

CADENCE DESIGN SYSTEMS INC

Form 10-K

February 20, 2015

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 3, 2015

OR

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

For the transition period from _____ to _____.

Commission file number 0-15867

CADENCE DESIGN SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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)

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

Title of Each Class

Common Stock, \$0.01 par value per share

Names of Each Exchange on which Registered
NASDAQ Global Select Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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

Large accelerated filer Accelerated filer

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter ended June 28, 2014 was approximately \$5,029,294,000.

On February 7, 2015, approximately 292,324,000 shares of the Registrant's Common Stock, \$0.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for Cadence Design Systems, Inc.'s 2015 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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PART I.

Item 1. Business

This Annual Report on Form 10-K and the documents incorporated by reference in this Annual Report on Form 10-K contain statements that are not historical in nature, are predictive, or that depend upon or refer to future events or conditions or contain other forward-looking statements. 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 similar import and the negatives thereof, constitute forward-looking statements. These statements are predictions based upon our current expectations about future events. Actual results could vary materially as a result of certain factors, including but not limited to those expressed in these statements. Important risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements include, but are not limited to, those identified in the “Proprietary Technology,” “Competition,” “Risk Factors,” “Critical Accounting Estimates,” “Results of Operations,” “Quantitative and Qualitative Disclosures About Market Risk” and “Liquidity and Capital Resources” sections contained in this Annual Report on Form 10-K and the risks discussed in our other Securities Exchange Commission, or SEC, filings.

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

Overview

We develop system design enablement, or SDE, solutions that our customers use to design whole electronics systems and 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 electronics system, IC or electronic device to market and to reduce their design, development and manufacturing costs. Our SDE product offerings include electronic design automation, or EDA, software, emulation and prototyping 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 electronics systems and semiconductor companies, internet service providers and other technology companies that deliver a wide range of electronics products in a number of market segments, such as mobile and consumer devices, communications, cloud and data center infrastructure, personal computers, automotive systems, medical systems, 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.

Corporate Information

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

The EDA and IP Industries as Drivers for Our Business

Our system design enablement strategy is to deliver the technologies necessary for integrated system and SOC design with an end product in mind. At the heart of this strategy is our growing core EDA business, which is complemented by opportunities to expand our business in IP, system interconnect and analysis, system level design and hardware-software development.

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Our business serves EDA and IP customers, including electronics systems and semiconductor companies, internet service providers and other technology companies, that are driven by end-user demand for electronics systems, ICs and devices that are smaller, use less power and provide more functionality. To meet this demand, our customers design and develop new ICs and electronic devices and systems using our products and services. Accordingly, our business depends on our customers' continued 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. In addition, whole systems must be designed and verified, made up of many component SoCs and software, and must be analyzed for performance in end-user operating scenarios. Significant issues that our customers face in creating their products include designing and verifying whole systems including software, reducing power consumption, manufacturing microscopic circuitry, verifying device functionality and achieving technical performance targets, all while meeting aggressive time-to-market and cost requirements. We 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.

Products and Product Strategy

Our strategy is to provide our customers with the ability to address the broad range of issues that arise in systems, software, interconnect and silicon. Our products are engineered to improve our customers' design productivity and design quality by providing a comprehensive set of SDE solutions, including EDA software, 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 realigned these categories in fiscal 2014 to better reflect our business strategies. 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. 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, printed circuit board, or PCB, IC package and SiP design and analysis.

Functional Verification, including Emulation Hardware

Functional verification products are used by our customers to efficiently and effectively verify that the circuitry they have designed will perform as intended. Verification takes place before implementing or manufacturing the circuitry, significantly reducing the risk of discovering an error in the completed product. Our functional verification offerings are comprised of two major categories: logic verification and system design and verification.

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Our logic verification software offering consists of planning, testbench automation, simulation, formal verification and environment capabilities within the Incisive® functional verification platform. This offering enables our customers to coordinate verification activities across multiple teams and various specialists for rapid verification planning and closure. This category includes the advanced formal verification products acquired in the acquisition of Jasper Design Automation, Inc. during fiscal 2014.

Our system design and verification offerings consist of hardware-assisted verification solutions employing emulation and acceleration, including the Palladium® XP II, Palladium XP and Palladium verification computing platforms, Protium™ rapid prototyping platform, system-level design tools, accelerated VIP, estimation of SoC cost and performance and automation for hardware-software verification. In addition, this offering provides system power exploration, analysis and optimization.

Digital IC Design and Signoff

Digital IC design offerings are used by our customers to create logical representations of a digital circuit or an IC that can be verified for correctness prior to implementation (please refer to the discussion under “Functional Verification, including Emulation Hardware” above). Once the logic is verified, the design representation is implemented, or converted to a format ready for silicon manufacturing, using additional software tools within this category. The manufacturing representation is also analyzed and verified. Our digital IC offerings include three major categories: logic design, physical implementation and signoff.

Our logic design offering is comprised of logic synthesis, test and equivalence checking capabilities within the Encounter® digital IC design platform, and is typically used by customers to create and verify designs in conjunction with our functional verification capabilities. This offering provides chip planning, design, verification and test technologies and services to customers. Logic design capabilities are aggregated into solutions that address our customers’ needs in areas such as low power and mixed signal designs.

Our physical implementation offering is comprised of tools used near the end of the design process, including place and route, signal integrity, optimization and double patterning preparation. This offering enables customers to address the technology challenges of the latest semiconductor advanced process nodes, create a physical representation of logic models and prepare a design for signoff.

Our signoff offering is comprised of tools used to signoff the design as ready for manufacture by a silicon foundry, which provides certification for this step. This offering includes Tempus™ timing analysis, Voltus™ power analysis and Quantus™ QRC extraction solutions, plus solutions for physical verification and design for manufacturing.

Our design for manufacturing, or DFM, offerings are used by customers to address manufacturing and yield issues as early in the product development process as possible. We have enhanced the DFM capabilities of our core Encounter digital IC and Virtuoso® custom IC product offerings and, in addition, we also offer stand-alone DFM products. Our DFM capabilities include electrical and physical lithography checking, chemical-mechanical polishing analysis and optimization, pattern matching, double patterning and optical proximity checking.

Custom IC Design

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

In recent years, we expanded our custom IC design and verification offerings with the addition of new products, including Virtuoso Advanced Node, Virtuoso Electrically Aware Design, or EAD, and the Spectre® XPS FastSPICE Simulator. Virtuoso Advanced Node adds functionality to the base Virtuoso package to enable the use of FinFETs (3D transistors), double patterning and other technologies required for advanced designs. Virtuoso EAD introduces a new time-saving paradigm that shortens the loop between design and verification by verifying designs as they are being created. Finally, Spectre XPS is a new Fast SPICE offering that speeds verification time over previously existing solutions.

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System Interconnect and Analysis

Our System Interconnect and Analysis offerings are used by our customers to develop PCBs and IC packages. The capabilities in the Allegro® system interconnect design platform offerings include PCB authoring and implementation, IC package and SiP signal and power integrity analysis, and PCB library design management and collaboration. Certain offerings also include the simulation capability within the Virtuoso custom design platform. Sigrity™ analysis tools have been integrated with our Allegro platform, enabling a comprehensive front-to-back flow for implementation and full signal and power integrity analysis for designs featuring high speed interface protocols. These offerings enable engineers who are responsible for the capture, layout and analysis of advanced PCB and IC packages to design high-performance electronic products across the domains of IC, IC package and PCB, to increase functional density and to manage design complexity while reducing cost and time-to-market. The need for compact, high performance mobile design with advanced serial interconnect is driving renewed growth and technology evolution for our PCB offering. For the mainstream PCB customers, where individual or small team productivity is a focus, we provide the OrCAD® family of offerings that is primarily marketed worldwide through a network of resellers.

IP

Our design IP offerings consist of pre-verified, customizable functional blocks, which customers integrate into their SoCs to accelerate the development process and to reduce the risk of errors in the design process. We offer many types of design IP, including Tensilica® configurable digital signal processors, or DSPs, vertically targeted subsystems for audio/voice, baseband, and video/imaging applications, controllers and physical interfaces, or PHYs, for standard protocols and analog IP. We significantly expanded our design IP portfolio in recent years through acquisitions and internal development.

We also offer a broad range of VIP and memory models, which model the expected behavior of many industry standard protocols when used with verification solutions and are complementary to our design IP offerings. Our VIP offerings are also used in system-level verification to model correct behavior of full systems interacting with their environments.

Services

We offer a number of fee-based services, including services related to methodology and education and hosted design solutions. These services may be sold separately or sold and performed in conjunction with the license, sale or lease of our products. As necessary, certain of our design services engineers are assigned to internal research and development projects associated with our design IP business.

As part of our services offerings, we design advanced ICs, develop custom IP and address industry design issues that may not be solved adequately by today's EDA technologies. This enables us to target and accelerate the development of new software technology and products to satisfy current and future design requirements.

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

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

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

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

customers' path to productivity in the use of our products.

Technical Support and Maintenance

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

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Third-Party Programs and Initiatives

In addition to our products, many customers use design tools that are provided by other EDA companies, as well as design IP available from multiple suppliers. We support the use of third-party design products and design IP through our Connections[®] program and through our participation in industry groups such as the Silicon Integration Initiative, or Si2, and Accellera System Initiative. We actively contribute to the development and deployment of EDA industry standards.

Product and Maintenance and Services Revenue

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

	2014		2013		2012	
	(In millions, except percentages)					
Product and maintenance	\$1,479.2	94 %	\$1,357.9	93 %	\$1,212.4	91 %
Services	101.8	6 %	102.2	7 %	114.0	9 %
Total revenue	\$1,581.0		\$1,460.1		\$1,326.4	

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

Marketing and Sales

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

Product Arrangements

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

Our emulation hardware products are either sold or leased to our customers.

We generally license our design IP under nonexclusive license agreements that provide usage rights for specific designs. In addition, for certain of our IP license agreements, we collect royalties as our customers ship their product that includes our IP to their customers.

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

Backlog

Our backlog was approximately \$2.1 billion and \$1.9 billion as of January 3, 2015 and December 28, 2013, respectively. Our backlog as of January 3, 2015 consisted of fully executed arrangements with effective dates commencing no later than January 3, 2015 with revenue to be recognized thereafter, and included a variety of types, generally including, but not limited to:

• licenses for software products and IP;

• maintenance on software, hardware and IP products;

• bookings for the sale of emulation hardware products that have expected delivery dates after January 3, 2015 but before April 4, 2015;

• leases of emulation hardware products;

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licenses with payments that are outside our customary terms; and
the undelivered portion of engineering services contracts.

The substantial majority of our backlog consists of customer contracts for which product and maintenance revenue is recognized ratably, or on a recurring basis, over the contract life. Historically, we have not experienced significant cancellations of our contracts with customers. For engineering services contracts in backlog, completion dates are occasionally rescheduled, delaying revenue recognition under those contracts beyond the original anticipated completion date. Changes in customer license types or payment terms also can affect the timing of revenue recognition. During fiscal 2014, approximately 70% of our revenue came from arrangements that were in backlog as of December 28, 2013. We expect approximately \$1.2 billion, or approximately 70% of our fiscal 2015 revenue, to come from arrangements that were in backlog as of January 3, 2015. The actual percentage of revenue coming from backlog during fiscal 2015 may change if our actual business levels in fiscal 2015 are different than our current expectations.

Research and Development

Our research and development expense was \$603.0 million during fiscal 2014, \$534.0 million during fiscal 2013 and \$454.1 million during fiscal 2012.

The primary areas of our research and development include the following:

Functional Verification, including Emulation Hardware;

Digital IC Design and Signoff;

Custom IC Design;

System Interconnect and Analysis; and

IP.

Our future performance depends on our ability to innovate, commercialize newly developed solutions and enhance and maintain our current products. We must keep pace with our customers' technical developments, satisfy industry standards and meet our customers' increasingly demanding performance, productivity, quality and predictability requirements. Therefore, we expect to continue to invest in research and development.

Manufacturing and Software Distribution

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

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

Proprietary Technology

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

Competition

We compete in EDA 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, Inc., CEVA, Inc. and numerous other IP companies.

Certain competitive factors in the engineering services business differ from those of the products businesses. While we compete with other EDA companies in the engineering services business, our principal competitors include independent engineering service businesses. Many of these companies are also customers, and therefore use our product offerings in the delivery of their services or products.

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International Operations

We have 56 sales offices, design centers and research and development facilities, approximately 66% of which are located outside of the United States. We primarily consider customer sales and support requirements, the availability of a skilled workforce, and costs and efficiencies, among other relative benefits, when determining what operations to locate internationally. For additional information relating to our international operations, including revenue and long-lived assets by geographic area, see Note 19 in the notes to consolidated financial statements. For risks related to our international operations, see the discussion under “The effect of foreign exchange rate fluctuations may adversely impact our financial condition” and “Risks associated with our international operations could seriously harm our financial condition” under Item 1A, “Risk Factors.”

Employees

As of January 3, 2015, we employed approximately 6,100 people.

Executive Officers of the Registrant

The following table provides information regarding our executive officers as of February 19, 2015:

Name	Age	Positions and Offices
Lip-Bu Tan	55	President, Chief Executive Officer and Director
Geoffrey G. Ribar	56	Senior Vice President and Chief Financial Officer
Thomas P. Beckley	57	Senior Vice President, Research and Development
James J. Cowie	50	Senior Vice President, General Counsel and Secretary
Anirudh Devgan	45	Senior Vice President, Research and Development
Chi-Ping Hsu	59	Senior Vice President, Chief Strategy Officer, EDA and Chief of Staff to the CEO
Charlie Huang	50	Executive Vice President, Worldwide Field Operations and Research and Development
Martin N. Lund	46	Senior Vice President, Research and Development

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

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

GEOFFREY G. RIBAR has served as Senior Vice President and Chief Financial Officer of Cadence since November 2010. Prior to joining Cadence, from May 2008 to October 2010, Mr. Ribar served as Chief Financial Officer of Telegent Systems, Inc., a semiconductor company. Mr. Ribar has served as Chief Financial Officer at other semiconductor companies, including SiRF Technology, Inc., Asyst Technology, Inc., Matrix Semiconductor, Inc. and nVidia Corporation. Mr. Ribar also held various positions, including Corporate Controller, at Advanced Micro Devices, Inc. Mr. Ribar has a B.S. in chemistry and an M.B.A. from the University of Michigan.

THOMAS P. BECKLEY has served as Senior Vice President, Research and Development of Cadence since September 2012. From April 2004 to September 2012, Mr. Beckley served as Corporate Vice President, Research and Development of Cadence. Prior to joining Cadence, Mr. Beckley served as President and Chief Executive Officer of Neoliner, Inc., a developer of auto-interactive and automated analog/RF tools and solutions for mixed-signal design that was acquired by Cadence in April 2004. Mr. Beckley has a B.S. in mathematics and physics from Kalamazoo College and an M.B.A. from Vanderbilt University.

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

ANIRUDH DEVGAN has served as Senior Vice President, Research and Development of Cadence since November 2013. From May 2012 to November 2013, Dr. Devgan served as Corporate Vice President, Research and Development of Cadence. Prior to joining Cadence, from May 2005 to March 2012, Dr. Devgan served as Corporate Vice President and General Manager of the Custom Design Business Unit at Magma Design Automation Inc. Dr. Devgan has a B.Tech. in electrical engineering from the Indian Institute of Technology, Delhi, and an M.S. and Ph.D. in electrical and computer engineering from Carnegie Mellon University.

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CHI-PING HSU has served as Senior Vice President and Chief Strategy Officer, EDA since November 2013. From November 2013 to December 2014, Dr. Hsu also served as Chief of Staff to the CEO of Cadence. From November 2008 to November 2013, Dr. Hsu served as Senior Vice President, Research and Development. From April 2003 to November 2008, Dr. Hsu held several positions at Cadence, including Corporate Vice President, IC Digital and Power Forward. Prior to joining Cadence, Dr. Hsu served as President and Chief Operating Officer of Get2Chip Inc., a supplier of high-performance system-on-chip synthesis that was acquired by Cadence in April 2003. Dr. Hsu also serves as a director of MoSys, Inc. Dr. Hsu has a B.S. in electrical engineering from National Taiwan University and a Ph.D. in electrical engineering and computer sciences from the University of California, Berkeley.

CHARLIE HUANG has served as Executive Vice President, Worldwide Field Operations and Research and Development of Cadence since July 2014. Prior to his current role, Dr. Huang served as Senior Vice President, Worldwide Field Operations of Cadence since April 2011 and as Senior Vice President, Research and Development since July 2013. From January 2009 to April 2011, Dr. Huang served as Senior Vice President and Chief Strategy Officer of Cadence. From April 2010 to April 2011, Dr. Huang also served as Chief of Staff to the CEO of Cadence. From April 2007 to January 2009, Dr. Huang served as Senior Vice President - Business Development of Cadence. Dr. Huang was General Partner at Telos Venture Partners, a Cadence-affiliated venture capital firm, from 2004 to 2005. From 2001 to March 2007, Dr. Huang held several positions at Cadence in engineering management and business development. Prior to joining Cadence, Dr. Huang co-founded and was Chief Executive Officer of CadMOS Design Technology, Inc., an EDA company that was acquired by Cadence in 2001. Dr. Huang has a B.S. in electrical engineering and computer sciences from Shanghai Jiao Tong University and a Ph.D. in electrical engineering from Carnegie Mellon University.

MARTIN N. LUND has served as Senior Vice President, Research and Development of Cadence since March 2012. Prior to joining Cadence, from March 2000 to March 2012, Mr. Lund held several positions at Broadcom Corporation, a provider of semiconductor solutions, most recently as Senior Vice President and General Manager of Broadcom's Network Switching Business. Mr. Lund has a technical degree from Frederiksberg Technical College and Risø National Laboratory at the Technical University of Denmark.

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Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described in the sections 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. 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 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 fin-based, multigate transistors, or 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;
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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;

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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 also 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.

In recent years, 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 II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that may lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

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.

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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 2014 and fiscal 2013, we acquired multiple businesses in order to expand our IP business and other product offerings. 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 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;
- overlapping customers and product sets that impact our ability to maintain revenue at historical rates;
- 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, compete and operate 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.

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We have invested and expect to continue to invest in research and development efforts for new and existing products and technologies and technical sales support. Such investments may affect our operating results, and, if the return on these investments is lower or develops more slowly than we expect, our revenue and operating results may suffer. We have invested and expect to continue to invest in research and development for new and existing products, technologies and services in response to our customers' increasing technological requirements, such as the migration to advanced process nodes and the introduction of FinFETs. Such investments may be in related areas, such as technical sales support. These investments may involve significant time, risks and uncertainties, including the risk that the expenses associated with these investments may affect our margins and operating results and that such investments may not generate sufficient revenues to offset liabilities assumed and expenses associated with these new investments. We believe that we must continue to invest a significant amount of time and resources in our research and development efforts and technical sales support to maintain and improve our competitive position. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our revenue and operating results may be adversely affected.

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, Inc., CEVA, Inc. and numerous other IP companies.

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 software, emulation hardware and IP. 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.

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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 56% during fiscal 2014, 56% during fiscal 2013 and 57% during fiscal 2012, 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, 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 U.S., 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 U.S. dollar, it takes more of the foreign currency to purchase the same amount of U.S. dollars than before the change. If we price our products and services in the foreign currency, we receive fewer U.S. dollars than we did before the change. If we price our products and services in U.S. 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 U.S. dollar, it takes more U.S. 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. Approximately 30% of our total costs and expenses are transacted in foreign currencies. 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 U.S. 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 3, “Legal Proceedings” and Note 16 in the notes to consolidated financial statements. We cannot provide any assurances that the final outcome of these lawsuits or any other proceedings that may arise in the future will not have a material adverse effect on our business, operating results, financial condition or cash flows. Litigation can be time consuming and expensive and could divert management’s time and attention from our business, which could have a material adverse effect on our revenues and operating results.

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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 U.S. 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.

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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, design IP and Tensilica 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.

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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 January 3, 2015, approximately 45% 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 U.S. cash, cash equivalents, future U.S. operating cash flows and cash available under our revolving credit facility are sufficient to meet our ongoing U.S. 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.

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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, U.S. Treasury securities, U.S. 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 U.S. government debt level may cause a decrease in the purchasing power of the U.S. dollar and adversely affect our investment portfolio. Furthermore, if there is a default or downgrade of U.S. 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, the United Kingdom 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, state, and foreign tax authorities.

Any significant change in our future effective tax rates could adversely impact our results of operations for future periods. Tax laws in the various jurisdictions where we have operations may be subject to significant change in the future based on the current economic and political environment. The United States and many other countries are actively considering fundamental changes to the tax laws applicable to multinational corporations which could impact our future effective tax rates.

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 future 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 U.S. 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 customer contracts, accounting systems and processes if we are required to adopt future or proposed changes in accounting principles noted above. The cost and effect of these changes may negatively impact our results of operations during the periods of transition.

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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, consumption, import, stamp, and excise taxes, in both the United States and foreign jurisdictions. Governments are increasingly focused on ways to increase tax revenues, particularly from multinational corporations, which may lead to an increase in audit activity and harsher stances taken by tax authorities. 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 reallocate or 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 with these regulations 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.

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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.

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 IP boards, or the Covered Products, and thus impact our ability to source, at competitive prices, certain materials that are used in the Covered Products. Finally, our customers may prefer to purchase products from vendors who claim that all minerals in their products are conflict-free, and our revenues may be harmed or we may face reputational challenges if we are unable to verify that our Covered 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

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, or the 2015 Warrants, 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.

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

We have a substantial level of debt. As of January 3, 2015, we had total outstanding indebtedness with a principal balance of approximately \$700.0 million. We also had the ability to borrow \$250.0 million under our revolving credit facility, 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 available under our revolving credit facility. Subject to the limits contained in the credit agreement governing our revolving credit facility, the indentures that govern the 4.375% Senior Notes due 2024, or the 2024 Notes, and the 2.625% Cash Convertible Senior Notes Due 2015, or the 2015 Notes, and our other debt instruments, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify. Specifically, our high level of debt could have important consequences, including the following:

- making it more difficult for us to satisfy our obligations to service our debt as described above;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- utilizing large portions of our U.S. cash to service our debt obligations because those payments are made in the United States, which may require us to repatriate cash from outside the United States and incur unanticipated or unfavorable tax expenses;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates as certain of our borrowings, including borrowings under our revolving credit facility, are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors and competitors that have greater access to capital resources; and
- increasing our cost of borrowing.

At the option of the holders of our outstanding notes, we may, under certain circumstances, be required to repurchase such notes.

Under the terms of our 2015 Notes and 2024 Notes, we may be required to repurchase for cash such notes prior to their maturity in connection with the occurrence of certain significant corporate events. In the case of the 2015 Notes, we are required to offer to repurchase such notes upon a “fundamental change” (as defined in the indenture related to such notes), such as a change of control in which substantially all of the consideration does not consist of publicly traded securities. In the case of the 2024 Notes, we are required to offer to repurchase such notes upon a “change of control triggering event” (as defined in the indenture related to such notes), such as a change of control accompanied by certain downgrades in the credit ratings of such notes. The repayment obligations under such notes may have the effect of discouraging, delaying or preventing a takeover of our company. If we were required to pay the 2024 Notes prior to their scheduled maturity, it could have a significant negative impact on our cash and liquidity and could impact our ability to invest financial resources in other strategic initiatives.

The terms of the credit agreement governing our revolving credit facility and the indentures governing our 2024 Notes restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

The credit agreement governing our revolving credit facility contains a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to:

- incur additional indebtedness and guarantee indebtedness;
- pay dividends or make other distributions or repurchase or redeem capital stock;
- prepay, redeem or repurchase certain debt;
- issue certain preferred stock or similar equity securities;

- make certain investments;
- sell assets;
- incur liens;
- enter into sale and leaseback transactions;
- enter into transactions with affiliates;
- alter the businesses we conduct;
 - enter into agreements restricting our subsidiaries' ability to pay dividends;
 - and
- consolidate, merge or sell all or substantially all of our assets.

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In addition, the restrictive covenants in the credit agreement governing our revolving credit facility require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we may be unable to meet them.

A breach of the covenants or restrictions under the credit agreement governing our revolving credit facility could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the credit agreement governing our revolving credit facility would permit the lenders under our revolving credit facility to terminate all commitments to extend further credit under that facility. In the event our lenders or note holders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness. As a result of these restrictions, we may be:

• limited in how we conduct our business;

• unable to raise additional debt or equity financing to operate during general economic or business downturns; or

• unable to compete effectively or to take advantage of new business opportunities.

The indentures governing our 2024 Notes also contain certain restrictive covenants that impose operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to incur liens and to enter into sale and leaseback transactions.

These restrictions may affect our ability to grow in accordance with our strategy. In addition, our financial results, our substantial indebtedness and our credit ratings could adversely affect the availability and terms of our financing.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations. The credit agreement governing our revolving credit facility restricts our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

In addition, we conduct a substantial portion of our operations through our subsidiaries, none of which are currently guarantors of our indebtedness. Accordingly, repayment of our indebtedness is dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Unless they become guarantors of our indebtedness, our subsidiaries do not have any obligation to pay amounts due on our indebtedness or to make funds available for that purpose. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness. Each subsidiary is a distinct legal entity, and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While the credit agreement governing our revolving credit facility limits the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to qualifications and exceptions. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our debt obligations.

If we cannot make scheduled payments on our debt, we will be in default and holders of our debt could declare all outstanding principal and interest to be due and payable, the lenders under our revolving credit facility could terminate their commitments to loan money and we could be forced into bankruptcy or liquidation. 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.

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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 the issuance of the 2015 Notes, or the 2015 Notes Hedges, with the objective of limiting our exposure to the additional cash payments above the principal amount we may be required to pay upon conversion of the 2015 Notes. We also entered into separate warrant transactions with the same financial institutions. In connection with these hedge and warrant transactions, 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 unwind or modify their hedge positions prior to conversion or maturity of the 2015 Notes. In connection with the unwinding or modification of these hedge positions, these entities or their affiliates may purchase or sell shares of our common stock, other securities of ours or other financial instruments relating to such hedge positions. Any of these transactions and activities could adversely affect the value of our common stock and the amount of cash that the 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.

The 2015 Notes Hedges are intended to reduce our exposure to cash payments above the principal balance of the 2015 Notes in the event of cash conversions. If the participants in the hedge transactions are unwilling or unable to perform their obligations under those transactions for any reason, we would not be able to receive the benefits of such transactions. 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 January 3, 2015 and mature in June 2015. 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.

Despite our current level of indebtedness, we and our subsidiaries may still be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.

We and our subsidiaries may be able to incur significant additional indebtedness in the future. Although the credit agreement governing our revolving credit facility contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. If we incur any additional indebtedness that ranks equally with the 2024 Notes and the 2015 Notes, then subject to any collateral arrangements we may enter into, the holders of that debt will be entitled to share ratably in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding up of our company.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our revolving credit facility are at variable rates of interest and expose us to interest rate risk. If we were to borrow under our revolving credit facility and if interest rates were to increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease.

Assuming all loans were fully drawn and that we were to fully exercise our right to increase borrowing capacity under our revolving credit facility, each quarter point change in interest rates would result in an approximately \$1.0 million change in annual interest expense on our indebtedness under our revolving credit facility. In the future, we may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

Various factors could increase our future borrowing costs or reduce our access to capital, including a lowering or withdrawal of the ratings assigned to our 2024 Notes by rating agencies.

We may in the future seek additional financing for a variety of reasons, and our future borrowing costs and access to capital could be affected by factors including the condition of the debt and equity markets, the condition of the economy generally, prevailing interest rates, our level of indebtedness and our business and financial condition. In addition, the 2024 Notes currently have an investment grade rating, and any rating assigned could be lowered or

withdrawn entirely by a rating agency if, in that rating agency's judgment, future circumstances relating to the basis of the rating, such as adverse changes, so warrant. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the 2024 Notes. Any future lowering of the ratings of the 2024 Notes likely would make it more difficult or more expensive for us to obtain additional debt financing.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own land and buildings at our headquarters located in San Jose, California. We also own buildings in India. As of January 3, 2015, the total square footage of our owned buildings was approximately 965,000.

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

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

Item 3. Legal Proceedings

From time to time, we are involved in various disputes and litigation that arise in the ordinary course of business.

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II.

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

Common Stock Market Price

Our common stock is traded on the NASDAQ Global Select Market under the symbol CDNS. We have not paid any cash dividends on our common stock in the past, and we do not plan to pay cash dividends in the foreseeable future. As described in Note 3 of the notes to consolidated financial statements, our revolving credit facility restricts certain payments, including dividends and share repurchases. As of February 7, 2015, we had 691 registered stockholders and 30,273 beneficial owners of our common stock.

The following table sets forth the high and low sales prices for our common stock for each fiscal quarter in the two-year period ended January 3, 2015:

	High	Low
2014		
Fourth Quarter	\$19.54	\$15.50
Third Quarter	18.25	16.25
Second Quarter	17.55	13.63
First Quarter	16.25	13.59
2013		
Fourth Quarter	\$14.72	\$12.55
Third Quarter	15.96	13.13
Second Quarter	15.32	12.33
First Quarter	14.81	12.57

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Stockholder Return Performance Graph

The following graph compares the cumulative 5-year total stockholder return on our common stock relative to the cumulative total return of the NASDAQ Composite index and the S&P 400 Information Technology index. The graph assumes that the value of the investment in our common stock on January 2, 2010 and in each index on December 31, 2009 (including reinvestment of dividends) was \$100 and tracks it each year thereafter on the last day of Cadence's fiscal year through January 3, 2015 and, for each index, on the last day of the calendar year.

	1/2/2010	1/1/2011	12/31/2011	12/29/2012	12/28/2013	1/3/2015
Cadence Design Systems, Inc.	100.00	137.90	173.62	224.37	232.55	314.36
NASDAQ Composite	100.00	117.61	118.70	139.00	196.83	223.74
S&P 400 Information Technology	100.00	128.72	115.22	135.29	173.25	187.84

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

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Issuer Purchases of Equity Securities

In February 2008, our Board of Directors authorized us to repurchase shares of our common stock in the open market with a value of up to \$500.0 million in the aggregate. In August 2008, our Board of Directors authorized us to repurchase shares of our common stock in the open market with a value of up to an additional \$500.0 million in the aggregate. \$714.3 million remained under these authorizations as of January 3, 2015.

In January 2014, our Board of Directors approved a two-year plan to repurchase shares of our common stock of up to an aggregate of \$100.0 million under the 2008 authorizations. In July 2014, our Board of Directors replaced the aggregate \$100.0 million stock repurchase plan with a new two-year plan to repurchase shares of our common stock of up to an aggregate of \$300.0 million under the 2008 authorizations, beginning with the third quarter of fiscal 2014. The following table presents repurchases made under our 2008 authorizations and shares surrendered by employees to satisfy income tax withholding obligations during the three months ended January 3, 2015:

Period	Total Number of Shares Purchased ⁽¹⁾	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 ⁽¹⁾ (In millions)
September 28, 2014 – November 1, 2014	814,658	\$ 16.89	801,398	\$738.3
November 2, 2014 – November 29, 2014	660,401	\$ 18.24	641,035	\$726.6
November 30, 2014 – January 3, 2015	686,454	\$ 18.51	664,667	\$714.3
Total	2,161,513	\$ 17.82	2,107,100	

⁽¹⁾ Shares purchased that were not part of our publicly announced repurchase programs represent employee surrender 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.

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Item 6. Selected Financial Data-Unaudited

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

	Five fiscal years ended January 3, 2015				
	2014	2013	2012	2011	2010
	(In millions, except per share amounts)				
Revenue ⁽¹⁾	\$1,580.9	\$1,460.1	\$1,326.4	\$1,149.8	\$936.0
Income (loss) from operations ⁽¹⁾	206.6	189.0	211.7	120.4	(29.0)
Net income ^{(1) (2) (3) (4)}	158.9	164.2	439.9	72.2	126.5
Net income per share-diluted ^{(1) (2) (3) (4)}	0.52	0.56	1.57	0.27	0.48
Total assets	3,209.6	2,428.6	2,287.0	1,761.3	1,732.1
Debt	691.2	324.8	447.0	426.0	549.7
Stockholders' equity ⁽⁵⁾	1,333.6	1,156.1	915.2	411.1	276.7

⁽¹⁾ We adopted new revenue recognition accounting standards on January 2, 2011 for revenue arrangements that include both hardware and software elements. For an additional description of our revenue recognition policy, see Note 2 in the notes to consolidated financial statements.

⁽²⁾ During fiscal 2010, we recorded a \$147.9 million benefit for income taxes due to the effective settlement of the IRS examination of our federal income tax returns for the tax years 2000 through 2002. During fiscal 2010, we also recognized a \$66.7 million benefit for income taxes due to the release of the deferred tax asset valuation allowance primarily resulting from the increase in deferred tax liabilities from the intangible assets acquired with our acquisition of Denali Software, Inc.

⁽³⁾ During fiscal 2012, we recorded a \$219.6 million benefit for income taxes due to the release of a substantial portion of the United States deferred tax asset valuation allowance and a \$36.7 million benefit for income taxes due to the effective settlement of the State of California Franchise Tax Board, or FTB, examination of our California income tax returns for the tax years 2001 through 2003. For an additional description of, and disclosures regarding, our income tax provision or benefit, see Note 6 in the notes to consolidated financial statements.

⁽⁴⁾ During fiscal 2013, we recorded a \$33.7 million benefit for income taxes 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. For an additional description of, and disclosures regarding, our income tax provision or benefit, see Note 6 in the notes to consolidated financial statements.

⁽⁵⁾ We have never declared or paid any cash dividends on our common stock.

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

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

Business Overview

We continue to focus on executing our system design enablement, or SDE, strategy to deliver the technologies necessary for integrated system and SoC design with an end product in mind. Our growing core EDA business is at the heart of our SDE strategy and is complemented by our business in IP, system interconnect and analysis, system level design and hardware-software development.

Our business serves customers that are driven by end-user demand for electronics systems, ICs and devices that are smaller, use less power and provide more functionality. We offer innovative solutions to help our customers meet these demands.

Our future performance depends on our ability to innovate, commercialize newly developed solutions and enhance and maintain our current products. We must keep pace with our customers' technical developments, satisfy industry standards and meet our customers' increasingly demanding performance, productivity, quality and predictability requirements. We expect to continue to invest in research and development and customer and partner relationships. 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 headings "Results of Operations" and "Liquidity and Capital Resources."

Critical Accounting Estimates

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

Accounting for Income Taxes

We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating and estimating our provision for these taxes. There are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. Our provision for income taxes could be adversely affected by our earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, losses incurred in jurisdictions for which we are not able to realize the related tax benefit, changes in foreign currency exchange rates, entry into new businesses and geographies and changes to our existing businesses, acquisitions (including integrations) and investments, changes in our deferred tax assets and liabilities including changes in our assessment of valuation allowances, changes in the relevant tax laws or interpretations of these tax laws, and developments in current and future tax examinations.

We only recognize the tax benefit of an income tax position if we judge that it is more likely than not that the tax position will be sustained, solely on its technical merits, in a tax audit including resolution of any related appeals or litigation processes. To make this judgment, we must interpret complex and sometimes ambiguous tax laws, regulations and administrative practices. If we judge that an income tax position meets this recognition threshold, then

we must measure the amount of the tax benefit to be recognized by estimating the largest amount of tax benefit that has a greater than 50% cumulative probability of being realized upon effective settlement with a taxing authority that has full knowledge of all of the relevant facts. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible settlement outcomes. We must reevaluate our income tax positions on a quarterly basis to consider factors such as changes in facts or circumstances, changes in tax law, effectively settled issues under audit, the lapse of applicable statute of limitations, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision. For a more detailed description of our unrecognized tax benefits, see Note 6 in the notes to consolidated financial statements.

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Revenue Recognition

We begin to recognize revenue when all of the following criteria are met:

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

Significant judgment is involved in the determination of whether the facts and circumstances of an arrangement support that the fee for the arrangement is considered to be fixed or determinable and that collectibility of the fee is probable, and these judgments can affect the amount of revenue that we recognize in a particular reporting period. For installment contracts that do not include a substantial upfront payment, we consider a fee to be fixed or determinable only if the arrangement has payment periods that are less than or equal to the term of the licenses and the payments are collected in equal or nearly equal installments, when evaluated over the entire term of the arrangement. If we no longer were to have a history of collecting under the original contract without providing concessions on term licenses, revenue from term licenses would be required to be recognized when payments under the installment contract become due and payable. Such a change could have a material adverse effect on our results of operations.

We must also make judgments when assessing whether a contract amendment to a term arrangement (primarily in the context of a license extension or renewal) constitutes a concession. We have established a history of collecting under contracts for which the fee has been assessed as fixed or determinable, without providing concessions on payments, products or services.

Generally, we are able to estimate whether collection is probable, but significant judgment is applied as we assess the creditworthiness of our customers to make this determination. Key external and internal factors are considered in developing our creditworthiness assessment, including public information, historical and current financial statements and past collection history. If our experience were to change, it could have a material adverse effect on our results of operations. If, in our judgment, collection of a fee is not probable, we do not record revenue until the uncertainty is removed, which is generally upon receipt of cash payment.

In general, revenue associated with term and subscription licenses is recognized ratably over the term of the license, commencing upon the later of the effective date of the arrangement or delivery of the first software product. In general, product revenue associated with perpetual licenses where vendor specific objective evidence, or VSOE, exists for the undelivered maintenance is recognized up front, upon the later of the effective date of the arrangement or delivery of the software product, provided all other conditions for revenue recognition have been met, and maintenance revenue is recognized ratably over the maintenance term. A relatively small percentage of our revenue from software licenses is recognized on an upfront basis.

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

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

If a group of contracts is so closely related that they are, in effect, part of a single arrangement, such arrangements are deemed to be an MEA. We exercise significant judgment to evaluate the relevant facts and circumstances in determining whether the separate contracts should be accounted for individually as distinct arrangements or whether

the separate contracts are, in substance, an MEA. Our judgments about whether a group of contracts is an MEA can affect the timing of revenue recognition under those contracts, which could have an effect on our results of operations for the periods involved. For example, a perpetual license agreement that would otherwise result in upfront revenue upon delivery may be deemed part of an MEA when it is executed within close proximity, or in contemplation of, other license agreements that require ratable revenue recognition with the same customer, in which event all the revenue is recognized over the longest term of any component of the MEA instead of up front.

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

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

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

Business Combinations

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

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

Fair Value of Financial Instruments

On a quarterly basis, we measure at fair value certain financial assets and liabilities. Inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions.

While we believe the observable and unobservable inputs we use to measure the fair value are reasonable, different inputs or estimates may materially impact the resulting fair value measurements of these instruments and may also impact our results of operations. For an additional description of our fair value measurements, see Note 8 in the notes to consolidated financial statements.

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Results of Operations

Financial results for fiscal 2014, as compared to fiscal 2013 and 2012, reflect the following:

• increased product and maintenance revenue, primarily because of increased business levels, incremental revenue from our acquisitions and an additional week of operations in fiscal 2014;

• increased product and maintenance related costs consisting of costs associated with our emulation hardware, which experienced lower margins due to an increasingly competitive environment, and amortization of technology-related and maintenance-related acquired intangibles;

• increased employee-related costs, primarily consisting of costs related to hiring additional employees, incremental costs related to employees added from our fiscal 2014 and 2013 acquisitions, and an additional week of operations in fiscal 2014;

• increased stock-based compensation;

• increased amortization of acquired intangibles resulting from acquisitions;

• restructuring charges due to restructuring activities during fiscal 2014 and 2013; and

• severance and other termination costs primarily associated with a voluntary early retirement program we offered to certain of our employees during fiscal 2014.

Our fiscal year ends on the Saturday closest to December 31. Fiscal 2014 was a 53-week year compared to fiscal 2013 and 2012, which were 52-week years. As noted above, revenue and expenses included in the results of operations for fiscal 2014 were impacted by the additional week.

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 in a recurring manner 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. Recurring revenue includes revenue from our license arrangements where revenue is recognized over multiple periods, services, royalties from certain IP arrangements, maintenance on perpetual software licenses and emulation hardware, and our operating leases of emulation hardware. Upfront revenue is primarily generated by our sales of emulation hardware and perpetual software licenses. Our ability to achieve this mix in any single fiscal period may be impacted primarily by hardware sales. For an additional description of our current product strategy, see the discussion under the heading “Products and Product Strategy” under Part I, Item 1, “Business.”

Approximately 90% of the aggregate value of our revenue during fiscal 2014, 2013 and 2012 was of a type for which the revenue is recurring in nature.

We believe our reported revenue and the amount of revenue recognized in future periods will depend on, among other things, the:

• competitiveness of our technology; and

• size, duration, timing, terms and type of:

• contract renewals with existing customers;

• additional sales to existing customers; and

• sales to new customers.

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Revenue by Year

The following table shows our revenue for fiscal 2014, 2013 and 2012 and the change in revenue between years:

	2014	2013	2012	Change		2013 vs. 2012		
	(In millions, except percentages)			2014 vs. 2013				
Product and maintenance	\$1,479.2	\$1,357.9	\$1,212.4	\$121.3	9	% \$145.5	12	%
Services	101.8	102.2	114.0	(0.4)	—	% (11.8)	(10))%
Total revenue	\$1,581.0	\$1,460.1	\$1,326.4	\$120.9	8	% \$133.7	10	%

Product and maintenance revenue increased during fiscal 2014, as compared to fiscal 2013, and during fiscal 2013, as compared to fiscal 2012, primarily because of increased business levels, incremental revenue recognized from our acquisitions and an additional week of operations in fiscal 2014. The additional week of operations contributed approximately \$15.0 million of revenue to fiscal 2014.

Services revenue remained relatively constant during fiscal 2014, as compared to fiscal 2013, but decreased during fiscal 2013, as compared to fiscal 2012, primarily because of the redeployment of certain of our design services engineers to internal research and development projects related to our design IP activities. Services revenue may fluctuate from period to period based on demand for, and our resources to fulfill, our services and customized IP offerings.

No one customer accounted for 10% or more of total revenue during fiscal 2014, 2013 or 2012.

Revenue by Product Group

The following table shows the percentage of product and related maintenance revenue contributed by each of our five product groups and services during fiscal 2014, 2013 and 2012:

	2014	2013	2012	
Functional Verification, including Emulation Hardware	22	% 23	% 26	%
Digital IC Design and Signoff	29	% 30	% 32	%
Custom IC Design	27	% 27	% 26	%
System Interconnect and Analysis	11	% 11	% 9	%
IP	11	% 9	% 7	%
Total	100	% 100	% 100	%

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

Revenue by Geography

	2014	2013	2012	Change		2013 vs. 2012		
	(In millions, except percentages)			2014 vs. 2013				
United States	\$696.6	\$648.7	\$567.6	\$47.9	7	% \$81.1	14	%
Other Americas	23.4	22.9	23.0	0.5	2	% (0.1)	—	%
Asia	360.3	289.1	254.7	71.2	25	% 34.4	14	%
Europe, Middle East and Africa	328.7	303.6	262.4	25.1	8	% 41.2	16	%
Japan	172.0	195.8	218.7	(23.8)	(12))% (22.9)	(10))%
Total revenue	\$1,581.0	\$1,460.1	\$1,326.4	\$120.9	8	% \$133.7	10	%

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Most of our revenue is transacted in the United States dollar. However, certain revenue transactions are denominated in foreign currencies, primarily the Japanese yen. 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 consolidated financial statements, see the discussion in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk – Foreign Currency Risk.”

Revenue for Asia increased during fiscal 2014, as compared to fiscal 2013 and fiscal 2012, primarily due to increases in revenue from our software business and emulation hardware installations. For the primary factors contributing to our increase in revenue in other geographies, excluding Japan, see the general description under “Revenue by Year,” above.

Revenue for Japan decreased by approximately \$20 million during fiscal 2014, as compared to fiscal 2013, and during fiscal 2013, as compared to fiscal 2012, primarily due to the continued depreciation of the Japanese yen as well as difficult business conditions facing our Japanese customers.

Revenue by Geography as a Percent of Total Revenue

	2014	2013	2012	
United States	44	% 44	% 43	%
Other Americas	1	% 2	% 2	%
Asia	23	% 20	% 19	%
Europe, Middle East and Africa	21	% 21	% 20	%
Japan	11	% 13	% 16	%
Total	100	% 100	% 100	%

Cost of Revenue

	2014	2013	2012	Change		2013 vs. 2012			
	(In millions, except percentages)			2014 vs. 2013					
Product and maintenance	\$156.3	\$132.2	\$118.5	\$24.1	18	%	\$13.7	12	%
Services	67.4	68.0	72.6	(0.6)	(1)	)%	(4.6)	(6))%
Total cost of revenue	\$223.7	\$200.2	\$191.1	\$23.5	12	%	\$9.1	5	%

The following table shows cost of revenue as a percentage of related revenue for fiscal 2014, 2013 and 2012:

	2014	2013	2012	
Product and maintenance	11	% 10	% 10	%
Services	66	% 67	% 64	%

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, applicable reserves 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.

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A summary of cost of product and maintenance for fiscal 2014, 2013 and 2012 is as follows:

	2014	2013	2012	Change 2014 vs. 2013		2013 vs. 2012		
	(In millions, except percentages)							
Product and maintenance-related costs	\$ 119.4	\$ 108.2	\$ 105.0	\$ 11.2	10	% \$3.2	3	%
Amortization of acquired intangibles	36.9	24.0	13.5	12.9	54	% 10.5	78	%
Total cost of product and maintenance	\$ 156.3	\$ 132.2	\$ 118.5	\$ 24.1	18	% \$13.7	12	%

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 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 also impact cost of product and maintenance.

The changes in product and maintenance-related costs were due to the following:

	Change	
	2014 vs. 2013	2013 vs. 2012
	(In millions)	
Emulation hardware costs	\$10.2	\$7.1
Salary, benefits and other employee-related costs	1.5	(4.5)
Other items	(0.5)	0.6
	\$11.2	\$3.2

Emulation hardware costs increased during fiscal 2014, as compared to fiscal 2013, primarily as a result of incremental reserves on inventory and increased overhead. Emulation hardware costs increased during fiscal 2013, as compared to fiscal 2012, primarily due to a higher volume of emulation hardware products sold. Gross margins on our emulation hardware products may fluctuate based on our pricing strategies, product competition and product life cycle. Gross margins on our emulation hardware products decreased during fiscal 2014, as compared to fiscal 2013, and during fiscal 2013, as compared to fiscal 2012.

Salary, benefits and other employee-related costs increased during fiscal 2014, as compared to fiscal 2013, primarily due to an increase in compensation, including variable compensation, for existing employees. Salary, benefits and other employee-related costs decreased during fiscal 2013, as compared to fiscal 2012, primarily due to redeployment of certain customer support employees to sales support roles.

Amortization of acquired intangibles included in cost of product and maintenance increased during fiscal 2014, as compared to fiscal 2013, and during fiscal 2013, as compared to fiscal 2012, primarily due to the increase in amortization of intangible assets associated with our fiscal 2014 and 2013 acquisitions. We expect amortization of acquired intangibles to increase for fiscal 2015, as compared to fiscal 2014, 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 5 of the notes to 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.

The decrease of \$4.6 million in cost of services during fiscal 2013, as compared to fiscal 2012, was primarily due to an overall decrease in services revenue, lower variable compensation and a decrease in the use of third-party contractors.

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Operating Expenses

Our operating expenses include marketing and sales, research and development and general and administrative expenses. Factors that cause our operating expenses to fluctuate include changes in the number of employees due to hiring and acquisitions, 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 included in marketing and sales and research and development increased during fiscal 2014, as compared to fiscal 2013, and during fiscal 2013, as compared to fiscal 2012, primarily due to our IP-related research and development activities, sales activities and incremental costs related to employees added from our fiscal 2014 and 2013 acquisitions. Our employee salary and other compensation-related costs included in general and administrative decreased during fiscal 2014, as compared to fiscal 2013, primarily due to a decrease in acquisition-related compensation costs. Employee salary and other compensation-related costs included in general and administrative increased during fiscal 2013, as compared to fiscal 2012, primarily due to incremental costs related to employees added from our fiscal 2013 and 2012 acquisitions.

Stock-based compensation included in operating expenses increased \$17.5 million during fiscal 2014, as compared to fiscal 2013, and \$18.7 million during fiscal 2013, as compared to fiscal 2012, primarily because of higher grant-date fair values of stock awards.

During fiscal 2014, we initiated a voluntary early retirement program. The program was offered to certain eligible employees in North America and Japan. We recorded costs associated with this program of approximately \$9.7 million in our operating expenses during fiscal 2014.

We expect our operating expenses to generally increase during fiscal 2015, as compared to fiscal 2014, primarily due to expected hiring of additional employees during fiscal 2015 and because fiscal 2015 will include a full year of operating expenses for additional research and development and sales personnel added during fiscal 2014 through hiring and our fiscal 2014 acquisitions. We also expect stock-based compensation included in operating expenses to increase during fiscal 2015, as compared to fiscal 2014, due to amortization during fiscal 2015 of unrecognized expense related to unvested awards that generally have higher grant-date fair values compared to awards vested in previous years and amortization of new awards granted during fiscal 2015.

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 consolidated financial statements, see the discussion in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk – Foreign Currency Risk."

Our operating expenses for fiscal 2014, 2013 and 2012 were as follows:

	2014	2013	2012	Change		2013 vs. 2012			
	(In millions, except percentages)								
Marketing and sales	\$399.7	\$378.2	\$342.3	\$21.5	6	%	\$35.9	10	%
Research and development	603.0	534.0	454.1	69.0	13	%	79.9	18	%
General and administrative	113.6	121.3	112.1	(7.7)	(6)	)%	9.2	8	%
	\$1,116.3	\$1,033.5	\$908.5	\$82.8	8	%	\$125.0	14	%

Our operating expenses, as a percentage of total revenue, for fiscal 2014, 2013 and 2012 were as follows:

	2014	2013	2012	
Marketing and sales	25	% 26	% 26	%
Research and development	38	% 37	% 34	%
General and administrative	7	% 8	% 8	%
Operating expenses	71	% 71	% 68	%

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Marketing and Sales

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

	Change	
	2014 vs. 2013	2013 vs. 2012
	(In millions)	
Salary, benefits and other employee-related costs	\$19.1	\$26.0
Stock-based compensation	4.9	5.4
Facilities and other infrastructure costs	(1.6	) 1.1
Professional services	(1.8	) 2.9
Other items	0.9	0.5
	\$21.5	\$35.9

Research and Development

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

	Change		
	2014 vs. 2013	2013 vs. 2012	
	(In millions)		
Salary, benefits and other employee-related costs	\$40.1	\$57.7	
Stock-based compensation	10.2	11.5	
Severance and other termination costs, including voluntary early retirement program	5.9	—	
Professional services	4.4	0.2	
Software license and maintenance costs	2.4	0.9	
Depreciation	2.0	(0.4)
Facilities and other infrastructure costs	1.9	8.1	
Other items	2.1	1.9	
	\$69.0	\$79.9	

General and Administrative

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

	Change		
	2014 vs. 2013	2013 vs. 2012	
	(In millions)		
Salary, benefits and other employee-related costs	\$(6.0	) \$3.0
Foreign business tax benefits	(4.0) —	
Change in fair value of contingent consideration	(2.3	) 0.3
Depreciation	(1.6) (0.9)
Professional services	(0.5	) 6.2
Facilities and other infrastructure costs	2.2	(1.0)
Software license and maintenance costs	2.5	0.3	
Other items	2.0	1.3	
	\$(7.7) \$9.2	

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Amortization of Acquired Intangibles

	2014	2013	2012	Change		2013 vs. 2012			
	(In millions, except percentages)			2014 vs. 2013					
Amortization of acquired intangibles	\$24.0	\$19.4	\$15.1	\$4.6	24	%	\$4.3	28	%

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

	Change	
	2014 vs. 2013	2013 vs. 2012
	(In millions)	
Increase due to additions of acquired intangibles	\$7.1	\$7.0
Decrease due to completed amortization of acquired intangibles	(2.5	) (2.7
	\$4.6	\$4.3

Restructuring and Other Charges

We have initiated various restructuring plans to better align our resources with our business strategy, including a restructuring plan we initiated during fiscal 2014, or the 2014 Restructuring Plan, and a restructuring plan we initiated during fiscal 2013, or the 2013 Restructuring Plan. For an additional description of the 2014 Restructuring Plan and 2013 Restructuring Plan, see Note 13 in the notes to consolidated financial statements.

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

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

	Severance and Benefits (In millions)	Excess Facilities	Other	Total
Fiscal 2014	\$8.0	\$(0.9	) \$3.2	\$10.3
Fiscal 2013	\$17.6	\$0.1	\$0.3	\$18.0
Fiscal 2012	—	0.1	—	0.1

Restructuring and other charges recorded during fiscal 2014 consisted primarily of costs for severance and termination benefits and impairment of certain property, plant and equipment related to the 2014 Restructuring Plan. Restructuring and other charges recorded during fiscal 2013 consisted primarily of costs for severance and termination benefits related to the 2013 Restructuring Plan. Restructuring and other charges recorded during fiscal 2012 consisted primarily of adjustments to previous estimates of restructuring liabilities.

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Interest Expense

	2014	2013	2012
	(In millions)		
Contractual cash interest expense:			
2013 Notes	—	2.1	2.1
2015 Notes	9.3	9.2	9.2
2024 Notes	3.6	—	—
Revolving credit facility	0.7	1.1	—
Amortization of debt discount:			
2013 Notes	—	6.4	6.3
2015 Notes	17.7	16.0	14.8
Amortization of deferred financing costs:			
2013 Notes	—	0.4	0.4
2015 Notes	2.4	2.2	1.9
2024 Notes	0.1	—	—
Other	0.3	0.2	—
Total interest expense	\$34.1	\$37.6	\$34.7

We expect interest expense to increase during fiscal 2015, as compared to fiscal 2014, due to interest expense on our 2024 Notes, partially offset by our repayment of the 2015 Notes during fiscal 2015.

Income Taxes

The following table presents the provision (benefit) for income taxes and the effective tax rate for fiscal 2014, 2013 and 2012:

	2014	2013	2012
	(In millions, except percentages)		
Provision (benefit) for income taxes	\$22.1	\$(5.2)	\$(251.7)
Effective tax rate	12.2	% (3.3)	% (133.7)

Our provision for income taxes for the fiscal year ended January 3, 2015 primarily resulted from federal, state and foreign income taxes on our fiscal 2014 income. Our foreign earnings are generally subject to lower statutory tax rates than our United States earnings. Our provision for income taxes included the tax benefit of \$8.1 million resulting from the enactment of the United States research tax credit in December 2014.

Our benefit for income taxes for the fiscal year ended December 28, 2013 primarily consisted of the following: tax benefit of \$33.7 million related to the release of an uncertain tax position from a previous business combination and the release of related interest and penalties; and tax benefit of \$12.8 million for the retroactively enacted fiscal 2012 federal research tax credit and for the fiscal 2013 research tax credit; which were partially offset by: federal, state and foreign tax expense on our fiscal 2013 income, and tax expense related to integrating our fiscal 2013 acquisitions.

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Our benefit for income taxes for fiscal 2012 primarily consisted of the following:

- tax benefit from the release of year-end valuation allowance of \$219.6 million against our United States deferred tax assets;
- tax benefit of \$36.7 million from the effective settlement of the State of California FTB's examination of our tax returns from 2001 through 2003;
- tax benefit from the release of \$14.8 million of valuation allowance against our United States deferred tax assets due to the acquisition of intangible assets held by Sigrity during fiscal 2012; which were partially offset by;
- tax expense related to certain of our foreign subsidiaries; and
- excess tax benefit from employee stock compensation that was allocated to equity.

Our future effective tax rates may be materially impacted by tax amounts associated with our foreign earnings at rates different from the United States 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 if our earnings were to be lower in countries where we have lower statutory tax rates or if we were to repatriate certain foreign earnings on which United States taxes have not been previously accrued.

The law that authorized the United States federal research tax credit expired on December 31, 2014. Unless a new law reinstates the federal research tax credit, we will not include the potential benefit of the federal research tax credit in our tax provision calculations for fiscal 2015. We currently expect that our fiscal 2015 effective tax rate will be higher than our fiscal 2014 effective tax rate.

For further discussion regarding our income taxes, see Note 6 in the notes to consolidated financial statements.

Liquidity and Capital Resources

	As of			Change	
	January 3, 2015 (In millions)	December 28, 2013	December 29, 2012	2014 vs. 2013	2013 vs. 2012
Cash, cash equivalents and short-term investments	\$1,022.6	\$633.0	\$827.1	\$389.6	\$(194.1)
Net working capital	\$458.6	\$72.9	\$174.0	\$385.7	\$(101.1)

Cash, Cash Equivalents and Short-term Investments

As of January 3, 2015, our principal sources of liquidity consisted of \$1,022.6 million of cash, cash equivalents and short-term investments, as compared to \$633.0 million as of December 28, 2013.

Our primary sources of cash, cash equivalents and short-term investments during fiscal 2014 were customer payments for our products and services, proceeds from the issuance of our 4.375% Senior Notes due October 15, 2024, or the 2024 Notes, borrowings under our revolving credit facility and proceeds from the exercise of stock options and proceeds from stock purchases under our employee stock purchase plan.

Our primary uses of cash, cash equivalents and short-term investments during fiscal 2014 were payments relating to salaries, benefits, other employee-related costs and operating expenses, our fiscal 2014 acquisitions, payments on our revolving credit facility, repurchases of our common stock, purchases of inventory, purchases of property, plant and equipment, tax payments and payments related to our recent restructuring plans and voluntary early retirement program.

Approximately 45% of our cash, cash equivalents and short-term investments were held by our foreign subsidiaries as of January 3, 2015. After the repayment of the 2015 Notes during fiscal 2015, the proportion of our cash and cash equivalents held by our foreign subsidiaries will increase. 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. For further discussion regarding our income taxes see Note 6 in the notes to consolidated financial statements.

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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 January 3, 2015. 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 Part I, Item 1A, "Risk Factors."

We expect that current cash, cash equivalents and short-term investment balances, cash flows that are generated from operations, proceeds from our 2024 Notes 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 servicing the maturity or conversion of our 2015 Notes, acquisitions, if any, and share repurchases for at least the next 12 months.

Net Working Capital

Net working capital is comprised of current assets less current liabilities, as shown on our consolidated balance sheets. The increase in our net working capital as of January 3, 2015, as compared to December 28, 2013, is primarily due to higher cash balances resulting from the issuance of our 2024 notes.

Cash Flows from Operating Activities

Cash flows from operating activities during fiscal 2014, 2013 and 2012 were as follows:

	2014	2013	2012	Change	
	(In millions)			2014 vs. 2013	2013 vs. 2012
Cash provided by operating activities	\$316.7	\$367.6	\$316.0	\$(50.9	) \$51.6

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 during fiscal 2014, as compared to fiscal 2013, was primarily due to the timing of cash receipts from customers, working capital requirements, payments under our recent restructuring plans, payments for our voluntary early retirement program and an increase in cash paid for taxes, net of tax refunds. The increase in cash flows from operating activities during fiscal 2013, as compared to fiscal 2012, was primarily due to the timing of collections from customers and disbursements made to vendors.

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

Cash flows from investing activities during fiscal 2014, 2013 and 2012 were as follows:

	2014	2013	2012	Change	
	(In millions)			2014 vs. 2013	2013 vs. 2012
Cash used for investing activities	\$(198.0) \$(426.9) \$(201.2) \$228.9	\$(225.7

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The decrease in cash flows used for investing activities during fiscal 2014, as compared to fiscal 2013, was primarily due to the decrease in cash paid for business combinations. The increase in cash flows used for investing activities during fiscal 2013, as compared to fiscal 2012, was primarily due to an increase in cash paid for business combinations, offset by an increase in proceeds from the sale and maturity of available-for-sale securities.

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

Cash flows from financing activities during fiscal 2014, 2013 and 2012 were as follows:

	2014	2013	2012	Change	
	(In millions)			2014 vs. 2013	2013 vs. 2012
Cash provided by (used for) financing activities	\$289.0	\$(116.3	) \$15.8	\$405.3	\$(132.1

The increase in cash flows provided by financing activities during fiscal 2014, as compared to fiscal 2013, was primarily due to proceeds from the issuance of our 2024 notes, partially offset by payments made for the repurchase of our common stock. The decrease in cash flows provided by financing activities during fiscal 2013, as compared to fiscal 2012, was primarily due to payments made to retire the remaining principal balance of the 2013 Notes and the 2023 Notes.

We expect to continue to repurchase our common stock during fiscal 2015. For an additional description of our share repurchase programs and repurchase authorizations, see Part II, Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” and Note 12 in the notes to consolidated financial statements.

Other Factors Affecting Liquidity and Capital Resources**2024 Notes**

On October 9, 2014, we issued \$350.0 million aggregate principal amount of 4.375% Senior Notes due October 15, 2024. We received net proceeds of \$342.4 million from issuance of the 2024 Notes, net of a discount of \$1.4 million and issuance costs of \$6.2 million. Interest is payable in cash semi-annually commencing on April 15, 2015. The 2024 Notes are unsecured and rank equal in right of payment to all of our existing and future senior indebtedness. The proceeds from the 2024 Notes are available for general corporate purposes, which may include the retirement of debt, working capital, capital expenditures, acquisitions and strategic transactions.

Revolving Credit Facility

On September 19, 2014, we amended our senior revolving credit facility on terms substantially similar to the prior credit agreement, except that, as amended, our revolving credit facility (i) is unsecured, (ii) expires on September 19, 2019, (iii) has no subsidiary guarantors and (iv) includes certain amendments to the negative and financial covenants, such as modifications to provide additional flexibility, a reduction in Cadence’s basket for secured debt and a decrease in the maximum permitted funded debt to EBIDTA ratio from 3:1 to 2.75:1, subject to certain adjustments. Our revolving 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.

Convertible Notes

As of January 3, 2015, we had convertible notes outstanding with a net liability value of \$342.5 million that mature on June 1, 2015. 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 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 2015 Notes Hedges to the outstanding principal value of the 2015 Notes and accrued interest, we will experience dilution to our stock upon settlement of the 2015 Warrants 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 Warrants are settled.

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Additionally, holders may elect to convert their 2015 Notes into cash at any time through the second trading day immediately preceding the maturity date. If the holders of our 2015 Notes elect to convert their notes into cash prior to maturity, we are required to pay the note holders cash equal to the principal amount of the notes converted plus any additional conversion value associated with the conversion feature. We will receive cash from the counterparties to the 2015 Notes Hedges for the value of the conversion feature upon settlement of the notes tendered. As of January 3, 2015, a total of \$47.9 million of the 2015 Notes had been tendered for early conversion, of which one thousand dollars principal value had been settled. Subsequent to January 3, 2015, we received notifications for early conversion of an additional \$6.0 million principal value of the 2015 Notes, resulting in an aggregate amount of \$53.9 million principal value of the 2015 Notes having been tendered for conversion as of February 19, 2015.

We expect that cash generated from our operating activities, proceeds from our 2024 Notes, and access to our revolving credit facility will be sufficient to service the maturity or conversion of our 2015 Notes. For an additional description of the 2015 Notes, the conversion terms thereof and the hedge and warrants transactions, see Note 3 in the notes to consolidated financial statements.

Contractual Obligations

A summary of our contractual obligations as of January 3, 2015 is as follows:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In millions)				
Operating lease obligations	\$69.0	\$23.9	\$29.8	\$12.8	\$2.5
Purchase obligations ⁽¹⁾	47.2	28.1	12.5	6.2	0.4
2015 Notes ⁽²⁾	350.0	350.0	—	—	—
Long-term debt	350.0	—	—	—	350.0
Contractual interest payments ⁽²⁾	160.4	20.7	31.6	31.5	76.6
Current income tax payable and unrecognized tax benefits	9.1	9.1	—	—	—
Other long-term contractual obligations ⁽³⁾	35.1	—	6.1	20.6	8.4
Total	\$1,020.8	\$431.8	\$80.0	\$71.1	\$437.9

(1) With respect to purchase obligations that are cancelable by us, the table includes the amount that would have been payable if we had canceled the obligation as of January 3, 2015 or the earliest cancellation date.

Holders of the 2015 Notes may elect to convert their 2015 Notes into cash at any time through the second trading day immediately preceding the maturity date. Contractual interest payments associated with the 2015 Notes are presented assuming the outstanding principal balance will be paid in full on the contractual maturity date. In connection with the 2015 Notes, we entered into the 2015 Notes Hedges to limit our exposure to the additional cash payments above the \$350.0 million principal balance in the event of a cash conversion of the 2015 Notes. The 2015 Notes Embedded Conversion Derivative liability, which represents the cash conversion value of the 2015 Notes, has not been included because Cadence will receive cash in an equal amount from the 2015 Notes Hedges to settle the obligation upon conversion.

Included in other long-term contractual obligations are long-term income tax liabilities related to unrecognized tax benefits of \$18.5 million that we estimate will be paid or settled within 3 to 5 years. The remaining portion of other long-term contractual obligations is primarily liabilities associated with defined benefit retirement plans and acquisitions.

In connection with our acquisitions completed before January 3, 2015, we are obligated to pay up to an aggregate of \$10.0 million in cash over the next 15 months if certain defined performance goals are achieved in full.

Off-Balance Sheet Arrangements

As of January 3, 2015, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

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New Accounting Standards

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.

We periodically review new accounting standards. Although some of the accounting standards that have been issued may be applicable to us, we have not identified any other new accounting standards that would have a significant impact on our consolidated financial statements.

Item 7A. 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 costs and 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.

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The following table provides information about our foreign currency forward exchange contracts as of January 3, 2015. 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 February 2015.

	Notional Principal	Weighted Average Contract Rate
	(In millions)	
Forward Contracts:		
European Union euro	\$53.9	0.80
Japanese yen	25.7	119.16
Indian rupee	25.5	62.88
Israeli shekel	20.2	3.93
Chinese renminbi	14.0	6.15
Canadian dollar	10.4	1.14
Taiwan dollar	6.7	31.29
Other	16.1	N/A
Total	\$172.5	
Estimated fair value	\$(3.2)

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 January 3, 2015 include \$88.6 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 January 3, 2015, 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 \$0.7 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 January 3, 2015.

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 January 3, 2015, we had no outstanding balance under our revolving credit facility. For additional description of this revolving credit facility see Note 3 in the notes to consolidated financial statements.

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Equity Price Risk

Convertible Notes

Our 2015 Notes include conversion and settlement provisions that are based on the price of our common stock during a period following conversion 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 at the time converted notes are settled is determined by the price of our common stock. The amount of cash 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, which will occur on various dates from September 2015 through December 2015, 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)
\$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
\$21.00	22.6
\$22.00	23.7

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 3 in the notes to consolidated financial statements and “Liquidity and Capital Resources – Other Factors Affecting Liquidity and Capital Resources,” under Item 7, “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 9 in the notes to consolidated financial statements for an additional description of these investments. Our non-marketable investments had a carrying value of \$6.1 million as of January 3, 2015, and \$6.7 million as of December 28, 2013.

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Item 8. Financial Statements and Supplementary Data

The financial statements required by Item 8 are submitted as a separate section of this Annual Report on Form 10-K. See Part IV, Item 15, "Exhibits and Financial Statement Schedules."

Summary Quarterly Data-Unaudited

	2014				2013			
	4 th	3 rd	2 nd	1 st	4 th	3 rd	2 nd	1 st
	(In thousands, except per share amounts)							
Revenue ⁽¹⁾	\$423,098	\$400,496	\$378,788	\$378,550	\$376,722	\$366,647	\$362,481	\$354,266
Cost of revenue	58,115	54,079	54,413	57,099	59,031	49,736	43,243	48,191
Net income ^{(1) (2) (3)}	65,030	37,535	23,263	33,070	37,705	38,500	9,429	78,609
Net income per share - basic ^{(1) (2) (3)}	0.23	0.13	0.08	0.12	0.13	0.14	0.03	0.29
Net income per share - diluted ^{(1) (2) (3)}	0.21	0.12	0.08	0.11	0.13	0.13	0.03	0.27

⁽¹⁾ Our fiscal year ends on the Saturday closest to December 31. Fiscal 2014, which ended January 3, 2015, included 53 weeks, with the 53rd week falling in the fourth fiscal quarter. Fiscal 2013, which ended December 28, 2013, included 52 weeks. For certain of our sales arrangements, where revenue is recognized over time, the 53rd week in fiscal 2014 resulted in incremental fourth quarter revenue of approximately \$15 million, which is net of certain other immaterial adjustments to fourth quarter revenue.

During the first quarter of fiscal 2013, we recorded a \$33.7 million benefit for income taxes from the release of an uncertain tax position, including related interest and penalties, and a 5.9 million tax benefit from the retroactive ⁽²⁾ enactment of the fiscal 2012 United States federal research tax credit. For an additional description of, and disclosures regarding, our income tax provision or benefit, see Note 6 in the notes to consolidated financial statements.

⁽³⁾ During the quarter ended January 3, 2015, we recorded a benefit for income taxes of \$8.1 million resulting from the enactment of the United States federal research tax credit in December 2014.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure
None.

Item 9A. 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 January 3, 2015.

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 Annual Report on Form 10-K. 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.

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Based on their evaluation as of January 3, 2015, 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 January 3, 2015 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.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management assessed the effectiveness of our internal control over financial reporting as of January 3, 2015. In making this assessment, our management used the criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Our management has concluded that, as of January 3, 2015, our internal control over financial reporting is effective based on these criteria. Our independent registered public accounting firm, KPMG LLP, has issued an attestation report on our internal control over financial reporting, which is included in Part IV, Item 15, "Exhibits and Financial Statement Schedules." In May 2013, COSO issued its Internal Control - Integrated Framework (2013) (2013 COSO Framework), and we have initiated the process to transition to the 2013 COSO Framework for fiscal 2015.

Item 9B. Other Information

None.

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PART III.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 as to directors is incorporated herein by reference from the sections entitled “Proposal 1 - Election of Directors” and “Other Matters - Section 16(a) Beneficial Ownership Reporting Compliance” in Cadence’s definitive proxy statement for its 2015 Annual Meeting of Stockholders. The executive officers of Cadence are listed at the end of Item 1 of Part I of this Annual Report on Form 10-K.

The information required by Item 10 as to Cadence’s code of ethics is incorporated herein by reference from the section entitled “Corporate Governance - Code of Business Conduct” in Cadence’s definitive proxy statement for its 2015 Annual Meeting of Stockholders.

The information required by Item 10 as to the director nomination process and Cadence’s Audit Committee is incorporated by reference from the section entitled “Cadence’s Board of Directors - Committees of the Board of Directors” in Cadence’s definitive proxy statement for its 2015 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference from the sections entitled “Cadence’s Board of Directors - Compensation of Directors,” “Compensation Committee Report,” “Compensation Committee Interlocks and Insider Participation,” “Compensation of Executive Officers” and “Potential Payments Upon Termination or Change-in-Control and Employment Contracts” in Cadence’s definitive proxy statement for its 2015 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is incorporated herein by reference from the sections entitled “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in Cadence’s definitive proxy statement for its 2015 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by Item 13 is incorporated herein by reference from the sections entitled “Certain Transactions” and “Cadence’s Board of Directors - Director Independence” in Cadence’s definitive proxy statement for its 2015 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is incorporated herein by reference from the section entitled “Fees Billed to Cadence by KPMG LLP During Fiscal 2014 and 2013” in Cadence’s definitive proxy statement for its 2015 Annual Meeting of Stockholders.

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PART IV.

Item 15. Exhibits and Financial Statement Schedules

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<u>Consolidated Statements of Stockholders' Equity for the three fiscal years ended January, 3 2015</u>	<u>54</u>
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(a) 2. Financial Statement Schedules	
All financial statement schedules are omitted because they are not applicable, not required or the required information is shown in the consolidated financial statements or notes thereto.	
(a) 3. Exhibits	<u>94</u>

The exhibits listed in the accompanying Exhibit Index (following the Signatures section of this Annual Report on Form 10-K) are filed or incorporated by reference as part of this Annual Report on Form 10-K.

The exhibits filed or incorporated by reference as part of this Annual Report on Form 10-K contain agreements to which Cadence is a party. These agreements are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about Cadence or the other parties to the agreements. Certain of the agreements contain representations and warranties by each of the parties to the applicable agreement, and any such representations and warranties have been made solely for the benefit of the other parties to the applicable agreement as of specified dates, may apply materiality standards that are different than those applied by investors, and may be subject to important qualifications and limitations that are not necessarily reflected in the agreement. Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time, and should not be relied upon as statements of factual information.

Cadence, the Cadence logo, Allegro, Connections, Encounter, Incisive, OrCAD, Palladium, Sigrity, Spectre, Tempus, Tensilica, Virtuoso and Voltus are trademarks or registered trademarks of Cadence Design Systems, Inc. Other service marks, trademarks and tradenames referred to in this Annual Report on Form 10-K are the property of their respective owners.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Cadence Design Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Cadence Design Systems, Inc. and subsidiaries (the Company) as of January 3, 2015 and December 28, 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended January 3, 2015. We have also audited the Cadence Design Systems, Inc.'s internal control over financial reporting as of January 3, 2015, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Cadence Design Systems, Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cadence Design Systems, Inc. and subsidiaries as of January 3, 2015 and December 28, 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended January 3, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Cadence Design Systems, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 3, 2015, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP
Santa Clara, California
February 19, 2015

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CADENCE DESIGN SYSTEMS, INC.
 CONSOLIDATED BALANCE SHEETS
 January 3, 2015 and December 28, 2013
 (In thousands, except par value)

	As of January 3, 2015	December 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$932,161	\$536,260
Short-term investments	90,445	96,788
Receivables, net	122,492	107,624
Inventories	56,394	50,220