of unamortized debt discount and \$2.3 million of unamortized transaction fees.

As of June 28, 2014, the if-converted value of the 2015 Notes to the note holders of approximately \$804.3 million exceeded the principal amount of \$350.0 million. The fair value of the 2015 Notes was \$807.7 million as of June 28, 2014 and \$654.1 million as of December 28, 2013. The 2015 Notes currently trade at a premium to the if-converted value of the notes.

### 2015 Notes Embedded Conversion Derivative

The conversion feature of the 2015 Notes, or the 2015 Notes Embedded Conversion Derivative, requires bifurcation from the 2015 Notes and is accounted for as a derivative liability. The fair value of the 2015 Notes Embedded Conversion Derivative at the time of issuance of the 2015 Notes was \$76.6 million and was recorded as original debt discount for purposes of accounting for the debt component of the 2015 Notes. This discount is amortized as interest expense using the effective interest method over the term of the 2015 Notes. The 2015 Notes Embedded Conversion Derivative is carried on the condensed consolidated balance sheet at its estimated fair value. The fair value was \$455.8 million as of June 28, 2014 and \$306.8 million as of December 28, 2013.

### 2015 Notes Hedges

The 2015 Notes Hedges expire on June 1, 2015 and must be settled in cash. The aggregate cost of the 2015 Notes Hedges was \$76.6 million. The 2015 Notes Hedges are accounted for as derivative assets and are carried on the condensed consolidated balance sheet at their estimated fair value. The 2015 Notes Hedges fair value was \$455.8 million as of June 28, 2014 and \$306.8 million as of December 28, 2013. The 2015 Notes Embedded Conversion Derivative liability and the 2015 Notes Hedges asset are adjusted to fair value each reporting period and unrealized gains and losses are reflected in the condensed consolidated income statements. The 2015 Notes Embedded Conversion Derivative and the 2015 Notes Hedges are designed to have similar fair values. Accordingly, the changes in the fair values of these instruments offset during the three and six months ended June 28, 2014 and June 29, 2013 and did not have a net impact on the condensed consolidated income statements for the respective periods.

The classification of the 2015 Notes Embedded Conversion Derivative liability and the 2015 Notes Hedges asset as current on the condensed consolidated balance sheet corresponds with the classification of the 2015 Notes.

### 2015 Warrants

In June 2010, Cadence sold the 2015 Warrants in separate transactions for the purchase of up to approximately 46.4 million shares of Cadence's common stock at a strike price of \$10.78 per share, for total proceeds of \$37.5 million, which was recorded as an increase in stockholders' equity. The 2015 Warrants expire on various dates from September 2015 through December 2015 and must be settled in net shares of Cadence's common stock. Upon expiration of the 2015 Warrants, Cadence will issue shares of common stock to the purchasers of the 2015 Warrants that represent the value by which the price of the common stock exceeds the strike price stipulated within the particular warrant agreement.

The effective interest rate and components of interest expense of the 2015 Notes for the three and six months ended June 28, 2014 and June 29, 2013 were as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(In thousands, except percentages)			
Effective interest rate	8.1	% 8.1	% 8.1	% 8.1
Contractual interest expense	\$2,289	\$2,289	\$4,578	\$4,578
Amortization of debt discount	\$4,275	\$3,951	\$8,507	\$7,861

### Revolving Credit Facility

In December 2012, Cadence entered into a five-year senior secured revolving credit facility with a group of lenders led by Bank of America, N.A., as administrative agent. The credit facility provides for borrowings up to \$250.0 million, with the right to request increased capacity up to an additional \$150.0 million upon the receipt of lender commitments, for total maximum borrowings of \$400.0 million.

Any outstanding loans drawn under the credit facility are due at maturity on December 12, 2017. Outstanding amounts may be paid at any time prior to maturity. The facility is secured by certain accounts receivable and certain equity interests in Cadence's subsidiaries.

Interest accrues on borrowings under the credit facility at either LIBOR plus a margin between 1.25% and 2.0% per annum or at a base rate plus a margin between 0.25% and 1.0% per annum. The interest rate applied to borrowings is determined by Cadence's consolidated leverage ratio as specified by the credit facility agreement. Interest is payable quarterly. A commitment fee ranging from 0.20% to 0.35% is assessed on the daily average undrawn portion of revolving commitments. As of June 28, 2014, the interest rate applied to outstanding borrowings under the credit

facility was 1.40%.

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The credit facility contains customary negative covenants that, among other things, restrict Cadence's ability to incur additional indebtedness, grant liens, make certain investments (including acquisitions), dispose of certain assets and make certain payments, including share repurchases and dividends. In addition, the credit facility contains financial covenants that require Cadence to maintain a leverage ratio not to exceed 3 to 1, and a minimum interest coverage ratio of 3 to 1.

As of June 28, 2014 and December 28, 2013, Cadence had outstanding borrowings under the credit facility of \$100.0 million and \$0, respectively, and was in compliance with all financial covenants.

### NOTE 3. ACQUISITIONS AND ACQUISITION-RELATED CONTINGENT CONSIDERATION

#### Acquisitions

On June 13, 2014, Cadence acquired Jasper Design Automation, Inc., or Jasper, a privately held provider of formal analysis solutions based in Mountain View, California. The acquired technology complements Cadence's existing system design and verification platforms. Total cash consideration for Jasper, after taking into account adjustments for certain costs, and cash held by Jasper at closing of \$28.7 million, was \$139.5 million. Cadence will also make payments to certain employees that are conditioned upon continued employment and the achievement of certain performance metrics over a three-year period.

The following table summarizes the fair value of assets acquired and liabilities assumed in the acquisition of Jasper:

	(In thousands)	
Cash and cash equivalents	\$28,678	
Property, plant and equipment	520	
Other assets	4,362	
Acquired intangibles:		
Existing technology	68,200	
Agreements and relationships	13,600	
Tradenames and trademarks	900	
In-process technology	10,300	
Goodwill	81,269	
Total assets acquired	\$207,829	
Deferred revenue	(11,900)	)
Other liabilities	(7,719)	)
Long-term deferred tax liabilities	(20,002)	)
Net assets acquired	\$168,208	

The allocation of purchase consideration to certain assets and liabilities has not been finalized. Cadence will continue to evaluate certain estimates and assumptions, primarily related to taxes and assumed liabilities, during the measurement period (up to one year from the acquisition date).

During the six months ended June 28, 2014, Cadence also completed two other business combinations for total cash consideration of \$27.5 million, after taking into account cash acquired of \$2.1 million. The total purchase consideration was preliminarily allocated to the assets acquired and liabilities assumed based on their respective estimated fair values on the acquisition dates. Cadence recorded a total of \$20.3 million of goodwill, \$16.9 million of other intangible assets and \$8.1 million of net liabilities consisting primarily of long-term deferred income taxes and deferred revenue.

Cadence amortizes acquired intangible assets with definite lives on a straight-line basis over the remaining estimated economic life of the underlying products and technologies. The weighted-average amortization period for definite-lived intangible assets acquired during the six months ended June 28, 2014 is approximately eight years. The goodwill related to Cadence's acquisitions during the six months ended June 28, 2014 is primarily related to expected synergies from combining operations of the acquired companies with Cadence. Cadence expects that approximately \$2.8 million of goodwill related to the acquisitions completed during the six months ended June 28, 2014 will be deductible for tax purposes.

Results of operations and the estimated fair value of acquired assets and assumed liabilities are recorded in the condensed consolidated financial statements from the date of acquisition. The fair values of acquired intangible assets,

including in-process technology and assumed liabilities, were determined using significant inputs that are not observable in the market. For an additional description of these fair value calculations, see Note 7 in the notes to condensed consolidated financial statements.

Transaction costs associated with Cadence's acquisitions were \$2.7 million and \$3.7 million for the three and six months ended June 28, 2014, respectively, and \$4.8 million and \$8.2 million for the three and six months ended June 29, 2013, respectively. These costs consisted of professional fees and administrative costs and were expensed as incurred in Cadence's condensed consolidated income statements.

#### Acquisition-Related Contingent Consideration

Cadence may be obligated to make cash payments in connection with its business combinations and asset acquisitions completed in prior fiscal years, subject to the satisfaction of future financial measures associated with the acquired technology. If performance is such that these payments are fully achieved, Cadence will be obligated to pay up to an aggregate of \$11.8 million over the next 22 months. Of the \$11.8 million, up to \$9.1 million would be recorded as operating expenses in the condensed consolidated income statements.

#### NOTE 4. GOODWILL AND ACQUIRED INTANGIBLES

##### Goodwill

The changes in the carrying amount of goodwill during the six months ended June 28, 2014 were as follows:

	Gross Carrying Amount (In thousands)
Balance as of December 28, 2013	\$456,905
Goodwill resulting from acquisitions	102,025
Measurement period adjustments	(436)
Effect of foreign currency translation	1,463
Balance as of June 28, 2014	\$559,957

Measurement period adjustments to goodwill are applied based on new information obtained about preliminary amounts recognized for a business combination. During the six months ended June 28, 2014, Cadence recorded a measurement period adjustment related to certain tax estimates and assumptions made for one of its fiscal 2014 acquisitions, resulting in a decrease to goodwill.

##### Acquired Intangibles, Net

Acquired intangibles as of June 28, 2014 were as follows, excluding intangibles that were fully amortized as of December 28, 2013:

	Gross Carrying Amount (In thousands)	Accumulated Amortization	Acquired Intangibles, Net
Existing technology	\$319,593	\$(65,059)	) \$254,534
Agreements and relationships	175,499	(53,159)	) 122,340
Tradenames, trademarks and patents	10,619	(3,579)	) 7,040
Total acquired intangibles with definite lives	505,711	(121,797)	) 383,914
In-process technology	11,516	—	) 11,516
Total acquired intangibles	\$517,227	\$(121,797)	) \$395,430

In-process technology as of June 28, 2014 consists of acquired projects that, if completed, will contribute to Cadence's ability to offer additional IP and software solutions to its customers. As of June 28, 2014, these projects were expected to be complete in three to fifteen months. During the six months ended June 28, 2014, Cadence completed certain projects previously included in in-process technology and transferred approximately \$2.3 million to existing technology.

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Acquired intangibles as of December 28, 2013 were as follows, excluding intangibles that were fully amortized as of December 29, 2012:

	Gross Carrying Amount (In thousands)	Accumulated Amortization	Acquired Intangibles, Net
Existing technology	\$237,624	\$(53,243)	) \$184,381
Agreements and relationships	170,760	(53,607)	) 117,153
Distribution rights	30,100	(30,100)	) —
Tradenames, trademarks and patents	9,519	(2,870)	) 6,649
Total acquired intangibles with definite lives	448,003	(139,820)	) 308,183
In-process technology	3,510	—	3,510
Total acquired intangibles	\$451,513	\$(139,820)	) \$311,693

Amortization expense from existing technology and maintenance agreements is included in cost of product and maintenance. Amortization of acquired intangibles for the three and six months ended June 28, 2014 and June 29, 2013 was as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(In thousands)			
Cost of product and maintenance	\$8,613	\$5,760	\$16,189	\$9,567
Amortization of acquired intangibles	5,579	5,327	10,789	9,118
Total amortization of acquired intangibles	\$14,192	\$11,087	\$26,978	\$18,685

Estimated amortization expense for intangible assets with definite lives for the following five fiscal years and thereafter is as follows:

	(In thousands)
2014 – remaining period	\$32,522
2015	63,522
2016	56,646
2017	51,695
2018	48,059
Thereafter	131,470
Total estimated amortization expense	\$383,914

#### NOTE 5. INCOME TAXES

Cadence's provision for income taxes of \$6.5 million and \$11.9 million for the three and six months ended June 28, 2014 primarily resulted from federal, state and foreign income taxes on its anticipated fiscal 2014 income. Cadence's foreign earnings are generally subject to lower statutory tax rates than its United States earnings. In addition, Cadence's provision for income taxes for the three months ended June 28, 2014 does not include the potential tax benefit of the United States federal research tax credit which expired in December 2013. The expiration of the research tax credit is estimated to increase Cadence's estimated annual effective tax rate for fiscal 2014 by 3%. Cadence's provision for income taxes of \$28.2 million for the three months ended June 29, 2013 was primarily related to federal, state and foreign income taxes on its anticipated fiscal 2013 income and tax expense related to an increase in the United States valuation allowance. Cadence's provision for income taxes for the six months ended June 29, 2013 was primarily related to federal, state and foreign income taxes on its fiscal 2013 income partially offset by a tax benefit of \$33.7 million from the release of an uncertain tax position, including related interest and penalties, and a \$5.9 million tax benefit from the retroactive enactment of the fiscal 2012 United States federal research tax credit during the period.



## NOTE 6. RECEIVABLES, NET

Cadence's current and long-term receivables balances as of June 28, 2014 and December 28, 2013 were as follows:

	As of June 28, 2014	December 28, 2013
	(In thousands)	
Accounts receivable	\$77,088	\$76,057
Unbilled accounts receivable	24,836	31,567
Long-term receivables	5,611	3,672
Total receivables	\$107,535	\$111,296
Less allowance for doubtful accounts	—	—
Total receivables, net	\$107,535	\$111,296

Cadence's customers are primarily concentrated within the semiconductor and electronics systems industries. As of June 28, 2014 and December 28, 2013, no single customer accounted for 10% of Cadence's total receivables. As of June 28, 2014, approximately 50% of Cadence's total receivables were attributable to the ten customers with the largest balances of total receivables. As of December 28, 2013, approximately 47% of Cadence's total receivables were attributable to the ten customers with the largest balances of total receivables.

## NOTE 7. FAIR VALUE

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

Level 1 – Quoted prices for identical instruments in active markets;

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

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

This hierarchy requires Cadence to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value. Cadence recognizes transfers between levels of the hierarchy based on the fair values of the respective financial instruments at the end of the reporting period in which the transfer occurred. There were no transfers between levels of the fair value hierarchy during the three and six months ended June 28, 2014.

On a quarterly basis, Cadence measures at fair value certain financial assets and liabilities. The fair value of financial assets and liabilities was determined using the following levels of inputs as of June 28, 2014 and December 28, 2013:

Fair Value Measurements as of June 28, 2014:

	Total (In thousands)	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash equivalents:				
Money market funds	\$357,616	\$357,616	\$—	\$—
Short-term investments:				
Corporate debt securities	36,625	—	36,625	—
Bank certificates of deposit	24,259	—	24,259	—
United States Treasury securities	19,310	19,310	—	—
United States government agency securities	11,361	11,361	—	—
Commercial paper	1,995	—	1,995	—
Marketable equity securities	4,360	4,360	—	—
Trading securities held in Non-Qualified Deferred Compensation, or NQDC, trust	25,070	25,070	—	—
2015 Notes Hedges	455,844	—	455,844	—
Foreign currency exchange contracts	471	—	471	—
Total Assets	\$936,911	\$417,717	\$519,194	\$—
	Total (In thousands)	Level 1	Level 2	Level 3
<b>Liabilities</b>				
Acquisition-related contingent consideration	\$1,850	\$—	\$—	\$1,850
2015 Notes Embedded Conversion Derivative	455,844	—	455,844	—
Total Liabilities	\$457,694	\$—	\$455,844	\$1,850

## Fair Value Measurements as of December 28, 2013:

	Total	Level 1	Level 2	Level 3
(In thousands)				

## Assets

## Cash equivalents:

Money market funds	\$345,872	\$345,872	\$—	\$—
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Bank certificates of deposit	2,300	—	2,300	—
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## Short-term investments:

Corporate debt securities	37,441	—	37,441	—
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Bank certificates of deposit	20,308	—	20,308	—
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United States Treasury securities	24,246	24,246	—	—
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United States government agency securities	10,223	10,223	—	—
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Commercial paper	2,493	—	2,493	—
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Marketable equity securities	2,077	2,077	—	—
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Trading securities held in NQDC trust	23,960	23,960	—	—
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2015 Notes Hedges	306,817	—	306,817	—
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Foreign currency exchange contracts	262	—	262	—
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Total Assets	\$775,999	\$406,378	\$369,621	\$—
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	Total	Level 1	Level 2	Level 3
(In thousands)				

## Liabilities

Acquisition-related contingent consideration	\$4,091	\$—	\$—	\$4,091
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2015 Notes Embedded Conversion Derivative	306,817	—	306,817	—
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Total Liabilities	\$310,908	\$—	\$306,817	\$4,091
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## Level 1 Measurements

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

## Level 2 Measurements

The 2015 Notes Hedges and the 2015 Notes Embedded Conversion Derivative are measured at fair value using level 1 and level 2 inputs. These instruments are not actively traded and are valued using an option pricing model that uses observable market data for all inputs, such as implied volatility of Cadence's common stock, risk-free interest rate and other factors.

Cadence's available-for-sale corporate debt securities, bank certificates of deposit and commercial paper are measured at fair value using level 2 inputs. Cadence obtains the fair values of its level 2 available-for-sale securities from a professional pricing service and validates the fair values by assessing the pricing methods and inputs and by comparing the fair values to another independent source.

The fair values of Cadence's 2015 Notes, which differ from their carrying values, are influenced by interest rates and Cadence's stock price and stock price volatility and are determined by prices for the 2015 Notes observed in market trading, which are level 2 inputs.

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



### Level 3 Measurements

The liabilities included in level 3 represent the fair value of contingent consideration associated with certain of Cadence's acquisitions. Cadence makes estimates regarding the fair value of contingent consideration liabilities on the acquisition date and at the end of each reporting period until the contingency is resolved. The fair value of these arrangements is determined by calculating the net present value of the expected payments using significant inputs that are not observable in the market, including revenue projections and discount rates consistent with the level of risk of achievement. The fair value of these contingent consideration arrangements is affected most significantly by the changes in the revenue projections, but is also impacted by the discount rate used to adjust the outcomes to their present values. If the revenue projections increase or decrease, the fair value of the contingent consideration will increase or decrease accordingly, in amounts that will vary based on the timing of the projected revenues, the timing of the expected payments and the discount rate used to calculate the present value of the expected payments. Cadence used a discount rate of 11% to value its contingent consideration liabilities as of June 28, 2014 and December 28, 2013. Cadence believes that its estimates and assumptions are reasonable, but significant judgment is involved. Changes in the fair value of contingent consideration liabilities subsequent to the acquisition are recorded in general and administrative expense in the condensed consolidated income statements.

The following table summarizes the level 3 activity for the six months ended June 28, 2014:

	(In thousands)
Balance as of December 28, 2013	\$4,091
Payments	(2,329)
Adjustments	88
Balance as of June 28, 2014	\$1,850

Cadence acquired intangible assets, including in-process technology, of \$93.0 million in connection with its acquisition of Jasper. The fair value of the intangible assets acquired was determined using the income approach and using level 3 inputs. Key assumptions include the level and timing of expected future cash flows, conditions and demands specific to IP solutions, discount rates consistent with the level of risk and the economy in general. The fair value of these intangible assets was affected most significantly by the projected income associated with the intangible assets and the anticipated timing of the projected income, but was also impacted by the discount rate used to adjust the outcomes to their present values. Cadence used discount rates ranging from 13% to 17% to value the intangible assets acquired.

As part of the Jasper acquisition, Cadence also assumed obligations related to deferred revenue of \$11.9 million, which was estimated using the cost build-up approach. The cost build-up approach determines fair value using estimates of the costs required to fulfill the contracted obligations plus an assumed profit of 25%. The total costs including the assumed profit were adjusted to present value using a discount rate of approximately 3.25%. The resulting fair value approximates the amount that Cadence would be required to pay a third party to assume the obligation. The fair value of the deferred revenue obligation was affected most significantly by the estimated costs required to support the obligation, but was also affected by the assumed profit and the discount rate.

Cadence believes that its estimates and assumptions related to the fair value of its acquired intangible assets and deferred revenue obligations are reasonable, but significant judgment is involved.

### NOTE 8. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cadence's cash, cash equivalents and short-term investments at fair value as of June 28, 2014 and December 28, 2013 were as follows:

	As of June 28, 2014 (In thousands)	December 28, 2013
Cash and cash equivalents	\$557,416	\$536,260
Short-term investments	97,910	96,788
Cash, cash equivalents and short-term investments	\$655,326	\$633,048



## Cash and Cash Equivalents

Cadence considers all highly liquid investments with original maturities of three months or less on the date of purchase to be cash equivalents. The amortized cost of Cadence's cash equivalents approximates fair value. The following table summarizes Cadence's cash and cash equivalents at fair value as of June 28, 2014 and December 28, 2013:

	As of June 28, 2014 (In thousands)	December 28, 2013
Cash and interest bearing deposits	\$199,800	\$188,088
Money market funds	357,616	345,872
Bank certificates of deposit	—	2,300
Total cash and cash equivalents	\$557,416	\$536,260

## Short-Term Investments

The following tables summarize Cadence's short-term investments as of June 28, 2014 and December 28, 2013:

	As of June 28, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Corporate debt securities	\$36,615	\$23	\$(13)	\$36,625
Bank certificates of deposit	24,249	10	—	24,259
United States Treasury securities	19,273	37	—	19,310
United States government agency securities	11,352	10	(1)	11,361
Commercial paper	1,994	1	—	1,995
Marketable debt securities	93,483	81	(14)	93,550
Marketable equity securities	3,485	875	—	4,360
Total short-term investments	\$96,968	\$956	\$(14)	\$97,910

	As of December 28, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Corporate debt securities	\$37,422	\$30	\$(11)	\$37,441
Bank certificates of deposit	20,300	9	(1)	20,308
United States Treasury securities	24,219	28	(1)	24,246
United States government agency securities	10,212	11	—	10,223
Commercial paper	2,492	1	—	2,493
Marketable debt securities	94,645	79	(13)	94,711
Marketable equity securities	1,817	260	—	2,077
Total short-term investments	\$96,462	\$339	\$(13)	\$96,788

As of June 28, 2014, no securities held by Cadence had been in an unrealized loss position for greater than two months.

The amortized cost and estimated fair value of marketable debt securities included in short-term investments as of June 28, 2014, by contractual maturity, are shown in the table below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	Amortized Cost (In thousands)	Fair Value
Due in less than one year	\$45,019	\$45,057
Due in one to three years	48,464	48,493
Total marketable debt securities included in short-term investments	\$93,483	\$93,550

Realized gains and losses from the sale of marketable debt and equity securities are recorded in other income, net in the condensed consolidated income statements.

#### Non-Marketable Investments

Cadence's non-marketable investments generally consist of voting preferred stock or convertible debt of privately held companies and are included in other assets on Cadence's condensed consolidated balance sheets. If Cadence determines that it has the ability to exercise significant influence over the issuer, which may include considering whether the investments are in-substance common stock, the investment is accounted for using the equity method. Cadence records in the condensed consolidated income statements as other income, net, realized gains and losses on non-marketable investments, write downs related to cost method investments due to other-than-temporary declines in value, and the proportional share of issuers' gains or losses related to equity method investments.

The equity method income or loss recorded by Cadence is based on its percentage ownership in the issuer.

Cadence's non-marketable investments as of June 28, 2014 and December 28, 2013 were as follows:

	As of June 28, 2014 (In thousands)	December 28, 2013
Cost method	\$3,038	\$3,038
Equity method	5,570	3,639
Total non-marketable investments	\$8,608	\$6,677

#### NOTE 9. RESTRUCTURING AND OTHER CHARGES

Cadence has initiated various restructuring plans in the past, most recently in fiscal 2013, in an effort to operate more efficiently. These restructuring plans were primarily comprised of severance and termination benefits related to headcount reductions and estimated lease losses related to facilities vacated under the restructuring plans.

The remaining accrual for Cadence's restructuring plans is recorded in the condensed consolidated balance sheet as follows:

	As of June 28, 2014 (In thousands)
Accounts payable and accrued liabilities	\$2,151
Other long-term liabilities	2,635
Total accrued as of June 28, 2014	\$4,786

The following table presents activity relating to Cadence's restructuring plans during the six months ended June 28, 2014:

	Severance and Benefits (In thousands)	Excess Facilities	Total
Balance, December 28, 2013	\$10,672	\$3,552	\$14,224
Restructuring and other charges, net	168	202	370
Cash payments	(9,338)	(497)	(9,835)
Effect of foreign currency translation	5	22	27
Balance, June 28, 2014	\$1,507	\$3,279	\$4,786

#### NOTE 10. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income during the period by the weighted average number of shares of common stock outstanding during that period, less unvested restricted stock awards. Diluted net income per share is impacted by equity instruments considered to be potential common shares, if dilutive, computed using the treasury stock method of accounting.

The calculations for basic and diluted net income per share for the three and six months ended June 28, 2014 and June 29, 2013 are as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(In thousands, except per share amounts)			
Net income	\$23,263	\$9,429	\$56,333	\$88,038
Weighted average common shares used to calculate basic net income per share	283,344	277,146	282,480	276,018
Convertible notes	—	11	—	11
2015 Warrants	15,054	10,871	13,815	10,770
Stock-based awards	7,357	6,415	7,100	6,475
Weighted average common shares used to calculate diluted net income per share	305,755	294,443	303,395	293,274
Net income per share - basic	\$0.08	\$0.03	\$0.20	\$0.32
Net income per share - diluted	\$0.08	\$0.03	\$0.19	\$0.30

The following table presents shares of Cadence's common stock outstanding for the three and six months ended June 28, 2014 and June 29, 2013 that were excluded from the computation of diluted net income per share because the effect of including these shares in the computation of diluted net income per share would have been anti-dilutive:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(In thousands)			
2013 Warrants	—	6,830	—	6,830
Options to purchase shares of common stock	4,399	5,752	4,517	6,253
Non-vested shares of restricted stock	8	18	9	9
Total potential common shares excluded	4,407	12,600	4,526	13,092

**NOTE 11. OTHER COMPREHENSIVE INCOME**

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

Accumulated other comprehensive income was comprised of the following as of June 28, 2014, and December 28, 2013:

	As of June 28, 2014	December 28, 2013
	(In thousands)	
Foreign currency translation gain	\$34,011	\$27,183
Changes in defined benefit plan liabilities	(2,831)	(3,218)
Unrealized holding gains on available-for-sale securities	941	346
Total accumulated other comprehensive income	\$32,121	\$24,311

For the three and six months ended June 28, 2014 and June 29, 2013 there were no significant amounts reclassified from accumulated other comprehensive income to net income.

**NOTE 12. CONTINGENCIES****Legal Proceedings**

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

**Other Contingencies**

Cadence provides its customers with a warranty on sales of emulation hardware products, generally for a 90-day period. Cadence did not incur any significant costs related to warranty obligations during the three and six months ended June 28, 2014 or June 29, 2013.

Cadence's product license and services agreements typically include a limited indemnification provision for claims from third parties relating to Cadence's intellectual property. If the potential loss from any indemnification claim is considered probable and the amount or the range of loss can be estimated, Cadence accrues a liability for the estimated loss. The indemnification is generally limited to the amount paid by the customer. Cadence did not incur any significant losses from indemnification claims during the three and six months ended June 28, 2014 or June 29, 2013.

## NOTE 13. OTHER INCOME, NET

Cadence's other income, net for the three and six months ended June 28, 2014 and June 29, 2013 was as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(In thousands)			
Interest income	\$498	\$484	\$983	\$909
Gains (losses) on non-marketable investments, net	406	(229)	) 1,952	649
Gains on securities in NQDC trust	1,047	1,699	3,109	1,851
Gains (losses) on foreign exchange	(368)	) 223	(1,169)	) 987
Other income (expense), net	52	(159)	) 142	(203)
Total other income, net	\$1,635	\$2,018	\$5,017	\$4,193

## NOTE 14. SEGMENT REPORTING

Segment reporting is based on the "management approach," following the method that management organizes the company's reportable segments for which separate financial information is made available to, and evaluated regularly by, the chief operating decision maker in allocating resources and in assessing performance. Cadence's chief operating decision maker is its President and Chief Executive Officer, or CEO, who reviews Cadence's consolidated results as one reportable segment. In making operating decisions, the CEO primarily considers consolidated financial information, accompanied by disaggregated information about revenues by geographic region.

Outside the United States, Cadence markets and supports its products and services primarily through its subsidiaries. Revenue is attributed to geography based upon the country in which the product is used or services are delivered.

Long-lived assets are attributed to geography based on the country where the assets are located.

The following table presents a summary of revenue by geography for the three and six months ended June 28, 2014 and June 29, 2013:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(In thousands)			
Americas:				
United States	\$161,874	\$159,229	\$325,202	\$308,400
Other Americas	6,050	5,566	11,834	10,181
Total Americas	167,924	164,795	337,036	318,581
Asia	88,286	74,462	175,302	142,548
Europe, Middle East and Africa	82,074	77,757	159,606	156,677
Japan	40,504	45,467	85,394	98,941
Total	\$378,788	\$362,481	\$757,338	\$716,747

The following table presents a summary of long-lived assets by geography as of June 28, 2014 and December 28, 2013:

	As of June 28, 2014 (In thousands)	December 28, 2013
Americas:		
United States	\$209,533	\$207,694
Other Americas	250	294
Total Americas	209,783	207,988
Asia	22,591	23,508
Europe, Middle East and Africa	6,085	6,326
Japan	855	893
Total	\$239,314	\$238,715



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q, or this Quarterly Report, and in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 28, 2013. This Quarterly Report contains statements that are not historical in nature, are predictive, or that depend upon or refer to future events or conditions or contain forward-looking statements. Statements including, but not limited to, statements regarding the extent and timing of future revenues and expenses and customer demand, statements regarding the deployment of our products, statements regarding our reliance on third parties and other statements using words such as "anticipates," "believes," "could," "estimates," "expects," "forecasts," "intends," "may," "plans," "projects," "should," "will" and "would," and words of similar import and thereof, constitute forward-looking statements. These statements are predictions based upon our current expectations about future events. Actual results could vary materially as a result of certain factors, including, but not limited to, those expressed in these statements. We refer you to the "Risk Factors," "Results of Operations," "Disclosures About Market Risk," and "Liquidity and Capital Resources" sections contained in this Quarterly Report, and the risks discussed in our other Securities Exchange Commission, or SEC, filings, which identify important risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements.

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

### Overview

We develop solutions that our customers use to design increasingly small and complex integrated circuits, or ICs, and electronic devices. Our solutions are designed to help our customers reduce the time to bring an IC or electronic device to market and to reduce their design, development and manufacturing costs. Our product offerings include electronic design automation, or EDA, software, emulation hardware, and two categories of intellectual property, or IP, commonly referred to as verification IP, or VIP, and design IP. We provide maintenance for our software, emulation hardware, and IP product offerings. We also provide engineering services related to methodology, education, hosted design solutions and design services for advanced ICs and development of custom IP. These services help our customers manage and accelerate their electronics product development processes.

Our customers include semiconductor and electronics systems companies that deliver a wide range of electronics products in a number of market segments such as mobile devices, communications, cloud and data center infrastructure, personal computers and other devices. The renewal of many of our customer contracts and our customers' decisions to make new purchases from us are dependent upon our customers' commencement of new design projects. As a result, our business is significantly influenced by our customers' business outlook and investment in new designs and products.

The markets our customers serve are sensitive to product price, performance and the time it takes to bring their products to market. In order to be competitive and profitable in these markets, our customers demand high levels of productivity from their design teams, better predictability in shorter development schedules, high performance products and lower development and manufacturing costs. Semiconductor and electronics systems companies are responding to these challenges and users' demand for increased functionality and smaller devices by combining subsystems - such as radio frequency, or RF, wireless communication, signal processing, microprocessors and memory controllers - onto a single silicon chip, creating a system-on-chip, or SoC, or combining multiple chips into a single chip package in a format referred to as system-in-package, or SiP. The trend toward subsystem integration has required these chip makers to find solutions to challenges previously addressed by system companies, such as verifying system-level functionality and hardware-software interoperability, and has driven the need for incorporation of preverified commercial IP into these systems.

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

packaging and board-level interconnect which links ICs and SoCs, and combining the resulting hardware with software to create electronic systems.

Significant issues that our customers face in creating their products include reducing power consumption, manufacturing microscopic circuitry, verifying device functionality and achieving technical performance targets, all while meeting aggressive time-to-market and cost requirements. Providers of EDA and IP solutions must deliver products that address these technical challenges while improving the productivity, predictability, reliability and profitability of the design processes and products of their customers.

Our products are engineered to improve our customers' design productivity and design quality by providing a comprehensive set of EDA solutions, emulation hardware and a differentiated portfolio of design IP and VIP. Product and maintenance revenue includes fees from licenses to use our software and IP, from sales and leases of our emulation hardware products and from royalties generated by our customers' shipment of their products containing certain types of our IP.

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

Functional Verification, including Emulation Hardware;

Digital IC Design and Signoff;

Custom IC Design;

System Interconnect and Analysis; and

IP.

We have realigned these categories in the current year to better reflect our business objectives. As a result of the realignment, our Design for Manufacturing, or DFM, products are now categorized together with Digital IC Design and Signoff. We have also established a stand-alone category for our IP offerings, which includes design IP and VIP. The product category that was formerly called System Interconnect Design has been renamed System Interconnect and Analysis, to better reflect the growing system analysis component in this category. All prior periods presented have been conformed to the current period presentation.

The products and technologies included in these categories are combined with ready-to-use packages of technologies assembled from our broad portfolio of IP and other associated components that provide comprehensive solutions for low power, mixed signal and designs at smaller geometries referred to as advanced process nodes, as well as popular designs based on design IP owned and licensed by other companies such as ARM Holdings plc. These solutions are marketed to users who specialize in areas such as system design and verification, functional verification, logic design, digital implementation, custom IC design and verification, and printed circuit board, or PCB, IC package and SiP design and analysis.

The major Cadence® design and verification platforms are branded as Incisive® functional verification, Virtuoso® custom IC design, Encounter® digital IC design and Allegro® system interconnect design. For additional information about our products, see the discussion in Item 1, "Business," under the heading "Products and Product Strategy," in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

During the second quarter of fiscal 2013, we acquired Tensilica, Inc., or Tensilica, a privately held provider of configurable dataplane processing units, and Cosmic Circuits Private Limited, or Cosmic, a privately held provider of intellectual property used in system-on-chip design. These acquisitions, along with other acquired technology and internal development, expanded our design IP offerings, enabling us to offer customized IP as well as broader analog and mixed signal IP solutions to our customers.

During the first quarter of fiscal 2014, we acquired Forte Design Systems, a provider of SystemC-based high-level synthesis, or HLS, and arithmetic IP. During the second quarter of fiscal 2014, we acquired Jasper Design Automation, Inc., a leading provider of high-level formal analysis solutions. These acquisitions expanded the capabilities and differentiation of the Cadence System Development Suite, strengthening our offerings for the fast development and verification of advanced design IP.

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

#### Critical Accounting Estimates

In preparing our condensed consolidated financial statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, operating income and net income, as well as on the value of certain assets and liabilities on our condensed consolidated balance sheets. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. At least quarterly, we evaluate our assumptions, judgments and estimates, and make changes as deemed necessary. Historically, our assumptions, judgments and estimates relative to our critical accounting estimates have not differed materially from actual results. For further information about our critical accounting estimates, see the discussion in Item 7, "Management's Discussion

and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Estimates” in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

New Accounting Standard

On May 28, 2014, the Financial Accounting Standards Board issued a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under United States generally accepted accounting principles. The updated standard will become effective for us in the first quarter of fiscal 2017 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

## Results of Operations

Financial results for the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, reflect the following:

- An increase in our product and maintenance revenue, primarily because of increased business levels, increased revenue recognized from bookings in prior periods and incremental revenue from our acquisitions, including the licensing of IP;
- An increase in employee-related costs, primarily consisting of costs related to hiring additional employees, increased compensation for existing employees and incremental costs related to employees added from our fiscal 2014 and 2013 acquisitions;
- An increase in stock-based compensation;
- An increase in severance and other termination costs primarily associated with a voluntary early retirement program we offered to certain of our employees during the three months ended June 28, 2014;
- An increase in amortization of acquired intangibles resulting from our fiscal 2014 and 2013 acquisitions; and
- Variations in our quarterly and year to date provisions for income taxes.

## Revenue

We primarily generate revenue from licensing our software and IP, selling or leasing our emulation hardware technology, providing maintenance for our software, emulation hardware and IP, providing engineering services and earning royalties generated from the use of our IP. The timing of our revenue is significantly affected by the mix of software, emulation hardware and IP products in the bookings executed in any given period and whether the revenue for such bookings is recognized over multiple periods or up front, upon completion of delivery.

We seek to achieve a consistent revenue mix such that approximately 90% of our revenue is recurring in nature, and the remainder of the resulting revenue is recognized up-front, upon completion of delivery. Our ability to achieve this mix in any single fiscal period may be impacted primarily by hardware sales, because revenue for hardware sales is generally recognized up front in the period in which delivery is completed.

For an additional description of the impact of emulation hardware sales on the timing of revenue recognition, see the discussion in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Estimates – Revenue Recognition” in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

## Revenue by Period

The following table shows our revenue for the three months ended June 28, 2014 and June 29, 2013 and the change in revenue between periods:

	Three Months Ended		Change		
	June 28, 2014	June 29, 2013	Amount	Percentage	
	(In millions, except percentages)				
Product and maintenance	\$354.5	\$338.0	\$16.5	5	%
Services	24.3	24.5	(0.2	) (1	)%
Total revenue	\$378.8	\$362.5	\$16.3	4	%

The following table shows our revenue for the six months ended June 28, 2014 and June 29, 2013 and the change in revenue between periods:

	Six Months Ended		Change	
	June 28, 2014	June 29, 2013	Amount	Percentage
(In millions, except percentages)				
Product and maintenance	\$711.8	\$666.3	\$45.5	7 %
Services	45.5	50.5	(5.0)	(10) %
Total revenue	\$757.3	\$716.8	\$40.5	6 %

Product and maintenance revenue increased during the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, primarily because of increased business levels, increased revenue recognized from bookings in prior periods and incremental revenue recognized from our fiscal 2013 acquisitions.

Services revenue may fluctuate from period to period based on demand for, and our resources to fulfill, our services and customized IP offerings.

No single customer accounted for 10% or more of total revenue during the three and six months ended June 28, 2014 or June 29, 2013.

#### Revenue by Product Group

The following table shows the percentage of revenue contributed by each of our five product groups for the past five consecutive quarters:

	Three Months Ended				
	June 29, 2013	September 28, 2013	December 28, 2013	March 29, 2014	June 28, 2014
Functional Verification, including Emulation Hardware	22 %	24 %	25 %	23 %	21 %
Digital IC Design and Signoff	31 %	29 %	29 %	30 %	30 %
Custom IC Design	28 %	28 %	26 %	27 %	28 %
System Interconnect and Analysis	11 %	10 %	10 %	10 %	11 %
IP	8 %	9 %	10 %	10 %	10 %
Total	100 %	100 %	100 %	100 %	100 %

As described in Note 2 in the notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013, certain of our licensing arrangements allow customers the ability to remix among software products. Additionally, we have arrangements with customers that include a combination of our products, with the actual product selection and number of licensed users to be determined at a later date. For these arrangements, we estimate the allocation of the revenue to product groups based upon the expected usage of our products. The actual usage of our products by these customers may differ and, if that proves to be the case, the revenue allocation in the table above would differ.

## Revenue by Geography

	Three Months Ended		Change		
	June 28, 2014	June 29, 2013	Amount	Percentage	
(In millions, except percentages)					
United States	\$161.9	\$159.2	\$2.7	2	%
Other Americas	6.1	5.6	0.5	9	%
Asia	88.3	74.5	13.8	19	%
Europe, Middle East and Africa	82.1	77.8	4.3	6	%
Japan	40.4	45.4	(5.0	) (11	)%
Total revenue	\$378.8	\$362.5	\$16.3	4	%

	Six Months Ended		Change		
	June 28, 2014	June 29, 2013	Amount	Percentage	
	(In millions, except percentages)				
United States	\$325.2	\$308.4	\$16.8	5	%
Other Americas	11.8	10.2	1.6	16	%
Asia	175.3	142.6	32.7	23	%
Europe, Middle East and Africa	159.6	156.7	2.9	2	%
Japan	85.4	98.9	(13.5	) (14	)%
Total revenue	\$757.3	\$716.8	\$40.5	6	%

Most of our revenue is transacted in the United States dollar. However, certain revenue transactions are denominated in foreign currencies, primarily the Japanese yen, and we recognize reduced revenue from those contracts in periods when the Japanese yen weakens in value against the United States dollar and additional revenue from those contracts in periods when the Japanese yen strengthens against the United States dollar. For an additional description of how changes in foreign exchange rates affect our condensed consolidated financial statements, see the discussion under Item 3, “Quantitative and Qualitative Disclosures About Market Risk – Foreign Currency Risk.”

Revenue for Asia increased during the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, primarily due to increases in revenue from our software business and emulation hardware installations.

Revenue for Japan decreased during the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, primarily due to business conditions facing our Japanese customers. Because of these conditions, we expect lower revenue for Japan during fiscal 2014, as compared to fiscal 2013.

For the primary factors contributing to our increase in revenue in other geographies, see the general description under “Revenue by Period,” above.

## Revenue by Geography as a Percent of Total Revenue

	Three Months Ended		Six Months Ended		
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	
United States	43	% 44	% 43	% 43	%
Other Americas	1	% 1	% 2	% 1	%
Asia	23	% 21	% 23	% 20	%
Europe, Middle East and Africa	22	% 21	% 21	% 22	%
Japan	11	% 13	% 11	% 14	%
Total	100	% 100	% 100	% 100	%

## Cost of Revenue

	Three Months Ended		Change		
	June 28, 2014	June 29, 2013	Amount	Percentage	
	(In millions, except percentages)				
Cost of product and maintenance	\$37.7	\$28.1	\$9.6	34	%
Cost of services	16.7	15.1	1.6	11	%

	Six Months Ended		Change		
	June 28, 2014	June 29, 2013	Amount	Percentage	
	(In millions, except percentages)				
Cost of product and maintenance	\$79.9	\$57.9	\$22.0	38	%
Cost of services	31.6	33.5	(1.9)	(6)	)%

## Cost of Product and Maintenance

Cost of product and maintenance includes costs associated with the sale and lease of our emulation hardware and licensing of our software and IP products, certain employee salary, benefits and other employee-related costs, cost of our customer support services, amortization of technology-related and maintenance-related acquired intangibles, as well as the costs of technical documentation and royalties payable to third-party vendors. Costs associated with our emulation hardware products include materials, assembly and overhead. These additional hardware manufacturing costs make our cost of emulation hardware product higher, as a percentage of revenue, than our cost of software and IP products.

A summary of cost of product and maintenance is as follows:

	Three Months Ended		Change		
	June 28, 2014	June 29, 2013	Amount	Percentage	
	(In millions, except percentages)				
Product and maintenance-related costs	\$29.1	\$22.3	\$6.8	30	%
Amortization of acquired intangibles	8.6	5.8	2.8	48	%
Total cost of product and maintenance	\$37.7	\$28.1	\$9.6	34	%



	Six Months Ended		Change		
	June 28, 2014	June 29, 2013	Amount	Percentage	
	(In millions, except percentages)				
Product and maintenance-related costs	\$63.7	\$48.3	\$15.4	32	%
Amortization of acquired intangibles	16.2	9.6	6.6	69	%
Total cost of product and maintenance	\$79.9	\$57.9	\$22.0	38	%

Cost of product and maintenance depends primarily upon our emulation hardware product sales and gross margins in any given period, employee salary, benefits and other employee-related costs, and also upon the timing and extent to which we acquire intangible assets, acquire or license third-parties' intellectual property or technology and sell our products that include such acquired or licensed intellectual property or technology.

The changes in product and maintenance-related costs for the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, were due to the following:

	Change	
	Three Months Ended	Six Months Ended
	(In millions)	
Emulation hardware costs	\$6.1	\$15.7
Other items	0.7	(0.3)
	\$6.8	\$15.4

Emulation hardware costs increased during the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, due to a higher volume of emulation hardware products sold. Gross margins on our emulation hardware products may fluctuate based on customer pricing strategies, product competition and product life cycle. Gross margins on our emulation hardware products decreased during the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013. We expect lower gross margins on the sale of our emulation hardware products for fiscal 2014, as compared to fiscal 2013, primarily due to an increasingly competitive environment for emulation hardware.

Amortization of acquired intangibles included in cost of product and maintenance increased during the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, primarily due to the increase in amortization of intangible assets associated with our fiscal 2013 acquisitions. We expect amortization of acquired intangibles to increase for the remainder of fiscal 2014, as compared to the same period in fiscal 2013, primarily due to amortization of intangible assets recorded in connection with our fiscal 2014 acquisitions. For an additional description of our expected amortization of intangible assets, see Note 4 of the notes to condensed consolidated financial statements.

#### Cost of Services

Cost of services primarily includes employee salary, benefits and other employee-related costs to perform work on revenue-generating projects, costs to maintain the infrastructure necessary to manage a services organization, and provisions for contract losses, if any. Cost of services will fluctuate from period to period based on our utilization of design services engineers on revenue-generating projects or on internal development projects.

#### Operating Expenses

Our operating expenses include marketing and sales, research and development and general and administrative expenses. Factors that may cause our operating expenses to fluctuate include changes in the number of employees due to acquisitions and hiring, foreign exchange rates, stock-based compensation and the impact of our variable compensation programs that are driven by overall operating results.

Our employee salary and other compensation-related costs increased during the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, primarily due to hiring of additional employees for our research and development and sales activities, increased compensation for existing employees and incremental costs related to employees added from our fiscal 2013 acquisitions.



During the three months ended June 28, 2014, we initiated a voluntary early retirement program. The program was offered to certain eligible employees in North America and enrollment for those employees was completed during the three months ended June 28, 2014. We recorded costs associated with this program of approximately \$9.3 million in our operating expenses during the three and six months ended June 28, 2014. The increase in operating expenses associated with this program is included in the change in severance and other termination costs presented in the analysis of our operating expenses below.

Many of our operating expenses are transacted in various foreign currencies. We recognize lower expenses in periods when the United States dollar strengthens in value against other currencies and we recognize higher expenses when the United States dollar weakens against other currencies. For an additional description of how changes in foreign exchange rates affect our condensed consolidated financial statements, see the discussion in Item 3, “Quantitative and Qualitative Disclosures About Market Risk – Foreign Currency Risk.”

We expect our operating expenses to increase during the remainder of fiscal 2014, as compared to the same period in fiscal 2013, primarily due to the addition of employees through our fiscal 2014 acquisitions and hiring of research and development and sales personnel.

Our operating expenses for the three and six months ended June 28, 2014 and June 29, 2013 were as follows:

	Three Months Ended		Change		
	June 28, 2014	June 29, 2013	Amount	Percentage	
	(In millions, except percentages)				
Marketing and sales	\$98.6	\$95.3	\$3.3	3	%
Research and development	152.7	136.4	16.3	12	%
General and administrative	32.0	34.4	(2.4	) (7	)%
Total operating expenses	\$283.3	\$266.1	\$17.2	6	%
	Six Months Ended		Change		
	June 28, 2014	June 29, 2013	Amount	Percentage	
	(In millions, except percentages)				
Marketing and sales	\$196.9	\$185.7	\$11.2	6	%
Research and development	299.1	260.5	38.6	15	%
General and administrative	60.8	64.3	(3.5	) (5	)%
Total operating expenses	\$556.8	\$510.5	\$46.3	9	%

Our operating expenses, as a percentage of total revenue, for the three and six months ended June 28, 2014 and June 29, 2013 were as follows:

	Three Months Ended		Six Months Ended		
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	
Marketing and sales	26	% 26	% 26	% 26	%
Research and development	40	% 38	% 39	% 36	%
General and administrative	8	% 10	% 8	% 9	%
Total operating expenses	74	% 74	% 73	% 71	%

## Marketing and Sales

The changes in marketing and sales expense for the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, were due to the following:

	Change Three Months Ended (In millions)	Six Months Ended
Salary, benefits and other employee-related costs	\$0.7	\$7.0
Stock-based compensation	1.2	2.8
Severance and other termination costs	1.9	1.9
Other items	(0.5)	(0.5)
	\$3.3	\$11.2

## Research and Development

The changes in research and development expense for the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, were due to the following:

	Change Three Months Ended (In millions)	Six Months Ended
Salary, benefits and other employee-related costs	\$6.3	\$24.1
Severance and other termination costs	5.9	5.9
Stock-based compensation	2.2	5.3
Other items	1.9	3.3
	\$16.3	\$38.6

## General and Administrative

The changes in general and administrative expense for the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, were due to the following:

	Change Three Months Ended (In millions)	Six Months Ended
Professional services	\$(2.5)	\$(4.6)
Salary, benefits and other employee-related costs	(0.2)	1.1
Severance and other termination costs	1.5	1.5
Other items	(1.2)	(1.5)
	\$(2.4)	\$(3.5)

The decrease in professional services costs during the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, was primarily due to a decrease in acquisition-related professional services.

## Stock-based Compensation

Stock-based compensation expense is recorded within the various components of our costs and expenses. Stock-based compensation included in operating expenses increased \$4.0 million and \$9.0 million during the three and six months ended June 28, 2014, respectively, as compared to the three and six months ended June 29, 2013, respectively, primarily because of higher grant-date fair values and the assumption of certain unvested options related to our acquisitions.

We expect stock-based compensation to increase during the remainder of fiscal 2014, as compared to the same period of fiscal 2013, because we expect that new awards granted during fiscal 2014 will have higher grant date fair values compared to grants made in previous years and because awards vesting during fiscal 2014 generally have higher grant date fair values than awards that vested during fiscal 2013.

#### Amortization of Acquired Intangibles

	Three Months Ended		Change		
	June 28, 2014	June 29, 2013	Amount	Percentage	
	(In millions, except percentages)				
Amortization of acquired intangibles	\$5.6	\$5.3	\$0.3	6	%
	Six Months Ended		Change		
	June 28, 2014	June 29, 2013	Amount	Percentage	
	(In millions, except percentages)				
Amortization of acquired intangibles	\$10.8	\$9.1	\$1.7	19	%

The increase in amortization of acquired intangibles during the three and six months ended June 28, 2014, as compared to the three and six months ended June 29, 2013, resulted from increased amortization of intangible assets related to our fiscal 2014 and fiscal 2013 acquisitions, which was partially offset by certain acquired intangibles becoming fully amortized.

We expect amortization of acquired intangibles to increase during the remainder of fiscal 2014, as compared to the same period in fiscal 2013, due to the amortization of intangible assets recorded in connection with our fiscal 2014 acquisitions. For an additional description of our expected amortization of intangible assets, see Note 4 of the notes to condensed consolidated financial statements.

#### Interest Expense

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(In millions)			
Contractual interest expense:				
2013 Notes	\$—	\$0.5	\$—	\$1.1
2015 Notes	2.3	2.3	4.6	4.6
Revolving credit facility	0.2	0.4	0.3	0.6
Amortization of debt discount:				
2013 Notes	—	1.7	—	3.3
2015 Notes	4.3	4.0	8.5	7.9
Amortization of deferred financing costs:				
2013 Notes	—	0.1	—	0.2
2015 Notes	0.6	0.5	1.2	1.1
Total interest expense	\$7.4	\$9.5	\$14.6	\$18.8

## Income Taxes

The following table presents the provision for income taxes and the effective tax rate for the three and six months ended June 28, 2014 and June 29, 2013:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
	(In millions, except percentages)			
Provision for income taxes	\$6.5	\$28.2	\$11.9	\$0.6
Effective tax rate	21.8	% 74.9	% 17.4	% 0.7

Our provision for income taxes for the three and six months ended June 28, 2014 primarily resulted from federal, state and foreign income taxes on our anticipated fiscal 2014 income. Our foreign earnings are generally subject to lower statutory tax rates than our United States earnings. In addition, our provision for income taxes for the three and six months ended June 28, 2014 does not include the potential tax benefit of the United States federal research tax credit, which expired in December 2013. The expiration of the research tax credit is estimated to increase our estimated annual effective tax rate for fiscal 2014 by 3%.

Our provision for income taxes for the three months ended June 29, 2013 was primarily related to federal, state and foreign income taxes on our anticipated fiscal 2013 income and tax expense related to an increase in the United States valuation allowance. Our provision for income taxes for the six months ended June 29, 2013 was primarily related to federal, state and foreign income taxes on our fiscal 2013 income partially offset by a tax benefit of \$33.7 million from the release of an uncertain tax position, including related interest and penalties, and a \$5.9 million tax benefit from the retroactive enactment of the fiscal 2012 United States federal research tax credit during the period.

We estimate our annual effective tax rate for fiscal 2014 to be approximately 19%. Our estimate excludes tax effects of certain stock compensation, potential acquisitions, and other items which we cannot anticipate.

Our future effective tax rates may be materially impacted by tax amounts associated with our foreign earnings at rates different from the federal statutory rate, research credits, the tax impact of stock-based compensation, accounting for uncertain tax positions, business combinations, closure of statute of limitations or settlement of tax audits, changes in valuation allowance and changes in tax law. A significant amount of our foreign earnings is generated by our subsidiaries organized in Ireland and Hungary. Our future effective tax rates may be adversely affected to the extent earnings are lower in countries where we have lower statutory tax rates or we repatriate certain foreign earnings on which United States taxes have not been previously accrued.

For further discussion regarding our income taxes, see Note 6 in the notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

## Liquidity and Capital Resources

	As of June 28, 2014	December 28, 2013	Change
	(In millions)		
Cash, cash equivalents and short-term investments	\$655.3	\$633.0	\$22.3
Net working capital	\$6.7	\$72.9	\$(66.2)

## Cash, Cash Equivalents and Short-term Investments

As of June 28, 2014, our principal sources of liquidity consisted of \$655.3 million of cash, cash equivalents and short-term investments, as compared to \$633.0 million as of December 28, 2013.

Our primary source of cash, cash equivalents and short-term investments during the six months ended June 28, 2014 was customer payments for products, maintenance and services and borrowings under our revolving credit facility. We also received cash from the exercise of stock options and from stock purchases under our employee stock purchase plan.

Our primary uses of cash, cash equivalents and short-term investments during the six months ended June 28, 2014 were payments relating to salaries, benefits, other employee-related costs and operating expenses, our fiscal 2014 acquisitions, repurchases of our common stock, purchases of inventory and purchases of property, plant and

equipment.

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Approximately 84% of our cash, cash equivalents and short-term investments were held by our foreign subsidiaries as of June 28, 2014. Our intent is to permanently reinvest our earnings from certain foreign operations. We do not anticipate we will need to repatriate dividends from foreign operations that are permanently reinvested in order to fund our domestic operations. In the event that dividends from foreign operations that are currently permanently reinvested are needed to fund United States liquidity, we could be required to accrue and pay additional taxes in order to repatriate these funds. We expect that United States cash, cash equivalents and short-term investments will not fall below \$150.0 million during the remainder of the fiscal year ended January 3, 2015.

We maintain an investment portfolio of approximately \$100 million in marketable debt securities, including corporate debt securities, United States Treasury securities, United States government agency securities, bank certificates of deposit and commercial paper. Our investments in marketable debt securities are classified as available-for-sale and are included in short-term investments as of June 28, 2014. Our investments are made in accordance with our cash investment policy, which governs the amounts and types of investments we hold in our portfolio. Our investment portfolio could be affected by various risks and uncertainties including credit risk, interest rate risk and general market risk, as outlined in Item 3, "Quantitative and Qualitative Disclosures About Market Risk" and Part II, Item 1A, "Risk Factors."

We have a \$250 million revolving credit facility that may be used to finance working capital, capital expenditures, acquisitions and other business purposes. Any outstanding loans drawn under the credit facility are payable on or before December 12, 2017. The credit facility contains customary negative covenants that, among other things, restrict our ability to incur additional indebtedness, grant liens and make certain investments, asset dispositions and restricted payments. In addition, the credit facility contains certain financial covenants that require us to maintain a leverage ratio of not greater than 3 to 1, subject to certain exceptions, and requires that we maintain an interest coverage ratio of at least 3 to 1.

As of June 28, 2014, we had outstanding borrowings under the credit facility of \$100.0 million and were in compliance with the financial covenants. For an additional description of this revolving credit facility, see Note 2 in the notes to condensed consolidated financial statements.

We expect that current cash, cash equivalents and short-term investment balances, cash flows that are generated from operations and cash borrowings available under our revolving credit facility will be sufficient to meet our domestic and international working capital needs, and other capital and liquidity requirements, including acquisitions and share repurchases, if any, for at least the next 12 months.

#### Net Working Capital

Net working capital decreased by \$66.2 million as of June 28, 2014, as compared to December 28, 2013, due to the following:

	Change (In millions)
Increase in revolving credit facility	\$(100.0 )
Increase in convertible notes	(8.5 )
Decrease in receivables, net	(5.7 )
Increase in current portion of deferred revenue	(1.9 )
Increase in accounts payable and accrued liabilities	(0.4 )
Increase in short-term investments	1.1
Increase in inventories	8.1
Increase in prepaid expenses and other	19.9
Increase in cash and cash equivalents	21.2
	\$(66.2 )

#### Cash Flows from Operating Activities

	Six Months Ended		
	June 28, 2014	June 29, 2013	Change
	(In millions)		
Cash provided by operating activities	\$97.0	\$150.2	\$(53.2 )





Cash flows from operating activities decreased \$53.2 million during the six months ended June 28, 2014, as compared to June 29, 2013, due to the following:

	Change (In millions)
Net income, net of non-cash related gains and losses	\$(9.1 )
Changes in operating assets and liabilities, net of effect of acquired businesses	(44.2 )
	\$(53.3 )

Cash flows from operating activities include net income, adjusted for certain non-cash items, as well as changes in the balances of certain assets and liabilities. Our cash flows from operating activities are significantly influenced by business levels and the payment terms set forth in our license agreements. The decrease in cash flows from operating activities for the six months ended June 28, 2014, as compared to the six months ended June 29, 2013, was primarily due to the timing of cash receipts from customers, working capital requirements, payments under our recent restructuring plans and an increase in cash paid for taxes, net of tax refunds.

We expect to pay an additional \$4.8 million related to our previous restructuring activities after June 28, 2014, of which we expect approximately \$2.2 million will be paid within the next twelve months. We expect to pay \$10.2 million related to our voluntary retirement program after June 28, 2014, of which we expect approximately \$9.4 million will be paid within the next 12 months.

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

#### Cash Flows from Investing Activities

	Six Months Ended		
	June 28, 2014	June 29, 2013	Change
	(In millions)		
Cash used for investing activities	\$(180.5 )	\$(410.9 )	\$230.4
The changes in net cash used for investing activities for the six months ended June 28, 2014, as compared to the six months ended June 29, 2013, were due to the following:			

	Change (In millions)
Cash paid in business combinations and asset acquisitions, net of cash acquired	\$228.5
Proceeds from the sale and maturity of available-for-sale securities	15.8
Purchases of property, plant and equipment	6.0
Proceeds from the sale of long-term investments	(6.1 )
Purchases of available-for-sale securities	(13.8 )
	\$230.4

Cash paid in business combinations and asset acquisitions relates to our fiscal 2014 and 2013 acquisitions. For an additional description of the acquisitions completed during the six months ended June 28, 2014, see Note 3 in the notes to condensed consolidated financial statements.

We maintain an investment portfolio of approximately \$100 million in marketable debt securities. The proceeds from, purchases of and maturities of available-for-sale securities are primarily related to normal transactions within our investment portfolio.

We expect to continue our investing activities, including purchasing property, plant and equipment, purchasing intangible assets, business combinations, purchasing software licenses, and making long-term equity investments.

## Cash Flows from Financing Activities

	Six Months Ended		Change
	June 28, 2014 (In millions)	June 29, 2013	
Cash provided by financing activities	\$100.0	\$122.7	\$(22.7 )
The changes in net cash provided by financing activities for the six months ended June 28, 2014, as compared to the six months ended June 29, 2013, were due to the following:			
			Change (In millions)
Payments for repurchases of common stock			\$(25.0 )
Tax effect related to employee stock transactions allocated to equity			(4.7 )
Payment of acquisition-related contingent consideration			(1.3 )
Principal payments on receivable financing			2.5
Proceeds from the issuance of common stock			6.3
Other items			(0.5 )
			\$(22.7 )

During the six months ended June 28, 2014, we used \$25.0 million of cash and cash equivalents to repurchase shares of our common stock. We expect to repurchase up to a total of \$100.0 million of our common stock during fiscal 2014, and we may repurchase additional shares of our common stock in fiscal 2015. For an additional description of our share repurchase programs and repurchase authorizations, see Part II, Item 2, “Unregistered Sales of Equity Securities and Use of Proceeds.”

## Other Factors Affecting Liquidity and Capital Resources

## Convertible Notes

As of June 28, 2014, we had convertible notes outstanding with a net liability value of \$333.3 million that mature on June 1, 2015. The principal maturity value of our 2015 Notes is \$350.0 million. The total cash payable upon the early conversion of these notes, as determined by the indenture of each security, will be their principal amount plus any additional conversion value that would be due upon conversion.

We will owe additional cash to the note holders upon early conversion if our stock price exceeds \$7.55 per share. We entered into hedges with counterparties to limit our exposure to the additional cash payments above the principal amount of the 2015 Notes that may be due to the holders upon conversion. In separate transactions, we sold warrants, or the 2015 Warrants, with a strike price of \$10.78 per share. Although our incremental cash payout exposure above the conversion price is limited by the hedges to the \$350.0 million outstanding principal value of the 2015 Notes and accrued interest, we will experience dilution to our stock and to our diluted earnings per share from the outstanding 2015 Warrants to the extent our average closing stock price exceeds \$10.78 in any fiscal quarter until the 2015 Notes are converted and the 2015 Warrants are settled.

Additionally, holders may convert their 2015 Notes into cash during any quarter following a quarter in which our stock price closes above \$9.81 for at least 20 of the last 30 trading days. The 2015 Notes are convertible into cash from June 29, 2014 through September 27, 2014 because our closing stock price exceeded \$9.81 for at least 20 of the last 30 trading days prior to June 28, 2014. While holders of the 2015 Notes have the right to convert their notes, we do not anticipate a significant number of conversions before the June 1, 2015 maturity date of the 2015 Notes. If the holders of our 2015 Notes elect to convert their notes into cash, we would be required to make cash payments of up to \$350 million and accrued interest prior to the maturity of the 2015 Notes.

In connection with the 2015 Notes, we entered into the 2015 Notes Hedges and sold warrants to limit our exposure to the additional cash payments above the \$350 million principal balance in the event of a cash conversion of the 2015 Notes.

We believe that cash generated from our operating activities in future periods as well as access to our revolving credit facility will be sufficient to service the maturity or conversion of our 2015 Notes, but future changes in our cash position, cash flows from operating activities, cash flows from investing activities, cash flows from financing activities, as well as general business levels and changes in our access to financing may impact our ability to settle the

principal amount payable to the holders of the 2015 Notes when they mature or convert.

For an additional description of the 2015 Notes, the conversion terms thereof and the hedge and warrants transactions, see Note 2 in the notes to condensed consolidated financial statements.

Acquisition-related contingent consideration

In connection with our business combinations and asset acquisitions completed in prior fiscal years, we may be obligated to make payments subject to the satisfaction of future financial measures. If performance is such that these payments are fully achieved, we will be obligated to pay up to an aggregate of \$11.8 million in cash over the next 22 months.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

## Foreign Currency Risk

A material portion of our revenue, expenses and business activities are transacted in the United States dollar. However, certain of our operations include transactions in foreign currencies that can affect our results of operations. In certain countries where we invoice customers in the local currency, Japan in particular, our revenues benefit from a weaker dollar and are adversely affected by a stronger dollar. The opposite impact occurs in countries where we record expenses in local currencies. In those cases, our operating expenses benefit from a stronger dollar and are adversely affected by a weaker dollar. The fluctuations in our operating expenses outside the United States resulting from volatility in the United States dollar against certain foreign currencies are not generally moderated by corresponding fluctuations in our revenues, except for our operations in Japan because we receive some cash payments and make most expense payments in Japanese yen.

We enter into foreign currency forward exchange contracts with financial institutions to protect against currency exchange risks associated with existing assets and liabilities. A foreign currency forward exchange contract acts as a hedge by increasing in value when underlying assets decrease in value or underlying liabilities increase in value due to changes in foreign exchange rates. Conversely, a foreign currency forward exchange contract decreases in value when underlying assets increase in value or underlying liabilities decrease in value due to changes in foreign exchange rates. These forward contracts are not designated as accounting hedges, so the unrealized gains and losses are recognized in other income, net, in advance of the actual foreign currency cash flows with the fair value of these forward contracts being recorded as accrued liabilities or other current assets.

We do not use forward contracts for trading purposes. Our forward contracts generally have maturities of 90 days or less. We enter into foreign currency forward exchange contracts based on estimated future asset and liability exposures, and the effectiveness of our hedging program depends on our ability to estimate these future asset and liability exposures. Recognized gains and losses with respect to our current hedging activities will ultimately depend on how accurately we are able to match the amount of foreign currency forward exchange contracts with actual underlying asset and liability exposures.

The following table provides information about our foreign currency forward exchange contracts as of June 28, 2014. The information is provided in United States dollar equivalent amounts. The table presents the notional amounts, at contract exchange rates, and the weighted average contractual foreign currency exchange rates expressed as units of the foreign currency per United States dollar, which in some cases may not be the market convention for quoting a particular currency. All of these forward contracts mature before or during August 2014.

	Notional Principal	Weighted Average Contract Rate
	(In millions)	
Forward Contracts:		
European Union euro	\$58.6	0.74
Indian rupee	35.4	59.58
Japanese yen	19.7	101.66
Israeli shekel	14.1	3.46
Chinese renminbi	13.8	6.17
Canadian dollar	10.6	1.09
British pound	6.8	0.60
Taiwan dollar	5.3	29.91
Other	11.1	N/A
Total	\$175.4	
Estimated fair value	\$0.5	

While we actively monitor our foreign currency risks, there can be no assurance that our foreign currency hedging activities will substantially offset the impact of fluctuations in currency exchange rates on our results of operations, cash flows and financial position.



### Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our portfolio of marketable debt securities, our portfolio of cash and cash equivalents and outstanding balances drawn on our revolving credit facility, if any.

We are exposed to interest rate fluctuations in many of the world's leading industrialized countries, but the fair value of our marketable debt securities and our interest income and expense is most sensitive to fluctuations in the general level of United States interest rates. In this regard, changes in United States interest rates affect the interest earned on our marketable debt securities and cash and cash equivalents, any unrealized and realized gains or losses on our marketable debt securities and the costs associated with foreign currency hedges. Pursuant to our investment policy, we limit the amount of our credit exposure to any one issuer, other than in securities issued by the United States Treasury and United States government agencies.

Our short-term investments as of June 28, 2014 include \$93.6 million of marketable debt securities that may decline in value if market interest rates rise. Such variability in market interest rates may result in a negative impact on the results of our investment activities. As of June 28, 2014, an increase in the market rates of interest of 1% would result in a decrease in the fair values of our marketable debt securities by approximately \$0.8 million.

All highly liquid securities with a maturity of three months or less at the date of purchase are considered to be cash equivalents. Securities with maturities greater than three months are classified as available-for-sale and are considered to be short-term investments. The carrying value of our interest-bearing instruments approximated fair value as of June 28, 2014.

Interest rates under our revolving credit facility are variable, so interest expense for periods when the credit facility is utilized could be adversely affected by changes in interest rates. Interest rates under our revolving credit facility can fluctuate based on changes in market interest rates and in an interest rate margin that varies based on our consolidated leverage ratio. As of June 28, 2014, we had an outstanding balance of \$100.0 million under our revolving credit facility. For an additional description of this revolving credit facility, see Note 2 in the notes to condensed consolidated financial statements.

### Equity Price Risk

#### Convertible Notes

Our 2015 Notes include conversion and settlement provisions that are based on the price of our common stock at conversion or at maturity of the notes. In addition, the hedges and warrants associated with these convertible notes also include settlement provisions that are based on the price of our common stock. The amount of cash we may be required to pay, or the number of shares we may be required to provide to note holders at conversion or maturity of these notes, is determined by the price of our common stock. The amount of cash or number of shares that we may receive from hedge counterparties in connection with the related hedges and the number of shares that we may be required to provide warrant counterparties in connection with the related warrants are also determined by the price of our common stock.

Upon the expiration of our 2015 Warrants, Cadence will issue shares of common stock to the purchasers of the warrants to the extent our stock price exceeds the warrant strike price of \$10.78 at that time. The following table shows the number of shares that Cadence would issue to 2015 Warrant counterparties at expiration of the warrants, assuming various Cadence closing stock prices on the dates of warrant expiration:

	Shares (In millions)
\$11.00	0.9
\$12.00	4.7
\$13.00	7.9
\$14.00	10.7
\$15.00	13.0
\$16.00	15.1
\$17.00	17.0
\$18.00	18.6



\$19.00	20.1
\$20.00	21.4

Prior to the expiration of the 2015 Warrants, for purposes of calculating diluted earnings per share, our diluted weighted-average shares outstanding will increase when our average closing stock price for a quarter exceeds \$10.78.

For an additional description of our 2015 Notes, see Note 2 in our notes to condensed consolidated financial statements and “Liquidity and Capital Resources – Other Factors Affecting Liquidity and Capital Resources,” under Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

#### Equity Investments

We have a portfolio of equity investments that includes marketable equity securities and non-marketable investments. Our equity investments are made primarily in connection with our strategic investment program. Under our strategic investment program, from time to time, we make cash investments in companies with technologies that are potentially strategically important to us. See Note 8 in the notes to condensed consolidated financial statements, and Note 9 in the notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013, for an additional description of these investments. Our non-marketable investments had a carrying value of \$8.6 million as of June 28, 2014, and \$6.7 million as of December 28, 2013.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, under the supervision and with the participation of our management, including our Chief Executive Officer, or CEO, and our Chief Financial Officer, or CFO, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 28, 2014.

The evaluation of our disclosure controls and procedures included a review of our processes and the effect on the information generated for use in this Quarterly Report on Form 10-Q. In the course of this evaluation, we sought to identify any material weaknesses in our disclosure controls and procedures, to determine whether we had identified any acts of fraud involving personnel who have a significant role in our disclosure controls and procedures, and to confirm that any necessary corrective action, including process improvements, was taken. This type of evaluation is done every fiscal quarter so that our conclusions concerning the effectiveness of these controls can be reported in our periodic reports filed with the SEC. The overall goals of these evaluation activities are to monitor our disclosure controls and procedures and to make modifications as necessary. We intend to maintain these disclosure controls and procedures, modifying them as circumstances warrant.

Based on their evaluation as of June 28, 2014, our CEO and CFO have concluded that our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

##### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended June 28, 2014, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

##### Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. Internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of internal control are met. Further, the design of internal control must reflect the fact that there are resource constraints, and the benefits of the control must be considered relative to their costs. While our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of their effectiveness, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Cadence, have been detected.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock.

#### Risks Related to Our Business

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

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

The IC and electronics systems industries have also experienced significant downturns in connection with, or in anticipation of, maturing product cycles of both these industries' and their customers' products. Although the semiconductor industry experienced growth in 2010, semiconductor industry revenues for 2011 remained at levels similar to 2010 and decreased slightly during 2012 and 2013, according to preliminary reports. Spending on EDA products and services grew moderately during fiscal 2012 and 2013. While spending on EDA products and services has grown in recent years, the current outlook for the semiconductor industry is uncertain and may result in a decrease in spending on EDA products and services.

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

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

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

Changes in the design and manufacturing of ICs, including migration to advanced process nodes and the introduction of three dimensional transistors, such as FinFETs, present major challenges to the semiconductor industry, particularly in IC design, design automation, design of manufacturing equipment, and the manufacturing process itself. With migration to advanced process nodes, the industry must adapt to more complex physics and manufacturing challenges such as the need to draw features on silicon that are many times smaller than the wavelength of light used to draw the features via lithography. Models of each component's electrical properties and behavior also become more complex as do requisite analysis, design, verification and manufacturing capabilities. Novel design tools and methodologies must be invented and enhanced quickly to remain competitive in the design of electronics in the smallest nanometer ranges;

The challenges of advanced node design are leading some customers to work with more mature, less risky manufacturing processes that may reduce their need to upgrade or enhance their EDA products and design flows;

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

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

Increased technological capability of the Field-Programmable Gate Array, or FPGA, which is a programmable logic chip, creates an alternative to IC implementation for some electronics companies. This could reduce demand for our IC implementation products and services;

A growing number of low-cost engineering services businesses could reduce the need for some IC companies to invest in EDA products; and

Adoption of cloud computing technologies with accompanying new business models for an increasing number of software categories, including EDA.

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

We have experienced varied operating results, and our operating results for any particular fiscal period are affected by the timing of revenue recognition, particularly for our emulation hardware and IP products.

We have recorded net losses in the past and may record net losses in the future. Various factors affect our operating results, and some of them are not within our control. Our operating results for any period are affected by the timing of revenue recognition, particularly for our emulation hardware and IP products.

A substantial portion of the product revenue related to our emulation hardware business is recognized upon delivery, and our forecasted revenue results are based, in part, on our expectations of emulation hardware to be delivered in a particular quarter. Therefore, changes in emulation hardware bookings or deliveries relative to expectations will have a more immediate impact on our revenue than changes in software or services bookings, for which revenue is

generally recognized over time.

During fiscal 2013, we made significant investments to expand our IP offerings through, among other things, research and development and acquisitions. As we continue to expand our IP offerings, a portion of the revenue related to our IP bookings will be deferred until we complete and deliver the licensed IP to our customers. As a result, costs related to the research and development of the IP may be incurred prior to the recognition of the related revenue.

Revenue related to our emulation hardware and IP products is inherently difficult to predict because sales of our emulation hardware and IP products depend on the commencement of new projects for the design and development of complex ICs and systems by our customers, our customers' willingness to expend capital to deploy our emulation hardware or IP products in those projects and the availability of our emulation hardware or IP products for delivery. Therefore, our emulation hardware or IP sales may be delayed or may decrease if our customers delay or cancel projects because their spending is constrained or if there are problems or delays with the supply or delivery of our emulation hardware or IP products or our hardware suppliers. Moreover, the emulation hardware and IP markets are highly competitive, and our customers may choose to purchase a competitor's hardware or IP product based on cost, performance or other factors. These factors may result in lower revenue, which would have an adverse effect on our business, results of operations or cash flows.

Our software license mix is such that a substantial proportion of licenses require ratable revenue recognition, and we expect the license mix, combined with the modest growth in spending by our customers in the semiconductor sector, may make it difficult for us to rapidly increase our revenue in future fiscal periods. The timing of our revenue recognition may be deferred until payments become due and payable from customers with nonlinear payment terms or as cash is collected from customers with low credit ratings.

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

The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results of operations (see "Critical Accounting Estimates" under Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations"). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that may lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

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

We depend on sole suppliers for certain hardware components, making us vulnerable to supply disruption and price fluctuation.

We depend on sole suppliers for certain hardware components. Our reliance on sole suppliers could result in product delivery problems and delays and reduced control over product pricing and quality. Though we prefer to have multiple sources to procure certain key components, in some cases it is not practical or feasible to do so. We may suffer a disruption in the supply of certain hardware components if we are unable to purchase sufficient components on a timely basis or at all for any reason. Any supply disruption, including delay in delivery of components by our suppliers or the bankruptcy or shutdown of our suppliers, could delay our production process and prevent us from delivering completed emulation hardware products to customers or from supplying new evaluation units to customers, which could have a negative impact on our revenue and operating results.

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

We have acquired and expect to acquire other companies and businesses. During fiscal 2013, we made several acquisitions of IP businesses. Our future revenue growth and expansion of our IP business is heavily dependent on our successful integration of these and other acquisitions. We may incur significant costs in connection with our potential transactions, including acquisitions that are not consummated. Potential and completed acquisitions involve a number of risks. If any of the following acquisition-related risks occur, our business, operating results or financial condition could be seriously harmed:

- The failure to realize anticipated benefits such as cost savings and revenue enhancements;
- The failure to integrate and manage acquired products and businesses effectively;
- The failure to retain key employees of the acquired company or business;

- Difficulties in combining previously separate companies or businesses into a single unit;
- The substantial diversion of management's attention from day-to-day business when evaluating and negotiating these transactions and integrating an acquired company or business;
- The discovery, after completion of the acquisition, of unanticipated liabilities assumed from the acquired company, business or assets, such that we cannot realize the anticipated value of the acquisition;
- Difficulties related to integrating the products of an acquired company or business in, for example, distribution, engineering, licensing models or customer support areas;
- Unanticipated costs;

Customer dissatisfaction with existing license agreements with us, possibly dissuading customers from licensing or buying products acquired by us after the expiration date of the existing license; or

• The failure to understand and compete effectively in markets where we have limited experience.

In a number of our completed acquisitions, we have agreed to make future payments, either in the form of employee retention bonuses or contingent purchase price payments, based on the performance of the acquired companies, businesses or the employees who joined us with the acquired companies or businesses. The performance goals pursuant to which these future payments may be made generally relate to the achievement by the acquired company or business, or by the employees who joined us with the acquired company or business, of certain specified bookings, revenue, run rate, product proliferation, product development or employee retention goals during a specified period following completion of the applicable acquisition. The specific performance goal levels and amounts and timing of employee bonuses or contingent purchase price payments vary with each acquisition. We may continue to use contingent purchase price payments in connection with acquisitions in the future and while we expect to derive value from an acquisition in excess of such contingent payment obligations, we may be required to make certain contingent payments without deriving the anticipated value.

Future acquisitions may involve issuances of stock as full or partial payment of the purchase price for the acquired company or business, grants of restricted stock, restricted stock units or stock options to employees of the acquired companies or businesses (which may be dilutive to existing stockholders), expenditure of substantial cash resources or the incurrence of a material amount of debt. These arrangements may impact our liquidity, financial position and results of operations.

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

The EDA industry, the commercial electronics engineering services industry and the IP industry are highly competitive. If we fail to compete successfully in these industries, it could seriously harm our business, operating results or financial condition. To compete in these industries, we must identify and develop or acquire innovative and cost-competitive EDA products, integrate them into platforms and market them in a timely manner. We may not be able to compete successfully in these industries. Factors that could affect our ability to compete successfully include:

• The development by others of competitive EDA products or platforms and engineering services, possibly resulting in a shift of customer preferences away from our products and services and significantly decreased revenue;

• Aggressive pricing competition by some of our competitors may cause us to lose our competitive position, which could result in lower revenues or profitability and could adversely impact our ability to realize the revenue and profitability forecasts for our software or emulation hardware systems products;

• The challenges of developing (or acquiring externally developed) technology solutions, including emulation hardware and IP offerings, that are adequate and competitive in meeting the rapidly evolving requirements of next-generation design challenges;

• The significant number of current and potential competitors in the EDA industry and the low cost of entry;

• Intense competition to attract acquisition targets, possibly making it more difficult for us to acquire companies or technologies at an acceptable price, or at all;

• The combination of our EDA competitors or collaboration among many EDA companies to deliver more comprehensive offerings than they could individually; and

• Decisions by electronics manufacturers to perform engineering services or IP development internally, rather than purchase these services from outside vendors due to budget constraints or excess engineering capacity.

We compete in EDA most frequently with Synopsys, Inc. and Mentor Graphics Corporation, but also with numerous other EDA providers (such as Ansys, Inc., Atrenta, Inc., ATopTech, Inc., Zuken Ltd. and many others offering “point solutions”), with manufacturers of electronic devices that have developed, acquired or have the capability to develop their own EDA products, and with numerous electronics design and consulting companies. In the area of design IP, we compete with Synopsys, CEVA, Inc. and numerous smaller IP companies.



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

At the time of issuance of our 2015 Notes, we entered into separate warrant transactions for the purchase of up to approximately 46.4 million shares of our common stock at a strike price of \$10.78 per share. These warrants expire on various dates from September 2015 through December 2015. These warrants will be settled in net shares. Upon expiration of the warrants, we will issue shares of our common stock to the purchasers of the warrants that represent the value by which the price of our common stock exceeds the strike price stipulated within the particular warrant agreement. If our stock price is above the warrants' strike price upon expiration of the warrants, the warrants will dilute the ownership interest of our existing stockholders. The warrants will also dilute our diluted earnings per share in periods when our average closing stock price exceeds the strike price of the particular warrant. Any sales in the public market of common stock issuable upon net settlement at expiration of the warrants could adversely affect then current market prices of our common stock. Additional risk factors related to our indebtedness are described below under "Risks Related to Our Securities and Indebtedness."

Competitive pressures may require us to change our pricing, which could have an adverse effect on our results of operations.

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

The effect of foreign exchange rate fluctuations may adversely impact our revenue, expenses, cash flows and financial condition.

We have significant operations outside the United States. Our revenue from international operations as a percentage of total revenue was approximately 57% and 56% during the three months ended June 28, 2014 and June 29, 2013, respectively. We expect that revenue from our international operations will continue to account for a significant portion of our total revenue. We also transact business in various foreign currencies. The volatility of foreign currencies in certain countries where we conduct business, most notably the Japanese yen, European Union euro, British pound and Indian rupee have had and may in the future have an effect on our revenue or operating results. Fluctuations in the rate of exchange between the United States, or US, dollar and the currencies of other countries where we conduct business could seriously affect our business, operating results or financial condition. For example, when a foreign currency declines in value relative to the US dollar, it takes more of the foreign currency to purchase the same amount of US dollars than before the change. If we price our products and services in the foreign currency, we receive fewer US dollars than we did before the change. If we price our products and services in US dollars, the decrease in value of the local currency results in an increase in the price for our products and services compared to those products of our competitors that are priced in local currency. This could result in our prices being uncompetitive in markets where business is transacted in the local currency. On the other hand, when a foreign currency increases in value relative to the US dollar, it takes more US dollars to purchase the same amount of the foreign currency. As we use the foreign currency to fund payroll costs and other operating expenses in our international operations, this results in an increase in operating expenses. Our attempts to reduce the effect of foreign currency fluctuations may be unsuccessful, and significant exchange rate movements may adversely impact our results of operations as expressed in US dollars.

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

The market price of our common stock has experienced fluctuations and may fluctuate or decline in the future, and as a result you could lose the value of your investment. The market price of our common stock may be affected by a

number of factors, including, but not limited to:

• Quarterly or annual operating or financial results or forecasts that fail to meet or are inconsistent with earlier projections or the expectations of our securities analysts or investors;

• Changes in our forecasted bookings, revenue, earnings or operating cash flow estimates;

• Market conditions in the IC, electronics systems and semiconductor industries;

• Announcements of a restructuring plan;

• Changes in management;

• A gain or loss of a significant customer or market segment share;

Litigation; and

- Announcements of new products or acquisitions of new technologies by us, our competitors or our customers.

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

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

Our installed customer base has traditionally generated additional new license, service and maintenance revenues. In future periods, customers may not necessarily license or buy additional products or contract for additional services or maintenance. Our customers, many of which are large semiconductor and systems companies, often have significant bargaining power in negotiations with us. Mergers or acquisitions of our customers can reduce the total level of purchases of our software, hardware and services, and in some cases, increase customers' bargaining power in negotiations with their suppliers, including us.

Litigation could adversely affect our financial condition or operations.

We currently are, and in the future may be, involved in various disputes and litigation that arise in the ordinary course of business. These include disputes and lawsuits related to intellectual property, including customer indemnification, mergers and acquisitions, licensing, contracts, distribution arrangements and employee relations matters. For information regarding the litigation matters in which we are currently engaged, please refer to the discussion under Item 1, "Legal Proceedings" and Note 12 in the notes to condensed consolidated financial statements. We cannot provide any assurances that the final outcome of these lawsuits or any other proceedings that may arise in the future will not have a material adverse effect on our business, operating results, financial condition or cash flows. Litigation can be time consuming and expensive and could divert management's time and attention from our business, which could have a material adverse effect on our revenues and operating results.

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

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

- The adoption or expansion of government trade restrictions, including tariffs and other trade barriers;
- Limitations on repatriation of earnings;
- Limitations on the conversion of foreign currencies;
- Reduced protection of intellectual property rights in some countries;
- Performance of national economies;
- Longer collection periods for receivables and greater difficulty in collecting accounts receivable;
- Difficulties in managing foreign operations;
- Political and economic instability;
- Unexpected changes in regulatory requirements;
- Inability to continue to offer competitive compensation in certain growing regions;
- Differing employment practices and labor issues;
- United States' and other governments' licensing requirements for exports, which may lengthen the sales cycle or restrict or prohibit the sale or licensing of certain products; and
- Variations in costs or expenses associated with our international operations, including as a result of changes in foreign tax laws or devaluation of the US dollar relative to other foreign currencies.

Some of our international research and development and other facilities are in parts of the world where there may be a greater risk of business interruption as a result of political instability, terrorist acts or military conflicts than businesses located domestically. Furthermore, this potential harm is exacerbated because damage to or disruptions at our international research and development facilities could have a more significant adverse effect on our ability to develop new or improve existing products than other businesses that may only have sales offices or other less critical operations abroad. We are not insured for losses or interruptions caused by acts of war. Furthermore, our operations are dependent upon the connectivity of our operations throughout the world. Activities that interfere with our

international connectivity, such as cyber hacking, the introduction of a virus into our computer systems or natural disasters near any of our international locations, could significantly interfere with our business operations. In addition, internal controls, policies and procedures and employee training and compliance programs that we have implemented to deter prohibited practices may not prevent our employees, contractors or agents from violating or circumventing our policies and the laws and regulations applicable to our worldwide operations.

We depend upon our management team and key employees, and our failure to attract, train, motivate and retain management and key employees may make us less competitive and therefore harm our results of operations. Our business depends upon the continued services, efforts and abilities of our senior management and other key employees. Competition for highly skilled executive officers and employees can be intense, particularly in geographic areas recognized as high technology centers such as the Silicon Valley area, where our principal offices are located, and in other locations where we maintain facilities. In addition, competition for qualified personnel in the EDA, commercial electronics engineering services and IP industries has intensified. We may also experience increased compensation costs that are not offset by either improved productivity or higher sales. We may not be successful in recruiting new personnel and in retaining and motivating existing personnel. From time to time, there may be changes in our management team resulting from the hiring and departure of executive officers, and as a result, we may experience disruption to our business that may harm our operating results and our relationships with our employees, customers and suppliers may be adversely affected.

To attract, retain and motivate individuals with the requisite expertise, we may be required to grant large numbers of stock options or other stock-based incentive awards, which may be dilutive to existing stockholders and increase compensation expense, and pay significant base salaries and cash bonuses, which could harm our operating results. The high cost of training new employees, not fully utilizing these employees, or losing trained employees to competing employers could also reduce our operating margins and harm our business or operating results.

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

We may not receive significant revenue from our current research and development efforts for several years, if at all. Developing EDA products and IP and integrating acquired technology into existing platforms is expensive, and these investments often require substantial time to generate returns. Our strategy involves significant investments in research and development and related product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain and improve our competitive position. However, we cannot ensure that we will receive significant, if any, revenue from these investments. We could suffer serious harm to our business because of the infringement of our intellectual property rights by third parties or because of our infringement of the intellectual property rights of third parties.

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

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

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

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

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

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

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

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

Occasionally, our customers file for bankruptcy or request to modify license terms. If our customers experience adversity in their business, they may delay or default on their payment obligations to us, file for bankruptcy or modify or cancel plans to license our products. For instance, if our customers are not successful in generating sufficient cash or are precluded from securing financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us, although these obligations are generally not cancelable. Our customers' inability to fulfill payment obligations, in turn, may adversely affect our revenue and cash flow. Additionally, our customers have, in the past, sought, and may, in the future, seek, to renegotiate pre-existing contractual commitments. Payment defaults by our customers or significant reductions in existing contractual commitments could have a material adverse effect on our financial condition and operating results. Because of the relatively high levels of volatility that continue to drive significant fluctuations in asset prices, as well as concern regarding high levels of leverage in sovereign and corporate debt, the capital and credit markets are volatile and unpredictable. If we were to seek funding from the capital or credit

markets in response to any material level of customer defaults, we may not be able to secure funding on terms acceptable to us, or at all, which may have a material negative effect on our business.

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

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

The long sales cycle of our products and services may cause our operating results to fluctuate unexpectedly.

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

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

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

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

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

We have significant operations outside the United States. As of June 28, 2014, approximately 84% of our cash, cash equivalents and short-term investments balance was held by subsidiaries outside the United States, with the remainder of the balance held by us or our subsidiaries in the United States. We believe that the combination of our existing United States cash, cash equivalents, future United States operating cash flows and cash available under our revolving credit facility are sufficient to meet our ongoing United States operating expenses and debt repayment obligations. However, if these sources of cash were insufficient to meet our future funding obligations in the United States, we could be required to seek other available funding sources, which could negatively impact our results of operations, financial position and the market price of our common stock.

The investment of our cash, cash equivalents and investments in money market funds and marketable debt securities are subject to risks which may cause losses and affect the liquidity of these investments.

Our investments include various money market funds and marketable debt securities, such as corporate debt securities, US Treasury securities, US government agency securities, bank certificates of deposit and commercial paper.

Weakened financial markets have at times adversely impacted the general credit, liquidity, market prices and interest rates for these and other types of debt securities. Additionally, changes in monetary policy by the Federal Open Market Committee and concerns about the rising US government debt level may cause a decrease in the purchasing



power of the US dollar and adversely affect our investment portfolio. Furthermore, if there is a default or downgrade of US government or agency debt securities, our investment portfolio may be adversely impacted, requiring impairment charges that could adversely affect our liquidity, financial position, results of operations or cash flows. The financial market and monetary risks associated with our investment portfolio may have a material adverse effect on our financial condition, liquidity, results of operations or cash flows.

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

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

- Changes in tax laws or the interpretation of such tax laws in the United States, Ireland, Hungary and other international locations where we have operations;

- Earnings being lower than anticipated in countries where we are taxed at lower rates as compared to the United States federal and state statutory tax rates;

- An increase in expenses not deductible for tax purposes, including certain stock-based compensation and impairment of goodwill;

- Changes in the valuation allowance against our deferred tax assets;

- Changes in judgment from the evaluation of new information that results in a recognition, derecognition or change in measurement of a tax position taken in a prior period;

- Increases to interest or penalty expenses classified in the financial statements as income taxes;

- New accounting standards or interpretations of such standards;

- A change in our decision to indefinitely reinvest foreign earnings outside the United States; or

- Results of tax examinations by the Internal Revenue Service, or IRS, and state and foreign tax authorities.

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

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

Our reported financial results may be adversely affected by changes in United States generally accepted accounting principles, and we may incur significant costs to adjust our accounting systems and processes to comply with significant changes.

United States generally accepted accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. During fiscal 2014, the FASB issued a new accounting standard related to revenue recognition which could change the way we account for certain of our sales transactions. The adoption of this standard and changes in other principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change. In addition, the SEC is considering a multi-year plan that could ultimately lead to the use of International Financial Reporting Standards by United States issuers in their SEC filings. Any such change could have a significant effect on our reported financial results.

In addition, we may need to significantly change our accounting systems and processes if we are required to adopt future or proposed changes in accounting principles noted above. The cost of these changes may negatively impact our results of operations during the periods of transition.

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

The IRS and other tax authorities regularly examine our income tax returns and other non-income tax returns, such as payroll, sales, use, value-added, net worth or franchise, property, goods and services, services, consumption, import, stamp, and excise taxes, in both the United States and foreign jurisdictions. The calculation of our provision for income taxes and our accruals for other taxes requires us to use significant judgment and involves dealing with uncertainties in the application of complex tax laws and regulations. In determining the adequacy of our provision for income taxes, we regularly assess the potential settlement outcomes resulting from income tax examinations. However, the final outcome of tax examinations, including the total amount payable or the timing of any such payments upon resolution of these issues, cannot be estimated with certainty. In addition, we cannot be certain that

such amount will not be materially different from the amount that is reflected in our historical income tax provisions and accruals for other taxes. Should the IRS or other tax authorities assess additional taxes, penalties or interest as a result of a current or a future examination, we may be required to record charges to operations in future periods that could have a material impact on our results of operations, financial position or cash flows in the applicable period or periods.

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

In recent fiscal years, we have initiated restructuring plans in an effort to decrease costs by reducing our workforce and by consolidating facilities. We incur substantial costs to implement restructuring plans, and our restructuring activities may subject us to litigation risks and expenses. In addition, our restructuring plans may have other consequences, such as attrition beyond our planned reduction in workforce, a negative effect on employee morale or our ability to attract highly skilled employees. Our competitors may also use our restructuring plans to seek to gain a competitive advantage over us. The restructuring plans could also cause our remaining employees to leave or result in reduced productivity by our employees, and, in turn, this may affect our revenue and other operating results in the future.

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

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

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

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

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

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

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

Defending ourselves from these claims could also divert the attention of our management away from our operations. Anti-takeover defenses in our certificate of incorporation and bylaws and certain provisions under Delaware law could prevent an acquisition of our company or limit the price that investors might be willing to pay for our common stock.

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

Our certificate of incorporation allows our Board of Directors to issue, at any time and without stockholder approval, preferred stock with such terms as it may determine. No shares of preferred stock are currently outstanding. However, the rights of holders of any of our preferred stock that may be issued in the future may be superior to the rights of holders of our common stock.

Section 203 of the Delaware General Corporation Law generally prohibits a Delaware corporation from engaging in any business combination with a person owning 15% or more of its voting stock, or who is affiliated with the corporation and owned 15% or more of its voting stock at any time within three years prior to the proposed business combination, for a period of three years from the date the person became a 15% owner, unless specified conditions are

met.

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

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Conflict minerals regulations may cause us to continue to incur additional expenses and may adversely impact our ability to conduct our business.

In August 2012, the SEC adopted new rules establishing disclosure and reporting requirements regarding the use of certain minerals referred to as “conflict minerals” in products. These rules require us to determine, disclose and report whether or not such minerals in our products originate from the Democratic Republic of the Congo or adjoining countries. We have incurred, and expect to continue to incur, costs to comply with these rules, including costs associated with conducting due diligence on our supply chain and fulfilling our reporting requirements, and we may incur costs related to changes to our products, processes or sources of supply. In addition, these rules could affect the availability of certain minerals used in the manufacture of our emulation hardware products and the boards on which we deliver IP to customers, or the Covered Products, and thus impact our ability to source, at competitive prices, certain materials containing conflict minerals that are used in the Covered Products. Finally, our customers may prefer to purchase products that contain conflict-free minerals, and our revenues may be harmed or we may face reputational challenges if we are unable to assure them that all of the minerals in our products are conflict-free.

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

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

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

#### Risks Related to Our Securities and Indebtedness

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

We have a substantial level of debt, and, as of June 28, 2014, we had the ability to borrow an additional \$150.0 million under a revolving credit facility. As of June 28, 2014, we had total outstanding indebtedness with a principal balance of \$450.0 million as follows:

\$350.0 million related to our 2.625% cash convertible senior notes due 2015, or the 2015 Notes; and

\$100.0 million related to our five-year senior secured revolving credit facility.

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

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

Any outstanding loans drawn under our \$250.0 million five-year senior secured revolving credit facility are payable on or before December 12, 2017. We have the option to increase the maximum borrowings on our credit facility up to an additional \$150.0 million if our lenders approve our request. The credit facility contains customary negative covenants that, among other things, restrict our ability to incur additional indebtedness, grant liens, make certain investments (including acquisitions), dispose of certain assets and make certain payments, including share repurchases and dividends. In addition, the credit facility contains certain financial covenants that require us to maintain a leverage ratio of not greater than 3 to 1, subject to certain exceptions, and requires that we maintain an interest coverage ratio of at least 3 to 1. These financial covenants could limit our flexibility in conducting our business, and any borrowings outstanding under the credit facility could be accelerated if we fail to comply with these covenants.



If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we fail to comply with the various requirements of our indebtedness, we would be in default, which would permit the holders of our indebtedness to accelerate the maturity of the indebtedness and could cause defaults under any other indebtedness as well. Additionally, in the event of a default, certain assets that secure the borrowings could be seized by our lenders, which could adversely impact our ability to operate.

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

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

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

In order for the 2015 Notes to be convertible into cash in a particular fiscal quarter, a conversion condition must be met during the preceding fiscal quarter. During the three months ended June 28, 2014, our closing stock price exceeded \$9.81 for at least 20 of the last 30 trading days prior to June 28, 2014. As a result, the 2015 Notes are convertible into cash from June 29, 2014 through September 27, 2014.

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

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

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

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

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

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

If any of the participants in the hedge transactions is unwilling or unable to perform its obligations for any reason, we would not be able to receive the benefit of such transaction. We cannot provide any assurances as to the financial stability or viability of any of the participants in the hedge transactions. Our 2015 Notes were convertible as of June 28, 2014. The convertible note hedge transactions in connection with the 2015 Notes, or the 2015 Notes Hedges, are intended to reduce our exposure above the \$350.0 million principal balance in the event of a cash conversion of



the 2015 Notes. If the hedge participants fail to meet their obligations for any reason, it could have a material adverse effect on our liquidity and financial condition.

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

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

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In February 2008, our Board of Directors authorized a program to repurchase shares of our common stock in the open market with a value of up to \$500 million in the aggregate. In August 2008, our Board of Directors authorized another program to repurchase shares of our common stock in the open market with a value of up to an additional \$500 million in the aggregate. As described in Note 2 in the notes to condensed consolidated financial statements, our revolving credit facility limits share repurchases. We repurchased 768,083 shares under these repurchase programs during the three months ended June 28, 2014, and \$789.4 million remains under our repurchase authorization as of June 28, 2014.

The following table presents repurchases made under our repurchase programs and shares surrendered by employees to satisfy income tax withholding obligations during the three months ended June 28, 2014:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plan or Program <sup>(1)</sup> (In millions)
March 30, 2014 – May 3, 2014	80,886	\$ 14.94	59,200	\$ 801.0
May 4, 2014 – May 31, 2014	357,904	\$ 15.84	337,550	\$ 795.6
June 1, 2014 – June 28, 2014	397,476	\$ 16.90	371,333	\$ 789.4
Total	836,266	\$ 16.26	768,083	

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

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits

(a) The following exhibits are filed herewith:

Exhibit Number	Exhibit Title	Incorporated by Reference		Exhibit No.	Filing Date	Provided Herewith
		Form	File No.			
3.01	Cadence Design Systems, Inc. Amended and Restated Bylaws, effective as of May 5, 2014.	8-K	000-15867	3.01	5/7/2014	
10.01	Cadence Design Systems, Inc. Omnibus Equity Incentive Plan.	S-8	333-195771	99.01	5/7/2014	
10.02	Form of Incentive Stock Award Agreement for Non-Executive Employees and Consultants, as currently in effect under the Registrant's Omnibus Equity Incentive Plan.	S-8	333-195771	99.02	5/7/2014	
10.03	Form of Restricted Stock Unit Agreement for Non-Executive Employees and Consultants, as currently in effect under the Registrant's Omnibus Equity Incentive Plan.	S-8	333-195771	99.03	5/7/2014	
10.04	Form of Stock Option Agreement for Non-Executive Employees and Consultants, as currently in effect under the Registrant's Omnibus Equity Incentive Plan.	S-8	333-195771	99.04	5/7/2014	
10.05	Form of Incentive Stock Award Agreement for Executives, as currently in effect under the Registrant's Omnibus Equity Incentive Plan.	S-8	333-195771	99.05	5/7/2014	
10.06	Form of Restricted Stock Unit Agreement for Executives, as currently in effect under the Registrant's Omnibus Equity Incentive Plan.	S-8	333-195771	99.06	5/7/2014	
10.07	Form of Stock Option Agreement for Executives, as currently in effect under the Registrant's Omnibus Equity Incentive Plan.	S-8	333-195771	99.07	5/7/2014	
31.01	Certification of the Registrant's Chief Executive Officer, Lip-Bu Tan, pursuant					X

to Rule 13a-14 of the Securities  
Exchange Act of 1934.

31.02	Certification of the Registrant's Chief Financial Officer, Geoffrey G. Ribar, pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.	X
32.01	Certification of the Registrant's Chief Executive Officer, Lip-Bu Tan, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
32.02	Certification of the Registrant's Chief Financial Officer, Geoffrey G. Ribar, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	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 Definition Linkbase Document.	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	X

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SIGNATURES

Pursuant to the requirements 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.

CADENCE DESIGN SYSTEMS, INC.  
(Registrant)

DATE: July 21, 2014

By: /s/ Lip-Bu Tan  
Lip-Bu Tan  
President, Chief Executive Officer and Director

DATE: July 21, 2014

By: /s/ Geoffrey G. Ribar  
Geoffrey G. Ribar  
Senior Vice President and Chief Financial Officer

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