Sports Properties Acquisition Corp.
Form 10-Q
May 15, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended March 31, 2009

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 001-33918

SPORTS PROPERTIES ACQUISITION CORP.

(Exact name of registrant as specified in its charter)

DELAWARE	**74-3223265**
(State of Incorporation)	**(IRS Employer Identification No.)**

437 MADISON AVENUE, NEW YORK, NEW YORK 10022

(Address of principal executive offices) (Zip Code)

(212) 328-2100

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.05 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-Accelerated Filer	x	Smaller Reporting Company	¨

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

The number of outstanding shares of the registrant s common stock on May 14, 2009 was 26,945,371 shares.

Table of Contents

SPORTS PROPERTIES ACQUISITION CORP.

FORM 10-Q

TABLE OF CONTENTS

Table of Contents

This report contains forward-looking statements relating to future events and our future performance within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions, or future strategies that are signified by the words, expects, anticipates, intends, believes, or similar language. Actual results could differ materially from those anticipated in such forward-looking statements. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any forward-looking statements. We caution investors that our business and financial performance are subject to substantial risks and uncertainties.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPORTS PROPERTIES ACQUISITION CORP.

(a corporation in the development stage)

Balance Sheets

	March 31, 2009 (unaudited)	December 31, 2008
Assets		
Current assets		
Cash	$ 986,456	$ 1,233,134
Cash and cash equivalents trust account	215,009,962	215,200,539
Prepaid expenses	400,592	420,163
Deferred tax asset	106,157	
Total assets	**$ 216,503,167**	**$ 216,853,836**
Liabilities and stockholders equity		
Current liabilities		
Accrued expenses	$ 102,000	$ 260,508
Deferred underwriters fees	9,296,154	9,296,154
Due to affiliate	16,828	
Total current liabilities	**9,414,982**	**9,556,662**
Common stock , subject to possible redemption, 6,466,888 shares, at redemption value (note 1)	64,668,880	64,668,880
Commitments		
Stockholders equity		
Preferred stock, $0.001 par value, 1,000,000 shares authorized; none issued and outstanding		
Common stock, $0.001 par value, 100,000,000 shares authorized; 26,945,371 shares issued and outstanding	26,945	26,945
Additional paid-in capital	141,448,369	141,448,369
Earnings accumulated during the development stage	943,991	1,152,980
Total stockholders equity	**142,419,305**	**142,628,294**
Total liabilities and stockholders equity	**$ 216,503,167**	**$ 216,853,836**

The accompanying notes should be read in conjunction with the financial statements.

Table of Contents

SPORTS PROPERTIES ACQUISITION CORP.

(a corporation in the development stage)

Statements of Operations

(unaudited)

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008	For the period from July 3, 2007 (Inception) to March 31, 2009
Interest income	**$ 38,799**	**$ 1,322,176**	**$ 3,704,344**
Professional fees	75,301		947,921
Legal expense paid to related party	5,810		78,016
Franchise tax expense	171,000		329,509
Insurance expense	27,372	22,810	132,299
Administrative fees paid to affiliate	22,500	18,750	108,750
Organization costs and other operating expenses	51,962	6,607	324,329
Total expenses	**353,945**	**48,167**	**1,920,824**
Income (loss) before income taxes	**(315,146)**	**1,274,009**	**1,783,520**
Provision (benefit) for income taxes	**(106,157)**	**472,092**	**839,529**
Net income (loss)	**$ (208,989)**	**$ 801,917**	**$ 943,991**
Net income (loss) per share basic and diluted	**$ (0.01)**	**$ 0.04**	
Weighted average shares outstanding basic and diluted	**26,945,371**	**21,483,212**	

The accompanying notes should be read in conjunction with the financial statements.

Table of Contents

SPORTS PROPERTIES ACQUISITION CORP.

(a corporation in the development stage)

Statements of Stockholders Equity

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Earnings (Deficit) Accumulated During the Development Stage	Total Stockholders Equity
Balance at July 3, 2007 (Inception)		$	$	$	$
Issuance of common stock on September 12, 2007 at $0.01 per share for cash	5,750,000	5,750	51,750		57,500
Net loss				(8,347)	(8,347)
Offering expenses contributed by affiliate			144,504		144,504
Balance at December 31, 2007	**5,750,000**	**5,750**	**196,254**	**(8,347)**	**193,657**
Net income				1,161,327	1,161,327
Issuance of 6,000,000 warrants on January 17, 2008 at $1.00 per warrant for cash			6,000,000		6,000,000
Issuance of 20,000,000 units (1 share of common stock and 1 warrant) to public stockholders on January 24, 2008 at $10 per unit for cash, net of offering costs and shares subject to redemption	20,000,000	20,000	125,576,857		125,596,857
Issuance of 1,556,300 units (1 share of common stock and 1 warrant) to public stockholders on February 1, 2008 at $10 per unit for cash, net of offering costs	1,556,300	1,556	9,674,897		9,676,453
Forfeiture of 360,929 shares of common stock owned by founders, at no cost, on February 1, 2008, related to underwriters overallotment not being fully exercised	(360,929)	(361)	361		
Balance at December 31, 2008	**26,945,371**	**26,945**	**141,448,369**	**1,152,980**	**142,628,294**
Net loss - unaudited				(208,989)	(208,989)
Balance at March 31, 2009 - unaudited	**26,945,371**	**$ 26,945**	**$ 141,448,369**	**$ 943,991**	**$ 142,419,305**

The accompanying notes should be read in conjunction with the financial statements.

Table of Contents

SPORTS PROPERTIES ACQUISITION CORP.

(a corporation in the development stage)

Statements of Cash Flows

(unaudited)

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008	For the period from July 3, 2007 (Inception) to March 31, 2009
Cash flows from operating activities			
Net income (loss)	$ (208,989)	$ 801,917	$ 943,991
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities			
Increase (decrease) in prepaid expenses	19,571	(99,741)	(400,592)
Increase in deferred tax asset	(106,157)		(106,157)
Increase (decrease) in accrued expenses	(158,508)	471,492	102,000
Organizational expenses paid by affiliate			7,703
Net cash provided by (used for) operating activities	**(454,083)**	**1,173,668**	**546,945**
Cash flows from investing activities			
Proceeds and earnings invested in trust account	(38,799)	(216,466,920)	(218,849,088)
Transfers from trust account to operating account	229,376		3,839,126
Net cash provided by (used for) investing activities	**190,577**	**(216,466,920)**	**(215,009,962)**
Cash flows from financing activities			
Proceeds from sale of stock and warrants public offering of units		215,563,000	215,563,000
Proceeds from sale of warrants private offering to founders		6,000,000	6,000,000
Payment of offering costs, net		(5,821,869)	(5,942,594)
Proceeds from (repayment of) note payable and due to affiliate	16,828	(426,510)	(228,433)
Proceeds from sale of stock private offering to founders			57,500
Net cash provided by financing activities	**16,828**	**215,314,621**	**215,449,473**
Net increase (decrease) in cash	**(246,678)**	**21,369**	**986,456**
Cash at beginning of period	1,233,134	198,250	
Cash at end of period	**$ 986,456**	**$ 219,619**	**$ 986,456**
Supplemental schedule of non-cash financing activities			
Deferred underwriters fees	$	$ 9,296,154	$ 9,296,154
Accrual of deferred offering costs		75,000	
Offering expenses contributed by affiliate		59,807	144,504
Supplemental information			

Cash paid during the period for income taxes	$	70,000	$	600	$	1,430,600

The accompanying notes should be read in conjunction with the financial statements.

SPORTS PROPERTIES ACQUISITION CORP.

(a corporation in the development stage)

Notes to Financial Statements

March 31, 2009

Note 1 Organization and Nature of Business Operations

Sports Properties Acquisition Corp., a development stage company, (the Company) was incorporated in Delaware on July 3, 2007 for the purpose of effecting a merger, capital stock exchange, stock purchase, asset acquisition, or other similar business combination with one or more existing operating businesses in the sports and entertainment industries.

At March 31, 2009, the Company had limited operations. All activity through January 24, 2008 related to the Company s formation and public offering (the Offering) as described below, and subsequent to the Offering included efforts to identify potential Business Combination targets.

The Company s registration statement was declared effective on January 17, 2008, and the offering was closed on January 24, 2008. Upon closing of the Offering, 100% of the proceeds ($200,000,000) of the offering was placed in a Trust Account invested until the earlier of (i) the consummation of the Company s first Business Combination or (ii) the liquidation of the Company. The proceeds in the Trust Account include the deferred underwriting discount of $8,625,000 that will be released to the underwriters on completion of a Business Combination (subject to an approximately $0.43 per share reduction for public stockholders who exercise their conversion rights). Interest (net of taxes) earned on assets held in the Trust Account will remain in the Trust Account. However, $2,250,000 of the interest earned on the Trust Account (which is net of taxes payable on interest earned in the Trust Account) was released during 2008 to the Company to cover a portion of the Company s operating expenses.

On January 29, 2008, the underwriters informed the Company they had exercised the over-allotment option in part, for 1,556,300 units of the 3,000,000 total units subject to the over-allotment option, and had waived their right to exercise the over-allotment option with respect to any additional units. This transaction closed on February 1, 2008. The exercise price was $10 per unit and resulted in net proceeds of $15,144,744, inclusive of the deferred underwriting fees of $671,154, which amount was placed in the Trust Account. This exercise resulted in the forfeiture of 360,929 founder shares, at no cost to the Company, leaving the founders with 5,389,071 shares, and Medallion s ownership position at 18%.

The Company s management has broad discretion with respect to the specific application of the net proceeds of the Offering, although substantially all of the net proceeds are intended to be applied toward effecting a merger, capital stock exchange, stock purchase, asset acquisition, or other similar business combination. As used herein, a Business Combination shall mean the acquisition of one or more businesses that at the time of the Company s initial business combination have a fair value of at least 80.0% of the Company s assets held in the Trust Account (the Trust Account), excluding the deferred underwriting discounts and commissions from the offering of $9,296,154, and taxes payable.

The Company will seek stockholder approval before it will effect any Business Combination. The Company will proceed with a Business Combination only if a majority of the shares of common stock sold as part of the units in the Offering or in the aftermarket (the Public Stockholders) are voted in favor of the Business Combination and Public Stockholders owning no more than 29.9% of the shares sold in the Public Offering vote against the Business Combination and exercise their right to convert their shares into a pro rata share of the aggregate amount then on deposit in the Trust Account (up to 6,466,888 shares at $10 per share, or $64,668,880), and a majority of the outstanding shares of the Company s common stock vote in favor of an amendment to the Company s amended and restated certificate of incorporation to provide for its perpetual existence.

Public Stockholders voting against a Business Combination will be entitled to convert their stock into a pro rata share of the total amount on deposit in the Trust Account including the deferred underwriter s discount, and including any interest earned on their portion of the Trust Account, net of $2,250,000 of the net interest income earned on the Trust Account which was released to the Company to cover a portion of the Company s operating expenses and income taxes payable, if a Business Combination is approved and completed. Public Stockholders who convert their stock into their share of the Trust Account will continue to have the right to exercise any warrants they may hold.

The Company will liquidate and promptly distribute only to its Public Stockholders the amount in the Trust Account, less any income taxes payable on interest income, plus any remaining net assets, if the Company does not effect a Business Combination by January 17, 2010. This factor raises substantial doubt about the Company s ability to continue as a going concern. The financial statements do not include any adjustment that may result from the outcome of this uncertainty. In the event of liquidation, it is likely that the per share value of the residual assets remaining available for distribution (including assets held in the Trust Account) will be less than initial public offering price per share sold in the Public Offering (assuming no value is attributed to the Warrants contained in the Units sold in the Public Offering).

Table of Contents

Note 2 Summary of Significant Accounting Policies

Basis of Preparation

The accompanying unaudited financial statements of the Company have been prepared in accordance with Rule 10-1 of Regulation S-X promulgated by the Securities and Exchange Commission and, accordingly, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States. In the opinion of the Company, however, these financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company s financial position and results of operations as of March 31, 2009, and the results of its operations for the three months ended March 31, 2009 and for the period from July 3, 2007 (date of inception) to March 31, 2009. The results of operations for these periods are not necessarily indicative of the results of operations to be expected for a full fiscal year. These financial statements should be read in conjunction with the financial statements that were included in the Company s Annual Report on Form 10-K for the period ended December 31, 2008.

Net Income (Loss) per Common Share

Net income (loss) per share basic and diluted is computed by dividing the net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding for the period. Warrants have not been considered in the calculation of net income (loss) per share because the shares underlying the warrants are contingently issuable.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original purchased maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents and short-term investments. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. The Company does not believe the cash equivalents held in the Trust Account are subject to significant credit risk as the portfolio is invested in money market funds that invest in securities of the United States government.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. All of these estimates reflect management s judgment about current economic and market conditions and their effects based on information available as of the date of these financial statements. If such conditions persist longer or deteriorate further than expected, it is reasonably possible that the judgments and estimates could change.

Income Taxes

The Company has recorded income taxes of $945,686 ($594,868 for federal taxes and $350,818 for state and local taxes) at the statutory rate for net income earned through December 31, 2008. Deferred income taxes are provided for the differences between the bases of assets and liabilities for financial reporting and income tax purposes. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company had deferred tax assets of $106,157 and $0 at March 31, 2009 and December 31, 2008, all of which is expected to be refundable by application against taxes paid in 2008. The 2008 effective tax rate of 44.9% differed from the statutory rate of 34% due to state and city taxes. Included in prepaid expenses on the balance sheet is $313,914 and $414,914 of estimated taxes paid as of March 31, 2009 and December 31, 2008, reflecting payments made in excess of the Company s estimated tax liability.

Deferred Offering Costs

Deferred offering costs consist of legal fees, consulting fees paid to certain founding stockholders, and accounting fees, and other administrative costs incurred through the balance sheet date that relate to the Offering and that were charged to stockholders equity upon completion of the Offering.

Fair Value of Assets and Liabilities

The Company adopted Statement of Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157) in the 2008 first quarter, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. While SFAS No. 157 does not require any new fair value measurements, it applies under other pronouncements that require or permit fair value measurements, such as SFAS No. 107, 133, 150, 155, and 156. SFAS No. 157 clarifies the definition of fair value as an exit price (i.e. a price that would be received to sell, as opposed to acquire, an asset or transfer a liability), and emphasizes that fair value is a market-based measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entities own assumptions. Further, it specifies that fair value measurement should consider adjustment for risk, such as the risk inherent in the valuation technique or its inputs. For assets and liabilities measured at fair value, SFAS No. 157 expands the required disclosures concerning the inputs used to measure fair value.

Table of Contents

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I Quoted prices are available in active markets for identical investments as of the reporting date

Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies

Level III Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment
As of March 31, 2009 and December 31, 2008, the Company s cash and cash equivalents are classified as Level I.

Recently Issued Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (the FASB) issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. The FSP amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. The effective date of the pronouncement is for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company does not believe that adoption of this pronouncement will have a material impact on the Company s financial condition and results of operations.

In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. The FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurement, when the volume and level of activity for the asset or liability have significantly decreased. The FSP also amends SFAS No. 157 to require reporting entities to disclose in interim and annual periods the inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques, if any, as well as requiring reporting entities to define major categories for equity and debt securities in accordance with the major security types as described in SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The effective date of the pronouncement is for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company does not believe that adoption of this pronouncement will have a material impact on the Company s financial condition and results of operations.

In April 2009, the FASB issued FSP Nos. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairment. The FSP amends the other-than-temporary impairment guidance in US GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The effective date of the pronouncement is for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has elected early adoption of this pronouncement for the period ended March 31, 2009, and which election had no material impact on the Company s financial condition and results of operations.

In December 2007, the Financial Accounting Standards Board (the FASB) issued Statement No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) establishes principles and requirements for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in an acquisition, at their fair value as of the acquisition date. SFAS No. 141(R) also requires an acquirer to recognize assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. Additionally, SFAS No. 141(R) requires that acquisition-related costs in a business combination be expensed as incurred, except for costs incurred to issue debt and equity securities. This statement applies prospectively to business combinations effective in the Company s first fiscal quarter of 2009. Early adoption is not permitted.

The Company does not believe that any other recently issued, but not yet effective accounting pronouncements, if currently adopted, would have a material effect on the accompanying financial statements.

Note 3 Initial Public Offering

On January 24, 2008, the Company consummated its initial public offering of 20,000,000 units (the Units) at a price of $10.00 per unit, for gross proceeds of $200,000,000, which were netted against offering expenses of $14,475,840 which resulted in net proceeds of $185,524,160 which was placed in the Trust Account. In addition, the Company s underwriters exercised the over-allotment option for 1,556,300 units of the 3,000,000 total units subject to the over-allotment option, and waived their right to exercise the over-allotment option with respect to any additional units on February 1, 2008. The exercise was at $10 per unit and resulted in net proceeds of $15,144,744, inclusive of the deferred underwriting fees of $671,154, which amount was placed in the Trust Account. Each Unit consists of one share of the Company s common stock, $0.001 par value, and one warrant. Each warrant entitles the holder to purchase from the Company one share of common stock at an exercise price of $7.00, payable in readily available funds or through a net cashless exercise, commencing upon the later of the completion of a Business Combination or January 17, 2009, and expiring January 17, 2012, unless earlier redeemed. The warrants, including any warrants held by the underwriter, will be redeemable at the Company s option, at a price of $0.01 per warrant upon 30 days written notice after the warrants become exercisable, only in the event that the last sale price of the common stock is at least $14.25 per share for any 20 trading days within a 30 trading day period ending on the third business day prior to the date on which notice of redemption is given.

If the Company calls the warrants for redemption, it will have the option to require all holders that exercise their warrants to do so on a cashless basis. In such event, each holder would pay the exercise price by surrendering the warrants for that number of shares of common stock equal to the quotient obtained by dividing (x) the product of the number of shares of common stock underlying the warrants, multiplied by the difference between the exercise price of the warrants and the fair market value by (y) the fair market value. The fair market value shall mean the average reported last sale price of the common stock for the 10 trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of warrants.

In accordance with the warrant agreement relating to the warrants sold as part of the units in the Offering, the Company is only required to use its best efforts to maintain the effectiveness of a registration statement for the shares underlying the warrants. If a registration statement is not effective, the Company cannot redeem the warrants. The Company will not be obligated to deliver securities, and there are no contractual penalties for failure to deliver securities, if a registration statement is not effective at the time of exercise. Additionally, in the event that a registration is not effective at the time of exercise, the holder of such warrant shall not be entitled to exercise such warrant and in no event (whether in the case of a registration statement not being effective or otherwise) will the Company be required to net cash settle the warrant exercise. Consequently, the warrants may expire unexercised and unredeemed.

The Company agreed to pay the underwriters in the Offering an underwriting discount of 7%, of which 2.6875% was paid from the gross proceeds of the Offering, and the underwriters have agreed that the remaining 4.3125% ($9,296,154) of the underwriting discount will not be payable unless and until the Company completes a Business Combination, and have waived their right to receive such payment upon the Company s liquidation if it is unable to complete a Business Combination. The underwriters reimbursed the Company for $500,000 of offering expenses.

Note 4 Note Payable to Affiliate, Related Party Transactions, and Commitments

The Company issued a $200,000 unsecured promissory note to Medallion, its sponsor, on September 4, 2007. The note was non-interest bearing and was repaid on the consummation of the offering by the Company. Due to the short-term nature of the note, the carrying value of the note approximated fair value. As of March 31, 2009, Medallion owned 18% of the outstanding equity interests in the Company, with the balance held primarily by the public stockholders. In addition, Medallion paid $584,934 on the Company s behalf for various organizational, offering and operating expenses, $423,602 which has been reimbursed by the Company to Medallion, $144,504 which has been recorded as additional paid-in capital at December 31, 2008, and $16,828 which is owed to Medallion.

The Company incurred legal fees of $490,644 during the period from July 3, 2007 (inception) to March 31, 2009 with a law firm in which a member of the Company s Board of Directors is senior counsel.

The Company presently occupies office space provided by Medallion, which has agreed that until the Company consummates a Business Combination, it will make such office space as may be required, as well as certain office and secretarial services, available to the Company. The Company has agreed to pay $7,500 a month in total for office space and general and administrative services to Medallion. Services commenced on the effective date of the offering and will terminate upon the earlier of (i) the completion of the Business Combination, or (ii) the Company s liquidation.

Certain officers and directors of Medallion are also officers and directors of the Company.

Pursuant to letter agreements which the founding stockholders entered into with the Company and the underwriters, the founding stockholders waived their rights to receive distributions with respect to their founding shares should the Company be liquidated.

Medallion has agreed that it will be liable to ensure that the proceeds in the Trust Account are not reduced by the claims of target businesses or claims of vendors, service providers, providers of financing, or other entities that are owed money by the Company for services or financing rendered or contracted for, or for products sold to the Company.

In the event of liquidation, the Company will pay the costs of liquidation from the remaining assets outside of the Trust Account. To the extent such funds are not available, Medallion has agreed to provide the Company the necessary funds (currently anticipated to be no more than approximately $50,000 in the event that the Company s corporate existence ceases by operation of law), and has agreed not to seek repayment for such expenses.

Medallion, the Company s primary stockholder, acquired 5,900,000 warrants to purchase 5,900,000 shares of common stock from the Company and Tony Tavares, the Company s President and Chief Executive Officer, acquired 100,000 warrants to purchase 100,000 shares of common stock from the Company, in each case, at a price of $1.00 per warrant for a total of $6,000,000 in a private placement just prior to the completion of the Offering. Medallion and Tony Tavares have each further agreed that they will not sell or transfer these warrants until after the Company consummates a Business Combination.

Table of Contents

The purchase price of $1.00 per warrant for the private placement warrants exceeded the fair value of such warrants on the date of purchase and, accordingly, no compensation expense was recognized with respect to the issuance of the founder warrants.

The Company s founding stockholders are entitled to require the Company to register their shares of common stock and shares of common stock underlying warrants at any time after their shares of common stock or warrants are released from escrow, which will not be before one year from the consummation of a business combination, provided that, if, after the consummation of a business combination, the surviving entity of such business combination subsequently consummates a liquidation, merger, stock exchange or other similar transaction which results in all of the stockholders of such entity having the right to exchange their shares of common stock for cash, securities or other property, then such shares or warrants may be released in order to enable holders of such founder warrants to participate in such exchange. In addition, the founding stockholders and the holders of the founder warrants (or underlying securities) have certain piggy-back registration rights on registration statements filed after the Company s consummation of a Business Combination.

Note 5 Common Stock

On September 12, 2007, the Company issued 5,750,000 shares for $57,500 in cash, for a purchase price of $0.01 per share to the founding stockholders. On January 24, 2008, the Company issued 20,000,000 units, which included 20,000,000 shares of common stock and 20,000,000 warrants for a purchase price of $10 per unit. On February 1, 2008, the Company s underwriters exercised the over-allotment option for 1,556,300 units of the 3,000,000 total units subject to the over-allotment option, and waived their right to exercise the over-allotment option with respect to any additional units, resulting in the forfeiture of 360,929 founder shares, at no cost to the Company. As of March 31, 2009, 26,945,371 shares of common stock are outstanding, approximately 18% held by Medallion, and the balance held primarily by the public stockholders.

On September 25, 2007, the Company s Board of Directors and stockholders approved an increase in the authorized common shares from 50,000,000 to 100,000,000, and provided for the liquidation of the Trust Account in the event the Company does not consummate a Business Combination by January 17, 2010. The amended and restated certificate of incorporation reflecting the approved increase in the number of shares of common stock and term of corporate existence was filed with the Secretary of State in the State of Delaware on January 17, 2008.

Note 6 Preferred Stock

The Company is authorized to issue 1,000,000 shares of $0.001 par value preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a blank check company organized under the laws of the State of Delaware on July 3, 2007. We were formed to acquire, through a merger, capital stock exchange, asset or stock acquisition, exchangeable share transaction or other similar business combination, one or more businesses in the sports, leisure or entertainment industries. We intend to utilize cash derived from the proceeds of our initial public offering, our capital stock, debt, or a combination of cash, capital stock and debt, in effecting a business combination. The issuance of additional shares of our capital stock:

- may significantly reduce the equity interest of our stockholders;
- may subordinate the rights of holders of common stock if preferred stock is issued with rights senior to those afforded to the holders of our common stock;
- will likely cause a change in control if a substantial number of our shares of common stock are issued, which may affect, among other things, our ability to use our net operating loss carry forwards, if any, and most likely will also result in the resignation or removal of our present officers and directors; and

may adversely affect prevailing market prices for our common stock.

Similarly, if we incur substantial debt, it could result in:

default and foreclosure on our assets if our operating cash flow after a business combination is insufficient to pay our debt obligations;

acceleration of our obligations to repay the indebtedness even if we have made all principal and interest payments when due if the debt security contains covenants that require the maintenance of certain financial ratios or reserves and any such covenant is breached without a waiver or renegotiation of that covenant;

our immediate payment of all principal and accrued interest, if any, if the debt security is payable on demand;

covenants that limit our ability to acquire capital assets or make additional acquisitions;

our inability to obtain additional financing, if necessary, if the debt security contains covenants restricting our ability to obtain additional financing while such security is outstanding;

our inability to pay dividends on our common stock;

using a substantial portion of our cash flow to pay principal and interest on our debt, which will reduce the funds available for dividends on our common stock, working capital, capital expenditures, acquisitions and other general corporate purposes;

limitations on our flexibility in planning for and reacting to changes in our business and in the industry in which we operate;

our stockholders receiving less than $10.00 per share from the trust account upon liquidation if such debt is incurred prior to consummation of a business combination and the trust account is subsequently liquidated;

increased vulnerability to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation; and

limitations on our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our strategy and other purposes; and other disadvantages compared to our competitors who have less debt.

Results of Operations and Liquidity

The following discussion should be read in conjunction with our financial statements and the notes to those statements and other financial information appearing elsewhere in this report.

Our entire activity since inception has been limited to organizational activities, activities relating to our initial public offering and, since our initial public offering, activities relating to identifying and evaluating prospective acquisition targets. We have neither engaged in any operations nor generated any revenues to date, other than interest income earned on the proceeds of our initial public offering.

For the quarter ended March 31, 2009, interest income on the trust account amounted to $38,799. Our operating expenses during the quarter ended March 31, 2009 were $182,945, consisting of professional fees of $75,301 for costs primarily associated with identifying and negotiating with potential acquisition targets, legal expenses paid to a related party of $5,801 for costs primarily associated with identifying and negotiating with potential acquisition targets, franchise tax expense of $0, insurance expense of $27,372, administrative fees paid to Medallion of $22,500, and other organizational costs and operating expenses of $51,962, primarily associated with due diligence activities and personnel-related costs. We provided income taxes of $0 for the quarter, resulting in net loss of $144,146 or $0.01 per share for the quarter ended March 31, 2009.

On January 24, 2008, we consummated our initial public offering of 20,000,000 units. Each unit issued in our initial public offering consists of one share of common stock, $.001 par value per share, and one warrant to purchase one share of common stock at $7.00 per share. The units were sold at an offering price of $10.00 per unit, generating aggregate gross proceeds of $200,000,000. Of the $200,000,000 gross proceeds, $194,000,000, including deferred underwriters discounts and commissions of $8,625,000, was deposited into a trust account. Prior to the initial public offering, we issued 6,000,000 warrants at a purchase price of $1.00 per warrant to certain of our founding stockholders in a private placement for aggregate proceeds of $6,000,000, which were also placed into the trust account. On February 1, 2008 we sold an additional 1,556,300 units which were subject to the overallotment option of the underwriters in our initial public offering. The sale of these units resulted in total proceeds of approximately $15,144,744, net of the underwriters discounts and commissions, but including deferred underwriters discounts and commissions of approximately $671,154. This amount was also deposited into the trust account, resulting in a total amount held in trust of approximately $215,144,744, exclusive of any interest earned by such trust account.

The funds held in the Trust Account are currently invested in money market funds meeting the criteria under Rule 2a-7 under the 1940 Act. We also have the option to invest the funds in Treasury Bills issued by the United States government having a maturity of 180 days or less. Interest earned will be applied in the following order of priority:

payment of taxes on Trust Account interest;

our working capital requirements before we complete a business combination, to a maximum of $2,250,000, and, if necessary, funding up to $50,000 of the costs of our potential dissolution and liquidation; and

the balance, if any, to us if we complete a business combination or to our public stockholders if we do not complete a business combination.

We believe that the interest earned on Trust Account funds in the period before we effect a business combination will be sufficient to fund our operations and costs relating to the acquisition of a target business or to fund the costs and expenses relating to our liquidation and dissolution if we do not consummate a business combination.

We expect to use substantially all of the net proceeds of our initial public offering and the private placement to acquire a target business, including payment of expenses we incur in identifying and evaluating prospective acquisition candidates, selecting the target business, and structuring, negotiating and consummating the business combination. To the extent that we use debt or equity securities as consideration in a business combination and do not use all of the funds in the trust account, we will use the remaining trust account funds to finance the operations of the target business. We believe that the $2,250,000 that we drew from interest earned on the trust account will be sufficient to allow us to operate until at least January 17, 2010, even if we do not complete a business combination during that time.

Table of Contents

The credit markets are undergoing a crisis which has disrupted a wide range of traditional financing sources. The crisis has made it increasingly difficult and significantly more expensive through higher credit spreads for companies to obtain and renew financing. Continued turmoil in the credit markets could limit our access to funds and could have a negative impact on our ability to complete a business combination.

Critical Accounting Policies

Estimates

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

Contractual Obligations

We did not have any long term debt, capital lease obligations, operating lease obligations, purchase obligations or other long term liabilities. Following the end of our fiscal year, on January 17, 2008, we entered into a services agreement with Medallion Financial Corp. requiring us to pay $7,500 per month. The agreement terminates on the earlier of the completion of a business combination or upon our dissolution. In June 2008 we entered into a consulting agreement with Game Plan LLC whereby Game Plan LLC has agreed to provide consulting services to us in connection with identifying a target business in the sports, entertainment and leisure industries and consummating a business combination with such a target business. The agreement continues on a month to month basis until terminated under the terms of the agreement. In June 2008 we also entered into a consulting agreement with Graidan Ventures LLC whereby Graidan Ventures LLC has agreed to help us identify a target business in the sports, entertainment and leisure. The agreement has an initial term of eight months with additional successive terms of three months until terminated under the terms of the agreement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the sensitivity of income to changes in interest rates, foreign exchanges, commodity prices, equity prices, and other market-driven rates or prices. We are not presently engaged in and, if a suitable business target is not identified by us prior to the prescribed liquidation date of the trust account, we may not engage in, any substantive commercial business. Accordingly, we are not and, until such time as we consummate a business combination, we will not be, exposed to risks associated with foreign exchange rates, commodity prices, equity prices or other market-driven rates or prices. We are subject to interest rate fluctuation risk on the earnings in the trust account which was funded in January 2008.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2009. There was no change in internal control over financial reporting which occurred during the quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There is no litigation currently pending or, to our knowledge, contemplated against us or any of our officers or directors in their capacity as such.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

We are a development stage company with no operating history and, accordingly, there is no basis on which to evaluate our ability to achieve our business objective.

We are a recently incorporated development stage company with no operating results to date other than organizational activities and activities related to locating a business combination target. Since we have had very limited operations since our initial public offering, other relating principally to commencement of our search for a business combination, you have an extremely limited basis upon which to evaluate our ability to achieve our business objective, which is to acquire one or more operating businesses in the sports, leisure or entertainment industries. We will not generate any significant revenues or income until, at the earliest, after the consummation of a business combination.

Table of Contents

We will liquidate if we do not consummate a business combination.

Pursuant to our amended and restated certificate of incorporation, we have until January 17, 2010 to complete a business combination. If we fail to consummate a business combination within the required time frame, our corporate existence will, in accordance with our amended and restated certificate of incorporation, cease except for the purposes of winding up our affairs and liquidating. We may not be able to find suitable target businesses within the required time frame. In addition, our negotiating position and our ability to conduct adequate due diligence on any potential target may be reduced as we approach the deadline for the consummation of a business combination. We do not have any specific business combination under consideration. We view this obligation to liquidate as an obligation to our stockholders and that investors will make an investment decision, relying, at least in part, on this provision. Thus, without the affirmative vote cast at a meeting of stockholders of at least 95% of the common stock issued in our initial public offering, neither we nor our board of directors will take any action to amend or waive any provision of our amended and restated certificate of incorporation to allow us to survive for a longer period of time. In addition, we will not support, directly or indirectly, or in any way endorse or recommend, that stockholders approve an amendment or modification to such provision if it does not appear we will be able to consummate a business combination within the foregoing time periods. Our founding stockholders have waived their rights to participate in any liquidation distribution with respect to the shares of common stock owned by each of them prior to our initial public offering or acquired in the private placement, including the shares of common stock underlying the founder warrants. There will be no distribution from the trust account with respect to the founder warrants which will expire worthless. We will pay the costs of liquidation, which we currently estimate to be up to $50,000, from our remaining assets held outside of the trust account. In addition, Medallion has agreed to indemnify us for all claims of any vendors, service providers, providers of financing or other entities that are owed money by us for services or financing provided or contracted for, or products sold to us or the claims of any target businesses to the extent that we fail to obtain valid and enforceable waivers from such vendors, service providers, prospective target business, providers of financing or other entities in order to protect the amounts held in trust.

There are no assurances that certain provisions of our amended and restated certificate of incorporation will not be amended other than in connection with the consummation of a business combination.

We believe that a vote to amend or waive any provision of our amended and restated certificate of incorporation would likely take place only to allow additional time to consummate a pending business combination. We view these provisions to be obligations to our stockholders and we believe that investors will make an investment decision relying, at least in part, on these provisions. Although we are contractually obligated not to amend or waive these provisions pursuant to the underwriting agreement that we entered into with the underwriters in connection with our initial public offering, we cannot assure you that other provisions of our amended and restated certificate of incorporation will not be amended or waived by the affirmative vote cast at a meeting of stockholders of at least 95% of the common stock issued in our initial public offering. Such an amendment or waiver may result in changes to other provisions to which we do not intend to propose any amendment and that we view as obligations to our stockholders, and in reliance upon which we believe that investors will make an investment decision, including the requirement that a target business have a fair market value of at least 80% of our net assets held in trust (net of taxes and other than the portion representing our underwriters deferred discount) at the time of such acquisition, the conversion rights of public stockholders or the requirement that a business combination may not proceed if 30% or more of public stockholders both vote against a business combination and exercise their conversion rights. If such an amendment or waiver were approved, we would be able to enter into a business combination that is less advantageous for our public stockholders or with which a substantial number of our public stockholders disagree, such as a business combination stockholders opposed to which are not entitled to conversion rights or a business combination with a target business having a fair market value of less than 80% of our net assets held in trust (net of taxes and other than the portion representing our underwriters deferred discount) at the time of acquisition.

You will not have any rights or interest in funds from the trust account, except under certain limited circumstances.

Our public stockholders will be entitled to receive funds from the trust account only in the event of our liquidation or if they elect to convert their respective shares of common stock into cash upon a business combination which the stockholder voted against and which is completed by us. In no other circumstances will a stockholder have any right or interest of any kind in the trust account.

The current economic conditions could have a negative effect on our ability to complete a business combination.

The current market conditions have materially and adversely affected the debt and equity capital markets in the United States, which could have a negative impact on our ability to complete a business combination. The U.S. capital markets have been experiencing extreme volatility and disruption for more than 12 months as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the repricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. These events have contributed to worsening general economic conditions that are materially and adversely impacting the broader financial and credit markets and reducing the availability of credit and equity capital for the markets as a whole. We believe that the U.S. economy has entered into a period of severe recession, and forecasts for 2009 generally call for a weakening economy in the United States, with the continuation of the economic recession and possibly an economic depression. As a result, we believe these conditions may continue for a prolonged period of time or worsen in the future. A prolonged period of market illiquidity could have an adverse effect on our ability to complete a business combination. Unfavorable economic conditions also could result in a decision by lenders not to extend credit to us. The current and continuing adverse economic conditions could cause our stock price to decline which could require the issuance of additional shares to effect a business combination, if we were to use stock as part of the consideration. In addition, economic conditions could hinder our ability to obtain the 70.1% positive vote of shareholders to approve a potential business combination since investors might prefer to have their investment returned to them.

If we are forced to liquidate before the completion of a business combination and distribute the trust account, our public stockholders may receive significantly less than $10.00 per share and our warrants will expire worthless.

We must complete a business combination with a fair market value of at least 80% of our net assets held in trust (net of taxes and other than the portion representing our underwriters deferred discount) at the time of such acquisition by January 17, 2010. If we are unable to complete a business combination within the prescribed time frame and are forced to liquidate the trust account, the per-share liquidation price received by our public stockholders from the trust account will be less than $10.00 because of the expenses of our initial public offering, our general and administrative expenses and the anticipated costs of seeking a business combination. Upon the liquidation of the trust account, public stockholders will be entitled to receive (unless there are claims not otherwise satisfied by the amount not held in the trust account or the indemnification provided by our executive officers and directors) $10.00 per share plus interest earned on their pro rata portion of the trust account (net of taxes payable and amounts disbursed for working capital purposes), which includes $9,296,154 (approximately $0.43 per unit) of deferred underwriting discounts and commissions and $6,000,000 ($0.30 per unit) of the purchase price of the founder warrants. Medallion has agreed to indemnify us for claims by any vendors, service providers, providers of financing or other entities that are owed money by us for services or financing provided or contracted for, or products sold to us or the claims of any target businesses to the extent we do not obtain valid and enforceable waivers from vendors, service providers, providers of financing, prospective target businesses or other entities, in order to protect the amounts held in the trust account. There will be no contractual limits on our ability to borrow money, including from Medallion or our other stockholders. In the event that we liquidate and it is subsequently determined that the reserve for claims and liabilities is insufficient, stockholders who received a return of funds from the liquidation of our trust account could be liable for claims made by our creditors. We assume that in the event we liquidate we will not have to adopt a plan to provide for payment of claims that may potentially be brought against us. Should this assumption prove to be incorrect, we may have to adopt such a plan upon our liquidation, which could result in the per-share liquidation amount to our stockholders being significantly less than $10.00 per share. Furthermore, there will be no distribution with respect to our outstanding warrants which will expire worthless if we liquidate the trust account in the event we do not complete a business combination within the prescribed time period.

If we are unable to consummate a business combination, our public stockholders will be forced to wait until January 17, 2010 before receiving liquidation distributions.

We have until January 17, 2010 in which to complete a business combination. We have no obligation to return funds to investors prior to such date unless we consummate a business combination prior thereto and only then in cases where investors have sought conversion of their shares. Only after the expiration of this full time period will public stockholders be entitled to liquidation distributions if we are unable to complete a business combination. Accordingly, investors funds may be unavailable to them until such date.

We may choose to redeem our outstanding warrants at a time that is disadvantageous to our warrant holders.

Subject to there being a current prospectus under the Securities Act of 1933 with respect to the common stock issuable upon exercise of the warrants, we may redeem the warrants issued as a part of our units, including any warrants held by the underwriter, at any time after the warrants become exercisable in whole and not in part, at a price of $0.01 per warrant, upon a minimum of 30 days prior written notice of redemption, if and only if, the last sales price of our common stock equals or exceeds $14.25 per share for any 20 trading days within a 30 trading day period ending three business days before we send the notice of redemption. In addition, we may not redeem the warrants unless the warrants comprising the units sold in our initial public offering and the shares of common stock underlying those warrants are covered by an effective registration statement from the beginning of the measurement period through the date fixed for the redemption. Redemption of the warrants could force the warrant holders (i) to exercise the warrants and pay the exercise price at a time when it may be disadvantageous for the holders to do so, (ii) to sell the warrants at the then current market price when they might otherwise wish to hold the warrants, or (iii) to accept the nominal redemption price which, at the time the warrants are called for redemption, is likely to be substantially less than the market value of the warrants. We expect most purchasers of our warrants will hold their securities through one or more intermediaries and consequently you are unlikely to receive notice directly from us that the warrants are being redeemed. If you fail to receive notice of redemption from a third party and your warrants are redeemed for nominal value, you will not have recourse to the Company.

Our management s ability to require holders of our warrants to exercise such warrants on a cashless basis will cause holders to receive fewer shares of common stock upon their exercise of the warrants than they would have received had they been able to pay the exercise price of their warrants in cash.

If we call our warrants for redemption after the redemption herein have been satisfied, our management will have the option to require any holder that wishes to exercise his warrant to do so on a cashless basis. In such event, each holder would pay the exercise price by surrendering the warrants for that number of shares of common stock equal to the quotient obtained by dividing (x) the product of the number of shares of common stock underlying the warrants, multiplied by the difference between the exercise price of the warrants and the fair market value and (y) the fair market value. The fair market value shall mean the average reported last sales price of our common stock for the 10 trading days ending on the third trading day prior to the date on which notice of redemption is sent to the holders of the warrants. If our management chooses to require holders to exercise their warrants on a cashless basis, the number of shares of common stock received by a holder upon exercise will be fewer than it would have been had such holder exercised his warrant for cash. This will have the effect of reducing the potential upside of the holder s investment in our company.

Table of Contents

Although we are required to use our best efforts to have an effective registration statement covering the issuance of the shares of common stock underlying the warrants at the time that our warrant holders exercise their warrants, we cannot guarantee that a registration statement will be effective, in which case our warrant holders may not be able to exercise their warrants and therefore the warrants could expire worthless.

Holders of our warrants will be able to exercise the warrants only if (i) a current registration statement under the Securities Act of 1933 relating to the shares of our common stock underlying the warrants is then effective and (ii) such shares of common stock are qualified for sale or exempt from qualification under the applicable securities laws of the states in which the various holders of warrants reside. Although we have undertaken in the Warrant Agreement, and therefore have a contractual obligation, to use our best efforts to maintain a current registration statement covering the shares of common stock underlying the warrants following completion of our initial public offering to the extent required by federal securities laws, and we intend to comply with our undertaking, we cannot assure that we will be able to do so and therefore the warrants could expire worthless. Such expiration would result in each holder paying the full unit purchase price solely for the shares of common stock underlying the unit. In addition, we have agreed to use our reasonable efforts to register the shares of common stock underlying the warrants under the blue sky laws of the states of residence of the existing warrant holders, to the extent an exemption is not available. The value of the warrants may be greatly reduced if a registration statement covering the shares of common stock issuable upon the exercise of the warrants is not kept current or if the securities are not qualified, or exempt from qualification, in the states in which the holders of warrants reside. In no event will the registered holder of a warrant be entitled to receive a net-cash settlement or other consideration in lieu of physical settlement in shares of our common stock if the common stock underlying the warrants is not covered by an effective registration statement. Holders of warrants who reside in jurisdictions in which the shares of common stock underlying the warrants are not qualified and in which there is no exemption will be unable to exercise their warrants and would either have to sell their warrants in the open market or allow them to expire unexercised. If and when the warrants become redeemable by us, we may exercise our redemption right even if we are unable to qualify the underlying securities for sale under all applicable state securities laws.

Although historically blank check companies have used a 20% threshold for conversion rights, we allow up to approximately 29.99% of our public stockholders to exercise their conversion rights. This higher threshold will make it easier for us to consummate a business combination with which you may not agree, and you may not receive the full amount of your original investment upon exercise of your conversion rights.

We will consummate the initial business combination only if the following conditions are met: (i) a majority of the outstanding shares of common stock sold in our initial public offering voted by the public stockholders are voted in favor of the business combination, (ii) public stockholders owning 30% or more of the shares of common stock sold in our initial public offering do not vote against the business combination and exercise their conversion rights and (iii) a majority of the shares of common stock then outstanding vote to approve an amendment to our amended and restated certificate of incorporation to provide for our perpetual existence. Our founding stockholders will not have such conversion rights with respect to any shares of common stock owned by them. Historically, blank check companies have had a conversion threshold of 20%, which makes it more difficult for such companies to consummate their initial business combination. Thus, because we permit a larger number of stockholders to exercise their conversion rights, it will be easier for us to consummate an initial business combination with a target business which you may believe is not suitable for us, and you may not receive the full amount of your original investment upon exercise of your conversion rights.

The ability of a larger number of our stockholders to exercise their conversion rights may not allow us to consummate the most desirable business combination or optimize our capital structure.

When we seek stockholder approval of a business combination, we will offer each public stockholder (but not our founding stockholders with respect to any shares each of them owned prior to the consummation of our initial public offering) the right to have his, her or its shares of common stock converted to cash if the stockholder votes against the business combination and the business combination is approved and consummated. Such holder must both vote against such business combination and then exercise his, her or its conversion rights to receive a pro rata share of the trust account. We allow up to approximately 29.99% of our public stockholders to exercise their conversion rights, which is greater than the 19.99% limit on the percentage of public stockholders who historically have been allowed to exercise their conversion rights in similarly structured companies. Accordingly, if our business combination requires us to use substantially all of our cash to pay the purchase price, because we will not know how many stockholders may exercise such conversion rights, we may either need to reserve part of the trust account for possible payment upon such conversion, or we may need to arrange third party financing to help fund our business combination in case a larger percentage of stockholders exercise their conversion rights than we expect. In the event that the acquisition involves the issuance of our stock as consideration, we may be required to issue a higher percentage of our stock to make up for a shortfall in funds. Raising additional funds to cover any shortfall may involve dilutive equity financing or incurring indebtedness at higher than desirable levels. Our need to reserve a larger amount of funds, issue more of our stock or obtain greater outside financing than many other similarly structured companies that allow a smaller percentage of public stockholders to exercise their conversion rights may present a competitive disadvantage for us compared with such other similarly structured companies and limit our ability to effectuate the most attractive business combination available to us.

Table of Contents

Stockholders may be held liable for claims by third parties against us to the extent of distributions received by them.

Our amended and restated certificate of incorporation provides that we will continue in existence only until January 17, 2010. If we have not completed a business combination by such date and amended this provision in connection therewith, pursuant to the Delaware General Corporation Law, our corporate existence will cease except for the purposes of winding up our affairs and liquidating. Under Sections 280 through 282 of the Delaware General Corporation Law, stockholders may be held liable for claims by third parties against a corporation to the extent of distributions received by them in a dissolution. If the corporation complies with certain procedures set forth in Section 280 of the Delaware General Corporation Law intended to ensure that it makes reasonable provision for all claims against it, including a 60-day notice period during which any third-party claims can be brought against the corporation, a 90-day period during which the corporation may reject any claims brought, and an additional 150-day waiting period before any liquidating distributions are made to stockholders, any liability of stockholders with respect to a liquidating distribution is limited to the lesser of such stockholder s pro rata share of the claim or the amount distributed to the stockholder, and any liability of the stockholder would be barred after the third anniversary of the dissolution. However, it is our intention to make liquidating distributions to our stockholders as soon as reasonably possible after our corporate existence terminates and, therefore, we do not intend to comply with those procedures. Because we will not be complying with those procedures, we are required, pursuant to Section 281 of the Delaware General Corporation Law, to adopt a plan that will provide for our payment, based on facts known to us at such time, of (i) all existing claims, (ii) all pending claims and (iii) all claims that may be potentially brought against us within the subsequent 10 years. Accordingly, we would be required to provide for any creditors known to us at that time or those that we believe could be potentially brought against us within the subsequent 10 years prior to distributing the funds held in the trust to stockholders. We cannot assure you that we will properly assess all claims that may be potentially brought against us. As such, our stockholders could potentially be liable for any claims to the extent of distributions received by them and any liability of our stockholders may extend well beyond the third anniversary of such date. Accordingly, we cannot assure you that third parties will not seek to recover from our stockholders amounts owed to them by us. In the event of our liquidation, we may have to adopt a plan to provide for the payment of claims that may potentially be brought against us, which could result in the per-share liquidation amount to our stockholders being significantly less than $10.00.

Our placing of funds in trust may not protect those funds from third party claims against us.

Third party claims may include contingent or conditional claims and claims of directors and officers entitled to indemnification under our amended and restated certificate of incorporation. We intend to pay any claims, to the extent sufficient to do so, from our funds not held in trust. Although we will seek to have all vendors, service providers and prospective target businesses or other entities with which we execute agreements waive any right, title, interest or claim of any kind in or to any monies held in the trust account for the benefit of our public stockholders, there is no guarantee that they will execute such agreements. Even if they execute such agreements, they could bring claims against the trust account including but not limited to fraudulent inducement, breach of fiduciary responsibility or other similar claims, as well as claims challenging the enforceability of the waiver, in each case in order to gain an advantage with a claim against our assets, including the funds held in the trust account. If any third party refused to execute an agreement waiving such claims to the monies held in the trust account, we would perform an analysis of the alternatives available to us if we chose not to engage such third party and evaluate if such engagement would be in the best interest of our stockholders if such third party refused to waive such claims.

Examples of possible instances where we may engage a third party that refused to execute a waiver include the engagement of a third party consultant whose particular expertise or skills are believed by management to be significantly superior to those of other consultants that would agree to execute a waiver or in cases where management is unable to find a provider of required services willing to provide the waiver. In any event, our management would perform an analysis of the alternatives available to it and would only enter into an agreement with a third party that did not execute a waiver if management believed that such third party s engagement would be significantly more beneficial to us than any alternative. In addition, there is no guarantee that such entities will agree to waive any claims they may have in the future as a result of, or arising out of, any negotiations, contracts or agreements with us and not seek recourse against the trust account for any reason. Accordingly, the proceeds held in trust could be subject to claims that could take priority over the claims of our public stockholders and the per-share liquidation price could be less than the $10.00 per share held in the trust account, plus interest (net of any taxes due on such interest, which taxes, if any, shall be paid from the trust account), due to claims of such creditors. If we are unable to complete a business combination and liquidate the company, Medallion will be liable if we did not obtain a valid and enforceable waiver from any vendor, service provider, provider of financing, prospective target business or other entity of any rights or claims to the trust account, to the extent necessary to ensure that such claims do not reduce the amount in the trust account. We cannot assure you that Medallion will be able to satisfy those obligations. The indemnification provisions are set forth in a letter executed by Medallion. The letter specifically sets forth that in the event we obtain a valid and enforceable waiver of any right, title, interest or claim of any kind in or to any monies held in the trust account for the benefit of our stockholders from a vendor, service provider, provider of financing, prospective target business or other entity, the indemnification from Medallion will not be available.

Additionally, if we are forced to file a bankruptcy case or an involuntary bankruptcy case is filed against us which is not dismissed, the funds held in our trust account will be subject to applicable bankruptcy law, and may be included in our bankruptcy estate and subject to the claims of third parties with priority over the claims of our stockholders. To the extent any bankruptcy claims deplete the trust account we cannot assure you we will be able to return to our public stockholders the liquidation amounts due them.

In certain circumstances, our board of directors may be viewed as having breached their fiduciary duties to our creditors, thereby exposing itself and our company to claims of punitive damages.

If we are forced to file a bankruptcy case or an involuntary bankruptcy case is filed against us which is not dismissed, any distributions received by stockholders could be viewed under applicable debtor/creditor and/or bankruptcy laws as either a preferential transfer or a

Table of Contents

fraudulent conveyance. As a result, a bankruptcy court could seek to recover all amounts received by our stockholders. Furthermore, because we intend to distribute the proceeds held in the trust account to our public stockholders promptly after the termination of our existence by operation of law, this may be viewed or interpreted as giving preference to our public stockholders over any potential creditors with respect to access to or distributions from our assets. Furthermore, our board of directors may be viewed as having breached its fiduciary duty to our creditors and/or may have acted in bad faith, thereby exposing itself and our company to claims of punitive damages, by paying public stockholders from the trust account prior to addressing the claims of creditors. We cannot assure you that claims will not be brought against us for these reasons.

If interest earned on the trust account available to us is insufficient to allow us to operate until January 17, 2010, we may not be able to complete a business combination.

We currently believe that the $2,250,000 of net interest income earned on the trust account and released to us will be sufficient to allow us to operate until January 17, 2010, assuming that a business combination is not consummated during that time. Based upon the experience of the members of our board and consultation with them regarding a reasonable budget for consummating a transaction of this kind and nature, and a review of budgets publicly disclosed by blank-check companies, we determined that this was an appropriate approximation of the expenses. If costs are higher than expected we might not have sufficient funds to continue searching for, or conduct due diligence with respect to, any potential target acquisitions. In such event, we would need to obtain additional funds from our founding stockholders or another source to continue operating. The $401,317 not held in the trust account and the $2,250,000 of net interest income earned on the trust account will be reserved for working capital purposes. We could use a portion of these funds to pay due diligence costs in connection with a potential business combination or to pay fees to consultants to assist us with our search for a target acquisition. We could also use a portion of these funds as a down payment, reverse break-up fee (a provision in a merger agreement designed to compensate the target for any breach by the buyer which results in a failure to close the transaction), or to fund a no-shop provision (a provision in letters of intent designed to keep target acquisitions from shopping around for transactions with others on terms more favorable to such target acquisitions) with respect to a particular proposed business combination, although we do not have any current intention to do so. If we entered into such a letter of intent where we paid for the right to receive exclusivity from a target acquisition and were subsequently required to forfeit such funds (whether as a result of our breach or otherwise) or if we agree to a reverse break-up fee and subsequently were required to pay such fee as a result of our breach of the acquisition agreement, we might not have sufficient funds to continue searching for, or conduct due diligence with respect to any other potential target acquisitions. In such event, we would need to obtain additional funds from our founding stockholders or another source to continue operations. We are contractually limited in our ability to issue equity securities prior to the consummation of a business combination. Although we are not contractually limited from borrowing money, we may be unable to borrow money on terms which are favorable to us, if at all.

Our current officers and directors may resign upon consummation of a business combination.

Upon consummation of a business combination, the role of our founding officers and directors in the target business cannot presently be fully ascertained. While it is possible that one or more of our founding officers and directors will remain in senior management or as directors following a business combination, we may employ other personnel following the business combination. If we acquire a target business in an all cash transaction, it would be more likely that our founding officers and our directors would remain with us if they chose to do so. If a business combination were structured as a merger whereby the stockholders of the target company were to control the combined company, following a business combination, it may be less likely that our founding officers or directors would remain with the combined company unless it was negotiated as part of the transaction through the acquisition agreement, an employment agreement or other arrangement.

Negotiated retention of officers, directors and advisors after a business combination may create a conflict of interest.

If, as a condition to a potential business combination, our founding officers, directors and advisors negotiate to be retained after the consummation of the business combination, such negotiations may result in a conflict of interest. Such negotiations would take place simultaneously with the negotiation of the business combination and could provide for such individuals to receive compensation in the form of cash payments and/or our securities for services they would render to us after the consummation of the business combination. While the personal and financial interests of such individuals may influence their motivation in identifying and selecting a target acquisition, the ability of such individuals to remain with us after the consummation of a business combination will not be the determining factor in our decision as to whether or not we will proceed with any potential business combination. In making the determination as to whether current management should remain with us following the business combination, we will analyze the experience and skill set of the target business management and negotiate as part of the business combination that our founding officers, directors and advisors remain if it is believed that it is in the best interests of the combined company after the consummation of the business combination. Although we intend to closely scrutinize any additional individuals we engage after a business combination, we cannot assure you that our assessment of these individuals will prove to be correct.

There may be tax consequences associated with our acquisition, holding and disposition of target companies and assets.

We may incur significant taxes in connection with effecting acquisitions; holding, receiving payments from, and operating target companies and assets; and disposing of target companies and assets.

Table of Contents

Because any target business with which we attempt to complete a business combination may be required to provide our stockholders with financial statements prepared in accordance with and reconciled to United States generally accepted accounting principles or in accordance with International Financial Reporting Standards the pool of prospective target businesses may be limited.

In accordance with the requirements of United States federal securities laws, in order to seek stockholder approval of a business combination, a proposed target business may be required to have certain financial statements which are prepared in accordance with, or may have to be reconciled to, U.S. generally accepted accounting principles (U.S. GAAP) or in accordance with International Financial Reporting Standards and audited in accordance with the standards of the Public Company Accounting Oversight Board (United States). Although we would attempt to provide such audited or unaudited historical financial statements if required by applicable law or regulations, such historical financial statements are often not required, and, therefore, stockholders voting on a proposed transaction would not have the benefit of financial statements of past operations. However, to the extent that a proposed target business does not have, or cannot prepare, financial statements which have been prepared with, or which can be reconciled to, U.S. GAAP or in accordance with International Financial Reporting Standards, such as if we acquire certain assets, and audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) and such audited or unaudited financial statements are required by applicable law or regulations, we will not be able to acquire that proposed target business. These financial statement requirements may limit the pool of potential target businesses.

Because of our limited resources and the significant competition for business combination opportunities, including numerous companies with a business plan similar to ours, it may be more difficult for us to complete a business combination.

Based on publicly available information as of March 9, 2009, approximately 143 similarly structured blank check companies have completed initial public offerings since the beginning of 2004, and numerous others have filed registration statements. Of these 143 similarly structured blank check companies, only 63 have consummated a business combination, while 18 others have announced that they have entered into definitive agreements or letters of intent with respect to potential business combinations, but have not yet consummated such business combinations and another 36 will be or have liquidated.

Accordingly, there are approximately 44 blank check companies with approximately $10.1 billion in trust and potentially an additional 71 blank check companies seeking to raise $12.9 billion that have filed registration statements and are seeking, or will be seeking, to complete business combinations. While some of these companies have specific industries in which they must identify a potential target business, a number of these companies may consummate a business combination in any industry and/or geographic location they choose. As a result, we may be subject to competition from these and other companies seeking to consummate a business combination within any of our target sectors, which, in turn, will result in an increased demand for privately-held companies in these industries. Because of this competition, we cannot assure you that we will be able to effectuate a business combination within the required time period. Further, the fact that only 81 of such companies have either consummated a business combination or entered into a definitive agreement for a business combination may indicate that there are fewer attractive target businesses available to such entities or that many privately-held target businesses are not inclined to enter into these types of transactions with publicly-held blank check companies like ours.

We expect to encounter intense competition from other entities having a business objective similar to ours, including private investors (which may be individuals or investment partnerships), other blank check companies, and other entities, domestic and international, competing for the type of businesses that we may intend to acquire. Many of these individuals and entities are well established, have capital available to them and have extensive experience in identifying and effecting, directly or indirectly, acquisitions of sports-related properties, assets and entities. Many of these competitors possess greater technical, human and other resources, or more local industry knowledge, than we do and our financial resources will be relatively limited when contrasted with those of many of these competitors. While we believe that there are numerous target acquisitions that we could potentially acquire with the net proceeds of our initial public offering, our ability to compete with respect to the acquisition of certain target acquisitions that are sizable will be limited by our available financial resources. This inherent competitive limitation gives others an advantage in pursuing the acquisition of certain target acquisitions. Furthermore, the obligation we have to seek stockholder approval of a business combination may delay the consummation of a transaction. Additionally, our outstanding warrants and the future dilution they potentially represent may not be viewed favorably by certain target acquisitions. Also, our obligation to convert into cash the shares of common stock in certain instances may reduce the resources available for a business combination. Any of these obligations may place us at a competitive disadvantage in successfully negotiating a business combination.

We cannot assure you we will be able to successfully compete for an attractive business combination. Additionally, because of this competition, we cannot assure you we will be able to effectuate a business combination within the prescribed time period. If we are unable to consummate a business combination within the prescribed time period, we will be forced to liquidate.

You are not entitled to protections normally afforded to investors of blank check companies.

Since the net proceeds of our initial public offering are intended to be used to complete a business combination with an unidentified target acquisition, we may be deemed to be a blank check company under the United States securities laws. However, since we have net tangible assets in excess of $5,000,000 and have filed a Current Report on Form 8-K with the SEC including an audited balance sheet demonstrating this fact, we are exempt from rules promulgated by the SEC to protect investors of blank check companies such as Rule 419. Accordingly, stockholders are not afforded the benefits or protections of those rules, such as entitlement to all the interest earned on the funds deposited in the trust account. Because we are not subject to these rules, including Rule 419, our units are immediately tradable and we have a longer period of time to complete a business combination in certain circumstances than we would if we were subject to such rule.

Table of Contents

Since we have not yet selected any target acquisition with which to complete a business combination, we are unable to currently ascertain the merits or risks of the business operations and investors will be relying on management s ability to source business transactions.

Because we have not yet identified a prospective target acquisition, investors currently have no basis to evaluate the possible merits or risks of the target acquisition. Although our management will evaluate the risks inherent in a particular target acquisition, we cannot assure you that they will properly ascertain or assess all of the significant risk factors. We also cannot assure you that an investment in our units will ultimately prove to be more favorable to investors than a direct investment, if such opportunity were available, in a target acquisition. Except for the limitation that a target acquisition have a fair market value of at least 80% of our net assets held in the time of the acquisition, we will have virtually unrestricted flexibility in identifying and selecting a prospective acquisition candidate. Investors will be relying on management s ability to source business transactions, evaluate their merits, conduct or monitor diligence and conduct negotiations.

If we were to structure our business combination as an asset acquisition, it is possible that proxy materials provided to our stockholders would not include historical financial statements and, accordingly, investors will not have historical financial statements on which to rely in making their decision whether to vote for the acquisition.

Although we would provide such audited or unaudited historical financial statements if required by applicable law or regulations, such historical financial statements are often not required, and, therefore, stockholders voting on a proposed transaction would not have the benefit of financial statements of past operations. We are unable to predict the facts and circumstances surrounding any possible future asset acquisition and, accordingly, cannot provide assurances with respect to the provision of audited historical financial information. If, however, we determined that such audited historical financial information was not required, instead of audited or unaudited historical financial statements, the proxy statement we would send to our stockholders would contain the same information that would typically be provided in the business section of the prospectus for an initial public offering of a start-up company without historical financial statements, such as: (i) historical and prevailing market rates for assets on the basis of type, age and proposed employment; (ii) our expectations of future market trends and proposed strategy for employment of the assets; (iii) our anticipated operational (overhead) expenses; and (iv) the valuation of the assets generally, all of which, in turn, depend on the sector of the sports, leisure or entertainment industry in which we consummate such a business combination. Thus, stockholders would not necessarily be able to rely on historical financial statements when deciding whether to approve a business combination involving the acquisition of assets.

We may issue additional shares of our capital stock to complete a business combination, which would reduce the equity interest of our stockholders and likely cause a change in control of our ownership.

Our amended and restated certificate of incorporation authorizes the issuance of up to 100,000,000 shares of common stock, par value $0.001 per share, and 1,000,000 shares of preferred stock, par value $0.001 per share. There are 45,498,329 authorized but unissued shares of our common stock available for issuance (after appropriate reservation for the issuance of shares of common stock upon full exercise of our outstanding warrants) and all of the 1,000,000 shares of preferred stock available for issuance. Although we have no existing commitment to do so, we are likely to issue a substantial number of additional shares of our common or preferred stock, or a combination of common and preferred stock, to complete a business combination. The issuance of additional shares of our common stock or any number of shares of our preferred stock:

- may significantly reduce the equity interest of our stockholders;

- may subordinate the rights of holders of common stock if preferred stock is issued with rights senior to those afforded to the holders of our common stock;

- will likely cause a change in control if a substantial number of our shares of common stock are issued, which may affect, among other things, our ability to use our net operating loss carry forwards, if any, and most likely will also result in the resignation or removal of our present officers and directors; and

- may adversely affect prevailing market prices for our common stock.

We may issue notes or other debt securities, or otherwise incur substantial debt, which may adversely affect our leverage and financial condition.

Although we have no existing commitments to issue any notes or other debt securities, or to otherwise incur debt, we may choose to incur substantial debt to complete a business combination. The incurrence of debt could result in:

- default and foreclosure on our assets if our operating cash flow was insufficient to pay our debt obligations;
- acceleration of our obligations to repay the indebtedness even if we have made all principal and interest payments when due, if the debt security contained covenants that required the maintenance of certain financial ratios or reserves and any such covenant were breached without a waiver or renegotiation of that covenant;
- our immediate payment of all principal and accrued interest, if any, if the debt security was payable on demand;
- our stockholders receiving less than $10.00 per share from the trust account upon liquidation if such debt is incurred prior to consummation of a business combination and the trust account is subsequently liquidated;

Table of Contents

- covenants that limit our ability to pay dividends on our common stock, to acquire capital assets or make additional acquisitions; and

- our inability to obtain additional financing, if necessary, if the debt security contained covenants restricting our ability to obtain additional financing while such security was outstanding.

Our investments in any future joint investment could be adversely affected by our lack of sole decision-making authority, our reliance on a partner s financial condition and disputes between us and our partners.

While we will not structure our initial business combination in such a way that we will be the minority stockholder of a combined company, we may in the future co-invest with third parties through partnerships or joint investment in an acquisition target or other entities. In such circumstances, we may not be in a position to exercise sole decision-making authority regarding a target business, partnership or other entity. Investments in partnerships or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners might become insolvent or fail to fund their share of required capital contributions. Partners may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such partners may also seek similar acquisition targets as us and we may be in competition with them for such acquisition targets. Disputes between us and partners may result in litigation or arbitration that would increase our expenses and distract our officers and/or directors from focusing their time and effort on our business. Consequently, actions by, or disputes with, partners might result in subjecting assets owned by the partnership to additional risk. We may also, in certain circumstances, be liable for the actions of our third-party partners. For example, in the future we may agree to guarantee indebtedness incurred by a partnership or other entity. Such a guarantee may be on a joint and several basis with our partner in which case we may be liable in the event such party defaults on its guaranty obligation. In addition, if we were to partner with other entities to acquire a target acquisition, it may result in us reporting a minority interest held by a third party in such acquisition target on our financial statements, which would result in us only recognizing our ownership percentage of such target s earnings.

Our ability to successfully effect a business combination and to be successful thereafter will be totally dependent upon the efforts of our key personnel, including our officers, directors and others who may not continue with us following a business combination.

Our ability to successfully effect a business combination is dependent upon the efforts of our key personnel. Our key personnel are also officers, directors, and/or members of other entities, who we anticipate we will have access to on an as needed basis, although there are no assurances that any such personnel will be able to devote either sufficient time, effort or attention to us when we need it. None of our key personnel, including our executive officers have entered into employment or consultant agreements with us. Further, although we presently anticipate that our officers will remain associated in senior management, advisory or other positions with us following a business combination, some or all of the management associated with a target acquisition may also remain in place. As such, our key personnel may not continue to provide services to us after the consummation of a business combination if we are unable to negotiate employment or consulting agreements with them in connection with or subsequent to the business combination, the terms of which would be determined at such time between the respective parties. Such negotiations would take place simultaneously with the negotiation of the business combination and could provide for such individuals to receive compensation in the form of cash payments and/or our securities for services they would render to us after the consummation of the business combination. While the personal and financial interests of such individuals may influence their motivation in identifying and selecting a target acquisition, the ability of such individuals to remain with us after the consummation of a business combination will not be the determining factor in our decision as to whether or not we will proceed with any potential business combination.

We will have only limited ability to evaluate the management of the target business.

While we intend to closely scrutinize any individuals we engage after a business combination, we cannot assure you that our assessment of these individuals will prove to be correct. These individuals may be unfamiliar with the requirements of operating a public company which could cause us to have to expend time and resources helping them become familiar with such requirements. This could be expensive and time-consuming and could lead to various operational issues which may adversely affect our operations.

Our officers, directors and advisors will allocate some portion of their time to other businesses thereby causing conflicts of interest in their determination as to how much time to devote to our affairs. This conflict of interest could have a negative impact on our ability to consummate a business combination.

Our officers, directors and advisors are not required to commit their full time to our affairs, which could create a conflict of interest when allocating their time between our operations and their other commitments. We do not intend to have any full time employees prior to the consummation of a business combination. Our executive officers, directors and advisors are currently employed by other entities and are not obligated to devote any specific number of hours to our affairs. If other entities require them to devote more substantial amounts of time to their business and affairs, it could limit their ability to devote time to our affairs and could have a negative impact on our ability to consummate a business combination. We cannot assure you that these conflicts will be resolved in our favor.

Table of Contents

Our officers, directors, advisors or founding stockholders may have interests in a potential business combination which may raise potential conflicts.

We will not propose any business combination with any potential target business to our stockholders if any of our officers, directors, advisors or founding stockholders is an affiliate of such potential target business, or if such potential target business has received a material investment from any of these individuals or entities. Nevertheless, several of our officers, directors, advisors and founding stockholders are engaged in other business activities and have extensive relationships in the sports, leisure or entertainment industries. Our Chief Executive Officer, Tony Tavares, is the President and Chief Executive Officer of ProEminent Sports, LLC. Pursuant to a consulting agreement between ProEminent Sports, LLC and Medallion Financial Corp., Mr. Tavares acts as a consultant to Medallion for sports related investments and, included within the scope of his duties is his service to us. Pursuant to the consulting agreement, Mr. Tavares has, among other things, agreed to serve as our Chief Executive Officer and review and help define our scope of business. Mr.&nbARIAL" SIZE="2">Other long-term assets:

Deferred compensation plan assets

93,253 93,253

Total assets

$830,203 $672,955 $157,248 $

Liabilities

Accounts payable and accrued liabilities:

Foreign currency derivative contracts

$6,532 $ $6,532 $

Contingent consideration

2,065 2,065

Other long-term liabilities:

Contingent consideration

2,161 2,161

Total liabilities	$10,758	$	$6,532	$4,226

Table of Contents

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

Description	Total as of October 31, 2010	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets				
Cash and cash equivalents:				
Money market funds	$ 487,199	$ 487,199	$	$
Short-term investments:				
Municipal securities	163,154		163,154	
Prepaid and other current assets:				
Foreign currency derivative contracts	5,680		5,680	
Other long-term assets:				
Deferred compensation plan assets	83,330	83,330		
Total assets	$ 739,363	$ 570,529	$ 168,834	$
Liabilities				
Accounts payable and accrued liabilities:				
Foreign currency derivative contracts	$ 13,180	$	$ 13,180	$
Contingent consideration	3,121			3,121
Other long-term liabilities:				
Contingent consideration	4,935			4,935
Total liabilities	$ 21,236	$	$ 13,180	$ 8,056

Equity investments in privately-held companies are accounted for under the cost method of accounting. These equity investments (also called non-marketable equity securities) are classified within Level 3 as they are valued using significant unobservable inputs or data in an inactive market, and the valuation requires management judgment due to the absence of market price and inherent lack of liquidity. The non-marketable equity securities are measured and recorded at fair value when an event or circumstance which impacts the fair value of these securities indicates an other-than- temporary decline in value has occurred. During the three months ended July 31, 2011, an equity investment with a cost basis of $2.4 million was sold for $3.2 million resulting in a $0.8 million gain. As of July 31, 2011, the carrying value of equity investments was $4.0 million.

The following non-marketable equity securities were measured and recorded at fair value within other long-term assets on a non-recurring basis. The losses on these securities were recorded in other (expense) income, net.

	Balance as of July 31, 2011	Significant Unobservable Inputs (Level 3)	Total (losses) during three months ended July 31, 2011	Total (losses) during nine months ended July 31, 2011
			(in thousands)	
Non-marketable equity securities	$ 92	$ 92	$	$ (999)

	Balance as of July 31, 2010	Significant Unobservable Inputs (Level 3)	Total (losses) during three months ended July 31, 2010	Total (losses) during nine months ended July 31, 2010

		(in thousands)		
Non-marketable equity securities	$ 452	$ 452	$ (468)	$ (468)

13

Table of Contents

Note 5. Goodwill and Intangible Assets

Goodwill as of July 31, 2011 consisted of the following:

	(in thousands)
Balance at October 31, 2010	$ 1,265,843
Adjustments(1)	(7,557)
Balance at July 31, 2011	$ 1,258,286

(1) Adjustments relate to changes in estimates for acquisitions that closed in the prior fiscal year for which the purchase price allocation is still preliminary and achievement of certain milestones for an acquisition that closed prior to fiscal 2010.

Intangible assets as of July 31, 2011 consisted of the following:

	Gross Assets(1)	Accumulated Amortization(1)	Net Assets
		(in thousands)	
Core/developed technology	$ 209,326	$ 93,399	$ 115,927
Customer relationships	78,400	28,029	50,371
Contract rights intangible	32,400	17,489	14,911
Covenants not to compete	2,200	2,033	167
Trademarks and trade names	6,200	2,306	3,894
In-process research and development (IPR&D)	15,025		15,025
Capitalized software development costs	11,245	7,801	3,444
Total	$ 354,796	$ 151,057	$ 203,739

(1) Intangible assets as of July 31, 2011 decreased as compared to October 31, 2010 primarily due to the retirement of fully amortized assets.

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

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

Amortization expense related to intangible assets consisted of the following:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)			
Core/developed technology	$ 10,901	$ 7,710	$ 33,877	$ 23,212
Customer relationships	3,248	2,088	9,809	6,607
Contract rights intangible	2,467	589	7,967	2,264
Covenants not to compete	50	88	150	563
Trademarks and trade names	255	136	765	429
Capitalized software development costs(1)	741	741	2,221	2,223
Total	$ 17,662	$ 11,352	$ 54,789	$ 35,298

(1) Amortization of capitalized software development costs is included in cost of license revenue in the unaudited condensed consolidated statements of operations.

Table of Contents

The following table presents the estimated future amortization of intangible assets:

Fiscal Year	(in thousands)
Remainder of fiscal 2011	$ 16,959
2012	59,561
2013	46,621
2014	28,250
2015	17,104
2016 and thereafter	20,219
IPR&D(1)	15,025
Total	$ 203,739

(1) IPR&D projects are estimated to be completed within two years as of July 31, 2011. Amortization will begin upon project completion or the asset will be written off upon abandonment.

Note 6. Liabilities

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

	July 31, 2011	October 31, 2010
	(in thousands)	
Payroll and related benefits	$ 217,484	$ 216,079
Other accrued liabilities	52,099	73,230
Accounts payable	11,627	16,331
Acquisition related liabilities	3,253	7,210
Total	$ 284,463	$ 312,850

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

	July 31, 2011	October 31, 2010
	(in thousands)	
Deferred compensation liability	$ 93,253	$ 83,330
Other long-term liabilities	14,596	18,555
Total	$ 107,849	$ 101,885

Note 7. Credit Facility

On October 20, 2006, the Company entered into a five-year, $300.0 million senior unsecured revolving credit facility providing for loans to the Company and certain of its foreign subsidiaries. The facility contains financial covenants requiring the Company to maintain a minimum leverage ratio and specified levels of cash, as well as other non-financial covenants. The facility terminates on October 20, 2011. Borrowings under the facility bear interest at the greater of the administrative agent s prime rate or the federal funds rate plus 0.50%; however, the Company has the option to pay interest based on the outstanding amount at Eurodollar rates plus a spread between 0.50% and 0.70% based on a pricing grid tied to a financial covenant. In addition, commitment fees are payable on the facility at rates between 0.125% and 0.175% per year based on a pricing grid tied to a financial covenant. As of July 31, 2011, the Company had no outstanding borrowings under this credit facility and was in compliance with all the covenants.

Table of Contents

Note 8. Comprehensive Income

The following table presents the components of comprehensive income:

	Three Months Ended July 31, 2011	Three Months Ended July 31, 2010	Nine Months Ended July 31, 2011	Nine Months Ended July 31, 2010
	(in thousands)			
Net income	$ 52,082	$ 39,327	$ 181,422	$ 211,662
Change in unrealized gains (losses) on investments, net of tax of $(9) and $104, for the three and nine months ended July 31, 2011, respectively, and of $43 and $1,102 for each of the same periods in fiscal 2010, respectively	14	(66)	(163)	(1,670)
Deferred gains (losses) on cash flow hedges, net of tax of $575 and $(1,287), for the three and nine months ended July 31, 2011, respectively, and of $1,461 and $1,940 for each of the same periods in fiscal 2010, respectively	(3,646)	(7,321)	5,169	(12,570)
Reclassification adjustment on deferred (gains) losses on cash flow hedges, net of tax of $401 and $(541), for the three and nine months ended July 31, 2011, respectively, and of $474 and $2,095 for each of the same periods in fiscal 2010, respectively	(1,731)	(468)	2,910	(4,216)
Foreign currency translation adjustment	3,194	(126)	6,318	(1,502)
Total	$ 49,913	$ 31,346	$ 195,656	$ 191,704

Note 9. Stock Repurchase Program

The Company s Board of Directors (Board) previously approved a stock repurchase program pursuant to which the Company was authorized to purchase up to $500.0 million of its common stock, and has periodically replenished the stock repurchase program to such amount. The Board most recently replenished the stock repurchase program up to $500.0 million on May 25, 2011. The Company repurchases shares to offset dilution caused by ongoing stock issuances from existing plans for equity compensation awards, acquisitions, and when management believes it is a good use of cash. Repurchases are transacted in accordance with Rule 10b-18 of the Securities Exchange Act of 1934 (Exchange Act) and may be made through any means including, but not limited to, open market purchases, plans executed under Rule 10b5-1(c) of the Exchange Act and structured transactions. As of July 31, 2011, $412.6 million remained available for further repurchases under the program. The following table summarizes stock repurchase activities as well as the reissuance of treasury stock for employee stock compensation purposes:

	Three Months Ended July 31, 2011	Three Months Ended July 31, 2010	Nine Months Ended July 31, 2011	Nine Months Ended July 31, 2010
	(in thousands, except per share price)			
Shares repurchased	3,830	3,476	12,439	5,755
Average purchase price per share	$ 26.11	$ 21.58	$ 26.93	$ 21.76
Aggregate purchase price	$ 100,000	$ 75,000	$ 334,985	$ 125,257
Reissuance of treasury stock	1,010	1,211	7,626	6,353

16

Table of Contents

Note 10. Stock Compensation

The compensation cost recognized in the unaudited condensed consolidated statements of operations for stock compensation arrangements was as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)			
Cost of license	$ 1,375	$ 1,585	$ 4,092	$ 5,116
Cost of maintenance and service	361	490	993	1,531
Research and development expense	6,157	6,366	19,868	19,863
Sales and marketing expense	2,812	3,030	7,987	9,544
General and administrative expense	2,810	3,043	8,490	9,160
Stock compensation expense before taxes	13,515	14,514	41,430	45,214
Income tax benefit	(3,671)	(3,327)	(11,252)	(10,363)
Stock compensation expense after taxes	$ 9,844	$ 11,187	$ 30,178	$ 34,851

As of July 31, 2011, there was $112.2 million of unamortized share-based compensation expense which is expected to be amortized over a weighted-average period of approximately 2.8 years.

The intrinsic value of equity awards exercised during the periods below are as follow:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)			
Intrinsic value of awards exercised	$ 4,503	$ 5,696	$ 32,356	$ 18,663

Note 11. Net Income per Share

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

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)			
Numerator:				
Net income	$ 52,082	$ 39,327	$ 181,422	$ 211,662
Denominator:				
Weighted-average common shares for basic net income per share	144,960	148,006	147,479	147,909
Dilutive effect of common share equivalents from equity-based compensation	3,085	3,100	4,119	3,550
Weighted-average common shares for diluted net income per share	148,045	151,106	151,598	151,459

Anti-dilutive employee stock-based awards excluded(1)	5,469	12,188	3,593	10,995

(1) These stock options and unvested restricted stock units and restricted stock awards were anti-dilutive for the respective periods and are excluded in calculating diluted net income per share. While such awards were anti-dilutive for the respective periods, they could be dilutive in the future.

Table of Contents

Note 12. Segment Disclosure

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

The Company provides software and hardware products and consulting services. The Company operates in a single segment. In making operating decisions, the CODMs primarily consider consolidated financial information, accompanied by disaggregated information about revenues by geographic region. Specifically, the CODMs consider where individual seats or licenses of the Company s products are used in allocating revenue to particular geographic areas. Revenue is defined as revenues from external customers. Goodwill is not allocated since the Company operates in one reportable operating segment.

The following table presents the revenues related to operations by geographic areas:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)			
Revenue:				
United States	$ 176,811	$ 165,841	$ 526,126	$ 489,112
Europe	55,548	45,245	155,010	136,482
Japan	67,978	61,261	206,276	187,504
Asia-Pacific and other	86,458	64,582	257,697	192,104
Consolidated	$ 386,795	$ 336,929	$ 1,145,109	$ 1,005,202

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

One customer accounted for 10.5% and 10.9% of the Company s consolidated revenue for the three months ended July 31, 2011 and 2010, respectively, and accounted for 10.5% and 10.9% of the Company s consolidated revenue for the nine months ended July 31, 2011 and 2010, respectively.

Note 13. Other (expense) income, net

The following table presents the components of other (expense) income, net:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)			
Interest income	$ 521	$ 1,315	$ 1,686	$ 4,545
(Loss) gain on assets related to deferred compensation plan	(2,774)	(2,165)	5,845	3,662
Foreign currency exchange (loss) gain	(483)	(1,234)	1,732	(1,201)
Write-down of long-term investments		(468)	(999)	(468)
Other, net (1)	524	(494)	768	1,571
Total	$ (2,212)	$ (3,046)	$ 9,032	$ 8,109

(1) Includes a $0.8 million gain on the sale of an equity investment during the three and nine months ended July 31, 2011, and a $2.1 million gain on the sale of an equity investment during the nine months ended July 31, 2010.

Note 14. Taxes

Effective Tax Rate

The Company estimates its annual effective tax rate at the end of each fiscal quarter. The Company s estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and the Company s interpretations of tax laws and possible outcomes of audits.

The following table presents the provision (benefit) for income taxes and the effective tax rates:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Income before income taxes	$ 55,967	$ 47,747	$ 165,558	$ 158,962
Provision (benefit) for income tax	$ 3,885	$ 8,420	$ (15,864)	$ (52,700)
Effective tax rate	6.9%	17.6%	(9.6)%	(33.2)%

The Company s effective tax rate for the three months ended July 31, 2011 is substantially lower than the statutory federal income tax rate of 35% primarily due to lower tax rates applicable to its non-U.S. operations partially offset by state taxes and non-deductible stock compensation. The provision for income taxes for the three and nine months ended July 31, 2011 also included the benefit of additional tax credits and deductions which were higher than those previously estimated as a result of the filing of the Company s federal tax return for fiscal 2010. The effective tax rates for the nine months ended July 31, 2011 and 2010 are both negative primarily due to the tax impact of favorable IRS settlements. The Company files income tax returns in the U.S. and various state and local jurisdictions. Its subsidiaries file tax returns in various foreign jurisdictions, including Ireland, Hungary, Taiwan and Japan. The Company remains subject to income tax examinations in the U.S for fiscal years after 2009. In Ireland, Hungary, Taiwan and Japan, the Company s subsidiaries remain subject to tax examinations for fiscal years after 2005. See *IRS Examinations* below for the status of our current federal income tax audits.

The timing of the resolution of income tax examinations is highly uncertain as well as the amounts and timing of various tax payments that are part of the settlement process. This could cause large fluctuations in the balance sheet classification of current and non-current assets and liabilities. The Company believes that in the coming twelve months, it is reasonably possible that the statute of limitations on certain state and foreign income and withholding taxes will expire. Given the uncertainty as to ultimate settlement terms, the timing of payment and the impact of such settlements on other uncertain tax positions, the range of the estimated potential decrease in underlying unrecognized tax benefits is between $0 and $85 million.

IRS Examinations

The Company is regularly audited by the IRS. In the second quarter of fiscal 2011, the Company reached a final settlement with the Examination Division of the IRS for its audits of fiscal years 2006 through 2009. As a result of the settlement, the Company s unrecognized tax benefits decreased by $35.9 million and the impact to other balance sheet tax accounts was not material. The net tax benefit resulting from the settlement was $32.8 million.

The audit of certain returns filed by Synplicity, Inc. prior to its acquisition by the Company in May 2008 was finalized in the first quarter of fiscal 2011, which resulted in a decrease in unrecognized tax benefits of $4.0 million.

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

As a result of the IRS settlement of fiscal years 2002 through 2004, the Company s net deferred tax assets increased by $55.4 million. The change is due primarily to increases in its deferred tax assets of $72.3 million for certain costs that have been capitalized for tax purposes and will be amortized in future periods, partially offset by a decrease to deferred tax assets of $25.2 million, due to the use of the Company s foreign tax credit carryover, net of the reversal of a valuation allowance.

19

Table of Contents

Non-U.S. Examinations

The Company s subsidiaries are being audited in a number of jurisdictions, including Taiwan (for fiscal 2008) and Hungary (for fiscal 2007 and fiscal 2008). To date, the Company has not received any notices of proposed adjustments resulting from these audits. The Company believes that it has adequately provided for potential tax adjustments in both jurisdictions.

Note 15. Contingencies

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

Note 16. Effect of New Accounting Pronouncements

Beginning in the first quarter of fiscal 2011, the Company adopted recent accounting guidance for revenue arrangements with multiple deliverables on a prospective basis. This guidance addresses whether to treat individual deliverables or groups of deliverables in a multiple-element arrangement as separate units of accounting and how to allocate the arrangement consideration to the separate units of accounting. The guidance also requires that arrangement consideration be allocated to software deliverables (as a group) and to non-software deliverables (individually) based on relative standalone selling prices and provides guidance for estimating standalone selling prices for purposes of allocating arrangement consideration. The guidance does not affect the accounting for contracts which do not contain non-software deliverables.

The Company infrequently enters into multiple-element arrangements that contain both software and non-software deliverables such as hardware which are impacted by the new guidance. Such contracts are not material either individually or in the aggregate to the unaudited condensed consolidated financial statements. Accordingly, the adoption of the new guidance was not material to the Company s unaudited condensed consolidated financial statements and is not expected to have a material effect on subsequent periods.

In June 2011, the FASB issued new guidance regarding the presentation of comprehensive income in financial statements to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. The new guidance will be effective on a retrospective basis in the first quarter of fiscal 2013 and early adoption is permitted. The Company is currently assessing the impact of adoption of the guidance on its consolidated financial statements.

In May 2011, the FASB issued new guidance for fair value measurements to achieve common fair value measurement and disclosure requirements. The new requirements are effective on a prospective basis in the first quarter of fiscal 2013. The Company is currently assessing the impact of adoption of the guidance on its consolidated financial statements.

With the exception of the discussion above, the effect of recent accounting pronouncements has not changed from the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2010.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q, and in particular the following discussion, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements can, in some cases, be identified by the use of terms such as may, will, could, would, should, anticipate, expect, intend, believe, estimate, project or continue, the negatives of such terms, or other comparable terminology. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Without limiting the foregoing, forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements concerning the expected growth in the semiconductor industry, our positive business outlook, the ability of our prior acquisitions to drive revenue growth, the percent of revenue with which we expect to enter each quarter, our expectations with respect to organic and inorganic growth opportunities, our ability to make adjustments to our business as market conditions change, our ability to successfully execute our strategies, the sufficiency of our cash, cash equivalents and short-term investments and cash generated from operations, and our future liquidity requirements.

These statements involve certain known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those identified below in Part II, Item 1A. Risk Factors of this Form 10-Q. The information included herein is given as of the filing date of this Form 10-Q with the Securities and Exchange Commission (SEC) and future events or circumstances could differ significantly from these forward-looking statements. Accordingly, we caution readers not to place undue reliance on these statements. Unless required by law, we undertake no obligation to update publicly any forward-looking statements. All subsequent written or oral forward-looking statements attributable to Synopsys or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Readers are urged to carefully review and consider the various disclosures made in this report and in other documents we file from time to time with the SEC that attempt to advise interested parties of the risks and factors that may affect our business.

The following summary of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements and the related notes thereto contained in Part I, Item 1. of this report and with our audited consolidated financial statements and the related notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010, as filed with the SEC on December 17, 2010 and amended on February 9, 2011.

Fiscal Year End. Our fiscal year ends on the Saturday nearest to October 31. Our third quarter of fiscal 2011 ended on July 30, 2011. Fiscal 2011 and fiscal 2010 are both 52-week fiscal years. For presentation purposes, this Form 10-Q, including the unaudited condensed consolidated financial statements and accompanying notes, refers to the closest calendar month end.

Overview

Business Summary

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

Our customers are generally large semiconductor and electronics manufacturers. Our solutions help them overcome the challenge of developing increasingly advanced electronics products while reducing their design and manufacturing costs. While our products are an important part of our customers development process, our customers research and development budget and spending decisions may be impacted by their business outlook and their willingness to invest in new and increasingly complex chip designs.

Despite recent global economic uncertainty, we have maintained profitability and positive cash flow on an annual basis in recent years. We achieved these results not only because of our solid execution, leading technology and strong customer relationships, but also because of our recurring revenue business model. Under this model, a substantial majority of our customers pay for their licenses over time and we typically recognize this recurring revenue over the life of the contract, which averages approximately three years. Recurring revenue generally represents more than 90% of our

Table of Contents

total revenue. The revenue we recognize in a particular period generally results from selling efforts in prior periods rather than the current period. We typically enter each quarter with greater than 90% of our revenue for that particular quarter already committed from our customers, providing for stability and predictability of results. Due to our business model, decreases as well as increases in customer spending do not immediately affect our revenues in a significant way.

The semiconductor industry has experienced moderate growth to date in 2011. However, our semiconductor customers remain cautious and focused on their costs due to the cyclical nature of the industry, the increasing complexity of product development and macroeconomic factors. The recent instability of global markets may create a more challenging environment for our customers to plan investment in research and development.

Nevertheless, our business outlook is positive based on growth forecasts for the semiconductor industry and our strong financials, diligent expense management, and acquisition strategy. Through our recent acquisitions, we have enhanced our technology and expanded our product portfolio and our total addressable market, especially in IP and system-level solutions, which we believe will help drive revenue growth. We expect to explore both organic and inorganic growth opportunities, including acquiring companies or technology that can contribute to the strategic, operational and financial performance of our business. We will continue to monitor worldwide economic growth rates, the considerable volatility of current global markets and other macroeconomic factors and may make adjustments to our business in the event that the semiconductor industry is unable to maintain current spending levels for our solutions. We believe that the combination of our solid financials, leading technology and strong customer relationships will help us successfully execute our strategies.

Financial Performance Summary for the Three Months Ended July 31, 2011

We continued to derive more than 90% of our revenue from time-based licenses, maintenance and services.

Our total revenue of $386.8 million increased by $49.9 million, or 15%, from $336.9 million in the same period of fiscal 2010. The increase was attributable to our overall growth, including sales of products associated with our prior-year acquisitions, which resulted in increased time-based license revenue, upfront license revenue and professional services revenue.

Our cost of revenue and operating expenses increased compared to the same period in fiscal 2010 primarily due to increases in employee-related costs driven by increased headcount and other direct costs from our prior-year acquisitions.

Our net income of $52.1 million increased by $12.8 million, or 33%, from $39.3 million in the same period of fiscal 2010. The increase was primarily due to overall revenue growth and a lower effective tax rate in fiscal 2011.

Our net cash from operating activities of $367.3 million for the nine months ended July 31, 2011, an increase of $123.2 million, or 50%, from $244.1 million in the same period of fiscal 2010. This increase was primarily from increased customer collections due to our volume of contracts and the timing of billings to customers.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial results under the heading Results of Operations below are based on our unaudited condensed consolidated financial statements, which we have prepared in accordance with U.S. GAAP. In preparing these financial statements, we make assumptions, judgments and estimates that can affect the reported amounts of assets, liabilities, revenues and expenses and net income. On an on-going basis, we evaluate our estimates based on historical experience and various other assumptions we believe are reasonable under the circumstances. Our actual results may differ from these estimates.

The accounting policies that most frequently require us to make assumptions, judgments and estimates, and therefore are critical to understanding our results of operations, are:

Revenue recognition;

Valuation of stock compensation;

Valuation of intangible assets; and

Income taxes.

We describe our revenue recognition policy below. Our remaining critical accounting policies and estimates are discussed in Part II, Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K for the fiscal year ended October 31, 2010, filed with the SEC on December 17, 2010 and amended on February 9, 2011.

Table of Contents

Revenue Recognition.

Software license revenue consists of fees associated with the licensing of our software. Maintenance and service revenue consists of maintenance fees associated with perpetual and term licenses and professional services fees. Hardware revenue consists of Field Programmable Gate Array (FPGA) board-based products.

With respect to software licenses, we utilize three license types:

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

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

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

For the three software license types, we recognize revenue as follows:

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

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

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

We also enter into arrangements in which portions of revenue are contingent upon the occurrence of uncertain future events, for example, royalty arrangements. We refer to this revenue as contingent revenue. Contingent revenue is recognized if and when the applicable event occurs. It is reported as time-based revenue in the unaudited condensed consolidated statements of operations. Historically, these arrangements have not been material to our total revenue.

We recognize revenue from hardware sales in full upon shipment if all other revenue recognition criteria are met. Revenue attributable to these hardware sales is reported as upfront license revenue in the unaudited condensed consolidated statements of operations. Hardware sales have not been material to our total revenue.

We infrequently enter into multiple-element arrangements that contain both software and non-software deliverables such as hardware. On a prospective basis beginning in our first quarter of fiscal 2011, we apply recently issued accounting guidance for revenue arrangements with multiple deliverables for these contracts. The adoption of the new guidance did not have a material effect on our unaudited condensed consolidated financial statements, is not expected to have a material effect on subsequent periods and did not affect the accounting for contracts which do not contain non-software deliverables. The recent accounting guidance addresses whether to treat individual deliverables or groups of deliverables in a multiple-element arrangement as separate units of accounting and how to allocate the arrangement consideration to the separate units of accounting. The guidance also requires that arrangement consideration be allocated to software deliverables (as a group) and to non-software deliverables (individually) based on relative standalone selling prices and provides guidance for estimating standalone selling prices for purposes of allocating arrangement consideration.

We have determined that the software and non-software deliverables in our contracts are separate units of accounting. Prior to our first quarter of fiscal 2011, all deliverables in our contracts were considered one unit of accounting unless we had vendor-specific objective evidence (VSOE) of fair value for all undelivered elements. We now allocate arrangement consideration to separate units of accounting based on estimated standalone selling prices (ESP) because we do not have objective evidence of standalone selling prices. We estimate the standalone selling prices of our separate units of accounting considering both market conditions and our own specific conditions. For hardware deliverables, we determine ESP using cost plus a margin because we have consistent pricing practices and gross margins for these products. Determining the ESP for software deliverables requires significant judgment. We determine ESP for software deliverables after considering customer geographies, market demand and competition at the time of contract negotiation, gross margin objectives, existing portfolio pricing practices, contractually stated prices and prices for similar historical transactions.

Under the recent accounting guidance we recognize revenue for our separate units of accounting when all revenue recognition criteria are met. Revenue allocated to hardware units of accounting is recognized upon delivery when all other revenue recognition criteria are met. Revenue allocated to software units of accounting is recognized according to the methods described above depending on the software license type (TSL, term license or perpetual license).

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

We also enter into arrangements to deliver software products, either alone or together with other products or services that require significant modification, or customization of the software. We account for such arrangements using the percentage of completion method as we have the ability to make reasonably dependable estimates that relate to the extent of progress toward completion, contract revenues and costs. We measure the progress towards completion using the labor hours incurred to complete the project. Revenue attributable to these arrangements is reported as maintenance and service revenue in the unaudited condensed consolidated statements of operations.

We determine the fair value of each element in multiple element software arrangements based on VSOE. We limit our assessment of VSOE of fair value for each element to the price charged when such element is sold separately. We have analyzed all of the elements included in our multiple-element software arrangements and have determined that we have sufficient VSOE to allocate revenue to the maintenance components of our perpetual and term license products and to professional services. Accordingly, assuming all other revenue recognition criteria are met, we recognize license revenue from perpetual and term licenses upon delivery using the residual method, recognize revenue from maintenance ratably over the maintenance term, and recognize revenue from professional services as services are performed or as milestones are met and accepted. We recognize revenue from TSLs ratably over the term of the license, assuming all other revenue recognition criteria are met, since there is not sufficient VSOE to allocate the TSL fee between license and maintenance services.

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

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

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

Table of Contents

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

Collectability is Probable. We judge collectability of the arrangement fees on a customer-by-customer basis pursuant to our credit review policy. We typically sell to customers with whom we have a history of successful collection. For a new customer, or when an existing customer substantially expands its commitments, we evaluate the customer s financial position and ability to pay and typically assign a credit limit based on that review. We increase the credit limit only after we have established a successful collection history with the customer. If we determine at any time that collectability is not probable under a particular arrangement based upon our credit review process or the customer s payment history, we recognize revenue under that arrangement as customer payments are actually received.

Results of Operations

Revenue Background

We generate our revenue from the sale of software licenses, maintenance and professional services and to a small extent, hardware products. Under current accounting rules and policies, we recognize revenue from orders we receive for software licenses, services and hardware products at varying times. In most instances, we recognize revenue on a TSL software license order over the license term and on a term or perpetual software license order in the quarter in which the license is delivered. Substantially all of our current time-based licenses are TSLs with an average license term of approximately three years. Revenue on maintenance orders is recognized ratably over the maintenance period (normally one year). Revenue on professional services orders is generally recognized upon completion and customer acceptance of contractually agreed milestones. Revenue on contracts requiring significant modification or development is accounted for using the percentage of completion method over the period of the development. Revenue on hardware product orders is generally recognized in full at the time the product is shipped.

Our revenue in any fiscal quarter is equal to the sum of our time-based license, upfront license, maintenance and professional services and hardware revenue for the period. We derive time-based license revenue in any quarter largely from TSL orders received and delivered in prior quarters and to a smaller extent due to contracts in which revenue is recognized as customer installments become due and payable and from contingent revenue arrangements. We derive upfront license revenue directly from term and perpetual license and hardware product orders mostly booked and shipped during the quarter. We derive maintenance revenue in any quarter largely from maintenance orders received in prior quarters since our maintenance orders generally yield revenue ratably over a term of one year. We also derive professional services revenue primarily from orders received in prior quarters, since we recognize revenue from professional services as those services are delivered and accepted, not when they are booked. Our license revenue is sensitive to the mix of TSLs and perpetual or term licenses delivered during a reporting period. A TSL order typically yields lower current quarter revenue but contributes to revenue in future periods. For example, a $120,000 order for a three-year TSL delivered on the last day of a quarter typically generates no revenue in that quarter, but $10,000 in each of the twelve succeeding quarters. Conversely, perpetual and term licenses with greater than 75% of the license fee due within one year from shipment typically generate current quarter revenue but no future revenue (e.g., a $120,000 order for a perpetual license generates $120,000 in revenue in the quarter the product is delivered, but no future revenue). Additionally, revenue in a particular quarter may also be impacted by perpetual and term licenses in which less than 75% of the license fees and 100% of the maintenance fees are payable within one year from shipment as the related revenue will be recognized as revenue in the period when customer payments become due and payable.

Our customer arrangements are complex, involving hundreds of products and various license rights, and our customers bargain with us over many aspects of these arrangements. For example, they often demand a broader portfolio of solutions, support and services and seek more favorable terms such as expanded license usage, future purchase rights and other unique rights at an overall lower total cost. No single factor typically drives our customers buying decisions, and

Table of Contents

we compete on all fronts to serve customers in a highly competitive EDA market. Customers generally negotiate the total value of the arrangement rather than just unit pricing or volumes.

Total Revenue

	July 31, 2011	July 31, 2010	Dollar Change	% Change
	(dollars in millions)			
Three months ended	$ 386.8	$ 336.9	$ 49.9	15%
Nine months ended	$ 1,145.1	$ 1,005.2	$ 139.9	14%

Our revenues are subject to fluctuations, primarily due to customer requirements, including payment terms, the timing and value of contract renewals and the sale of products associated with prior-year acquisitions.

The increase in total revenue for the three and nine months ended July 31, 2011 compared to the same periods in fiscal 2010 was due to our overall growth and the related increase in time-based revenue, upfront revenue and professional services revenue primarily driven by the timing and value of contract renewals, sales of products and professional services contracts including contracts assumed from our prior-year acquisitions.

Time-Based License Revenue

	July 31, 2011	July 31, 2010	Dollar Change	% Change
	(dollars in millions)			
Three months ended	$ 322.1	$ 286.6	$ 35.5	12%
Percentage of total revenue	83%	85%		
Nine months ended	$ 936.5	$ 847.7	$ 88.8	10%
Percentage of total revenue	82%	84%		

The increase in time-based license revenue for the three months and nine months ended July 31, 2011 compared to the same periods in fiscal 2010 was primarily attributable to increases in TSL license revenue from arrangements booked in prior periods, higher contingent revenue and product sales from prior-year acquisitions.

Upfront License Revenue

	July 31, 2011	July 31, 2010	Dollar Change	% Change
	(dollars in millions)			
Three months ended	$ 19.0	$ 14.7	$ 4.3	29%
Percentage of total revenue	5%	4%		
Nine months ended	$ 70.6	$ 47.8	$ 22.8	48%
Percentage of total revenue	6%	5%		

Changes in upfront license revenue are generally attributable to normal fluctuations in customer requirements which can drive the amount of upfront orders and revenue in any particular period.

The increase in upfront license revenue for the three and nine months ended July 31, 2011 compared to the same periods in fiscal 2010 was primarily attributable to the increase in sales of our hardware products, perpetual licenses and new products associated with prior-year acquisitions.

Table of Contents

Maintenance and Service Revenue

	July 31, 2011	2010	Dollar Change	% Change
		(dollars in millions)		
Three months ended				
Maintenance revenue	$ 18.7	$ 19.9	$ (1.2)	(6)%
Professional services and other revenue	26.9	15.8	11.1	70%
Total maintenance and services revenue	$ 45.6	$ 35.7	$ 9.9	28%
Percentage of total revenue	12%	11%		
Nine months ended				
Maintenance revenue	$ 59.0	$ 59.0	$	%
Professional services and other revenue	79.0	50.7	28.3	56%
Total maintenance and services revenue	$ 138.0	$ 109.7	$ 28.3	26%
Percentage of total revenue	12%	11%		

Maintenance revenue was relatively flat for the three and nine months ended July 31, 2011 compared to the same periods in fiscal 2010 primarily due to the timing of renewals of maintenance contracts.

Professional services and other revenue increased substantially in the three and nine months ended July 31, 2011 compared to the same periods in fiscal 2010, primarily due to professional services contracts assumed from prior acquisitions.

Cost of Revenue

	July 31, 2011	2010	Dollar Change	% Change
		(dollars in millions)		
Three months ended				
Cost of license revenue	$ 52.1	$ 44.0	$ 8.1	18%
Cost of maintenance and service revenue	19.2	14.7	4.5	31%
Amortization of intangible assets	13.4	8.0	5.4	68%
Total	$ 84.7	$ 66.7	$ 18.0	27%
Percentage of total revenue	22%	20%		
Nine months ended				
Cost of license revenue	$ 153.8	$ 130.2	$ 23.6	18%
Cost of maintenance and service revenue	59.8	46.5	13.3	29%
Amortization of intangible assets	41.5	24.7	16.8	68%
Total	$ 255.1	$ 201.4	$ 53.7	27%
Percentage of total revenue	22%	20%		

We divide cost of revenue into three categories: cost of license revenue, cost of maintenance and service revenue, and amortization of intangible assets. We segregate expenses directly associated with consulting and training services from cost of license revenue associated with internal functions providing license delivery and post-customer contract support services. We then allocate these group costs between cost of license revenue and cost of maintenance and service revenue based on license and maintenance and service revenue reported.

Cost of license revenue. Cost of license revenue includes costs related to products sold and software licensed, allocated operating costs related to product support and distribution costs, royalties paid to third party vendors, and the amortization of capitalized research and development costs associated with software products which have reached technological feasibility.

Cost of maintenance and service revenue. Cost of maintenance and service revenue includes operating costs related to maintaining the infrastructure necessary to operate our services and training organization, and costs associated with the delivery of our consulting services, such as hotline and on-site support, production services and documentation of maintenance updates.

Table of Contents

Amortization of intangible assets. Intangible assets are amortized to cost of revenue and operating expenses, and include the contract rights associated with certain contracts and core/developed technology, trademarks, trade names, customer relationships, covenants not to compete and other intangibles related to acquisitions.

The increase in cost of revenue in the three months ended July 31, 2011 compared to the same period in fiscal 2010 was primarily due to an increase of $6.4 million in personnel-related costs as a result of headcount increases from our prior-year acquisitions, an increase of $5.0 million in maintenance and professional services driven by higher consulting service activities, and an increase of $5.4 million for amortization of intangible assets due to our prior-year acquisitions.

The increase in cost of revenue in the nine months ended July 31, 2011 compared to the same period in fiscal 2010 was primarily due to an increase in $15.0 million in personnel-related costs as a result of headcount increases from our prior-year acquisitions, an increase of $15.1 million in maintenance and professional services, an increase of $3.9 million in hardware and license costs, and an increase of $16.8 million for amortization of intangible assets due to our prior-year acquisitions.

As a percentage of total revenue, cost of revenue marginally increased in the three and nine months ended July 31, 2011 compared to the same periods in fiscal 2010 due to an increase in professional services contracts and an increase in amortization of intangible assets assumed in our prior-year acquisitions.

Operating Expenses

Research and Development

	July 31, 2011	July 31, 2010	Dollar Change	% Change
	(dollars in millions)			
Three months ended	$ 122.5	$ 105.6	$ 16.9	16%
Percentage of total revenue	32%	31%		
Nine months ended	$ 366.5	$ 319.9	$ 46.6	15%
Percentage of total revenue	32%	32%		

The increase in research and development expenses in the three months ended July 31, 2011 compared to the same period in fiscal 2010 was primarily due to an increase of $13.3 million in personnel-related costs and an increase of $2.9 million in functionally allocated expenses as a result of headcount increases from our prior-year acquisitions.

The increase in research and development expenses for the nine months ended July 31, 2011 compared with the same period in fiscal 2010 was primarily due to an increase of $33.7 million in personnel-related costs, an increase of $11.1 million in functionally allocated expenses as a result of headcount increases from our prior-year acquisitions, and $3.6 million of other expenses including third party contractor services, partially offset by a decrease of $3.7 million due to change in the fair value of contingent consideration related to a prior-year acquisition.

Sales and Marketing

	July 31, 2011	July 31, 2010	Dollar Change	% Change
	(dollars in millions)			
Three months ended	$ 90.7	$ 83.8	$ 6.9	8%
Percentage of total revenue	23%	25%		
Nine months ended	$ 269.6	$ 242.8	$ 26.8	11%
Percentage of total revenue	24%	24%		

The increase in sales and marketing expenses for the three months ended July 31, 2011 compared to the same period in fiscal 2010 was primarily attributable to higher variable compensation of $2.4 million driven by timing of shipments based on contract requirements and the increase in license revenues, and an increase of $4.3 million in other personnel-related costs due to an increase in headcount from prior-year acquisitions.

The increase in sales and marketing expenses for the nine months ended July 31, 2011 compared to the same period in fiscal 2010 was primarily attributable to higher variable compensation of $12.8 million driven by the volume of contracts and timing of shipments based on contract requirements and the increase in license revenues, an increase of $10.0 million in other personnel-related costs due to an increase in headcount from prior-year acquisitions, and an increase of $2.3 million in travel-related costs.

Table of Contents

General and Administrative

	July 31, 2011	2010	Dollar Change	% Change
		(dollars in millions)		
Three months ended	$ 27.1	$ 27.4	$ (0.3)	(1)%
Percentage of total revenue	7%	8%		
Nine months ended	$ 86.4	$ 81.9	$ 4.5	5%
Percentage of total revenue	8%	8%		

General and administrative expenses for the three months ended July 31, 2011 compared to the same period in fiscal 2010 were relatively flat. The decrease of $2.3 million in functionally allocated expenses as a result of increased headcount in other functional areas was offset by an increase of $2.8 million in personnel-related costs and facility expenses as a result of headcount increases from our prior-year acquisitions.

The increase in general and administrative expenses for the nine months ended July 31, 2011 compared to the same period in fiscal 2010 was primarily due to an increase of $5.7 million in personnel-related costs, $6.7 million in facility expenses and $4.0 million in other general and administrative expenses primarily as a result of headcount increases from our prior-year acquisitions. The increases were partially offset by a decrease of $13.5 million in functionally allocated expenses as a result of increased headcount in other functional areas.

Amortization of Intangible Assets

	July 31, 2011	2010	Dollar Change	% Change
		(dollars in millions)		
Three months ended				
Included in cost of revenue	$ 13.4	$ 8.0	$ 5.4	68%
Included in operating expenses	3.6	2.6	1.0	38%
Total	$ 17.0	$ 10.6	$ 6.4	60%
Percentage of total revenue	4%	3%		
Nine months ended				
Included in cost of revenue	$ 41.5	$ 24.7	$ 16.8	68%
Included in operating expenses	11.1	8.3	2.8	34%
Total	$ 52.6	$ 33.0	$ 19.6	59%
Percentage of total revenue	5%	3%		

The increase in amortization of intangible assets for the three and nine months ended July 31, 2011 compared to the same periods in fiscal 2010 was due to the amortization of intangible assets from our prior-year acquisitions, partially offset by certain intangible assets becoming fully amortized. See Note 5 to *Notes to Unaudited Condensed Consolidated Financial Statements* for a schedule of future amortization amounts.

Table of Contents

Other (expense) income, net

	July 31, 2011	2010	Dollar Change	% Change
	(dollars in millions)			
Three months ended				
Interest income	$ 0.5	$ 1.3	$ (0.8)	(62)%
Loss on assets related to deferred compensation plan	(2.8)	(2.2)	(0.6)	27%
Foreign currency exchange (loss) gain	(0.4)	(1.2)	0.8	(67)%
Write-down of long-term investments		(0.5)	0.5	(100)%
Other, net	0.5	(0.4)	0.9	(225)%
Total	$ (2.2)	$ (3.0)	$ 0.8	(27)%
Nine months ended				
Interest income	$ 1.7	$ 4.5	$ (2.8)	(62)%
Gain on assets related to deferred compensation plan	5.8	3.7	2.1	57%
Foreign currency exchange (loss) gain	1.7	(1.2)	2.9	(242)%
Write-down of long-term investments	(1.0)	(0.5)	(0.5)	100%
Other, net	0.8	1.6	(0.8)	(50)%
Total	$ 9.0	$ 8.1	$ 0.9	11%

Other (expense) income, net, increased during the three and nine months ended July 31, 2011 compared to the same periods in fiscal 2010 due to the changes described above.

Taxes

Our effective tax rate for the three months ended July 31, 2011 as compared to the three months ended July 31, 2010 is lower principally due to the benefit of additional tax credits and deductions which were higher than those previously estimated as a result of the filing of the Company s federal tax return for the fiscal 2010, the impact of an entire year of federal research and development tax credit in fiscal 2011 versus only two months in fiscal 2010 and the reversal of valuation allowance for capital losses in the third quarter of fiscal 2011. Our effective tax rates for the nine months ended July 31, 2011 and 2010 are negative, primarily due to the tax impact of a final settlement with the IRS for fiscal years 2006 through 2009 of $32.8 million in fiscal 2011 and the final settlement with the IRS for fiscal years 2002 through 2004 of $94.3 million in fiscal 2010. Without the impact of the settlements, the tax rate for the nine months ended July 31, 2011 and 2010 would have been 10.2% and 26.2%, respectively.

For further discussion of the effective tax rate and the IRS settlement, see Note 14 of the *Notes to Unaudited Condensed Consolidated Financial Statements*.

Liquidity and Capital Resources

Our sources of cash, cash equivalents and short-term investments are funds generated from our business operations and funds that may be drawn down under our credit facility.

As of July 31, 2011, we held an aggregate of $337.7 million in cash, cash equivalents and short-term investments in the U.S. and an aggregate of $700.6 million in our foreign subsidiaries. Funds held in our foreign subsidiaries are generated from revenue outside North America. At present, such foreign funds are considered to be indefinitely reinvested in foreign countries to the extent of indefinitely reinvested foreign earnings. However, in the event funds from foreign operations were needed to fund cash needs in the U.S. and if U.S. taxes have not already been previously accrued, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

The following sections discuss changes in our balance sheet and cash flows, and other commitments on our liquidity and capital resources during fiscal 2011.

Table of Contents

Cash and Cash Equivalents and Short-Term Investments

	July 31, 2011	October 31, 2010	Dollar Change	% Change
		(dollars in millions)		
Cash and cash equivalents	$ 889.9	$ 775.4	$ 114.5	15%
Short-term investments	148.4	163.2	(14.8)	(9)%
Total	$ 1,038.3	$ 938.6	$ 99.7	11%

During the nine months ended July 31, 2011, our primary sources and uses of cash consisted of (1) cash provided by operating activities of $367.3 million, (2) proceeds from sales and maturities of short-term investments of $104.0 million, (3) purchases of investments of $92.6 million, (4) cash paid for purchases of property and equipment of $42.8 million, (5) proceeds from the issuance of common stock of $119.8 million for stock awards and (6) repurchases of common stock of $335.0 million.

Cash Flows

	July 31, 2011	2010	Dollar Change	% Change
	(dollars in millions)			
Nine months ended				
Cash provided by operating activities	$ 367.3	$ 244.1	$ 123.2	50%
Cash used in investing activities	(39.1)	(24.8)	(14.3)	58%
Cash used in financing activities	(219.8)	(41.6)	(178.2)	428%

We expect cash from our operating activities to fluctuate in future periods as a result of a number of factors, including the timing of our billings and collections, our operating results, the timing and amount of tax and other liability payments. Cash provided by our operations is dependent primarily upon the payment terms of our license agreements. We generally receive cash from upfront license revenue much sooner than from time-based license revenue. In contrast, payment terms for TSLs are generally extended and the license fee is typically paid either quarterly or annually over the term of the license.

Cash provided by operating activities. Cash provided by operations is dependent primarily upon the payment terms of our license agreements. To be classified as upfront revenue, we require that 75% of a term or perpetual license fee be paid within the first year. Conversely, terms for TSLs are generally extended and the license fee is typically paid either quarterly or annually over the term of the license. Accordingly, we generally receive cash from upfront license revenue much sooner than from time-based license revenue.

Cash provided by operating activities increased in the nine months ended July 31, 2011 compared to the same period in fiscal 2010, primarily due to fluctuation in operating assets and liabilities resulting from changes in deferred revenue balances based on timing of release, an increase in collections from customers, offset by higher payments to vendors, and an increase in inventory balances.

Cash used in investing activities. The decrease in cash used in investing activities in the nine months ended July 31, 2011 compared to the same period in fiscal 2010 is due to higher cash used for capital expenditures in fiscal 2011 and higher net proceeds from short-term investments activity in fiscal 2010, offset by lower cash payments for acquisitions in 2011.

Cash used in financing activities. The increase in cash used in financing activities in the nine months ended July 31, 2011 compared to the same period in fiscal 2010 primarily relates to common stock repurchases under our stock repurchase program, partially offset by issuances of our common stock under our stock compensation plans. See Note 9 of *Notes to Unaudited Condensed Consolidated Financial Statements* for details of our stock repurchase program.

Table of Contents

Accounts Receivable, net

July 31, 2011	October 31, 2010	Dollar Change	% Change
(dollars in millions)			
$ 175.4	$181.1	$(5.7)	(3)%

Our accounts receivable and Days Sales Outstanding (DSO) are primarily driven by our billing and collections activities. Our DSO was 41 days at July 31, 2011, and 44 days at October 31, 2010. The decrease in DSO and in net accounts receivable primarily relates to the timing of billings to customers during fiscal 2011.

Working Capital. Working capital is comprised of current assets less current liabilities, as shown on our consolidated balance sheets:

	July 31, 2011	October 31, 2010	Dollar Change	% Change
	(dollars in millions)			
Current assets	$ 1,362.3	$ 1,247.8	$ 114.5	9%
Current liabilities	982.1	921.8	60.3	7%
Working capital	$ 380.2	$ 326.0	$ 54.2	17%

Changes in our working capital were primarily due to (1) a $99.7 million increase in cash, cash equivalents and short-term investments, (2) a decrease of $28.4 million in accounts payable and accrued liabilities, (3) a $94.0 million increase in deferred revenue due to timing of our billings and (4) a net $14.8 million increase in accounts receivable and other current assets balances primarily related to movements in foreign exchange contract fair values, timing of inventory purchases, income tax balances and increased receivables from the sale of strategic investments during the first 3 quarters of our fiscal year.

Other Commitments Revolving Credit Facility. On October 20, 2006, we entered into a five-year, $300.0 million senior unsecured revolving credit facility providing for loans to us and certain of our foreign subsidiaries. The facility contains financial covenants requiring us to maintain a minimum leverage ratio and specified levels of cash, as well as other non-financial covenants. The facility terminates on October 20, 2011. Borrowings under the facility bear interest at the greater of the administrative agent s prime rate or the federal funds rate plus 0.50%; however, we have the option to pay interest based on the outstanding amount at Eurodollar rates plus a spread between 0.50% and 0.70% based on a pricing grid tied to a financial covenant. In addition, commitment fees are payable on the facility at rates between 0.125% and 0.175% per year based on a pricing grid tied to a financial covenant. As of July 31, 2011, we had no outstanding borrowings under this credit facility and were in compliance with all covenants.

Other

Our cash equivalent and short-term investment portfolio as of July 31, 2011, consists of investment grade municipal securities, tax-exempt money market mutual funds and taxable money market mutual funds. We follow an established investment policy and set of guidelines to monitor, manage and limit our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer. As of July 31, 2011, we had no direct holdings in structured investment vehicles, sub-prime mortgage-backed securities or collateralized debt obligations and no exposure to these financial instruments through our indirect holdings in money market mutual funds. During the three and nine months ended July 31, 2011 and 2010, we had no impairment charge associated with our short-term investment portfolio. While we cannot predict future market conditions or market liquidity, we regularly review our investments and associated risk profiles, which we believe will allow us to effectively manage the risks of our investment portfolio.

As a result of the challenging conditions in the financial markets, we proactively manage our cash and cash equivalents and investments balances and closely monitor our capital and stock repurchase expenditures to ensure ample liquidity. Additionally, we believe the overall credit quality of our portfolio is strong, with our global excess cash, and our cash equivalents and fixed income portfolio invested in banks and securities with a weighted-average credit rating exceeding AA. After the recent downgrade of the U.S. long-term sovereign credit rating by Standard & Poor s, our portfolio maintained its weighted average credit rating above AA. The majority of our investments are classified as Level

1 or Level 2 investments, as measured under fair value guidance. See Notes 3 and 4 of the *Notes to Unaudited Condensed Consolidated Financial Statements*.

We believe that our current cash, cash equivalents, short-term investments, and cash generated from operations will satisfy our business requirements for at least the next twelve months.

Table of Contents

Effect of New Accounting Pronouncements

See Note 16 of the *Notes to Unaudited Condensed Consolidated Financial Statements*.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of July 31, 2011, our exposure to market risk has not changed materially since October 31, 2010. The average yield at purchase for our short-term investment portfolio remains approximately the same as of October 31, 2010. For more information on financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to Item 7A. *Quantitative and Qualitative Disclosure About Market Risk* contained in Part II of our Annual Report on Form 10-K for the fiscal year ended October 31, 2010, filed with the SEC on December 17, 2010 and amended on February 9, 2011.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures.* As of July 31, 2011 (the Evaluation Date), Synopsys carried out an evaluation under the supervision and with the participation of Synopsys management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Synopsys disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives. Our Chief Executive Officer and Chief Financial Officer have concluded that, as of July 31, 2011, (1) Synopsys disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, and (2) Synopsys disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports Synopsys files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required, and that such information is accumulated and communicated to Synopsys management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding its required disclosure.

(b) *Changes in Internal Control Over Financial Reporting.* There were no changes in Synopsys internal control over financial reporting during the three months ended July 31, 2011, that have materially affected, or are reasonably likely to materially affect, Synopsys internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate outcome of any litigation is uncertain and unfavorable outcomes could have a negative impact on our results of operations and financial condition. Regardless of outcome, litigation can have an adverse impact on Synopsys because of the defense costs, diversion of management resources and other factors.

ITEM 1A. RISK FACTORS

We describe our risk factors below.

The continued uncertainty in the global economy, and its potential impact on the semiconductor and electronics industries in particular, may negatively affect our business, operating results and financial condition.

As a result of the recent global recession, the global economy experienced significant uncertainty, stock market volatility, tightened credit markets, concerns about both deflation and inflation, reduced demand for products, lower consumer confidence, reduced capital spending, liquidity concerns and business insolvencies. Further declines, and uncertainty about future economic conditions, could negatively impact our customers businesses, reducing demand for our products and adversely affecting our business.

The recent global recession adversely affected the semiconductor industry. Semiconductor companies generally remain cautious and focused on their costs, including their research and development budgets which capture spending on EDA products and services. These factors could among other things limit our ability to maintain or increase our sales or recognize revenue from committed contracts and in turn adversely affect our business, operating results and financial condition.

Table of Contents

Under our business model, we generally expect more than 90% of our total revenue to be recurring revenue, as a substantial majority of our customers pay for licenses over a three-year period. However, the turmoil and uncertainty caused by recent economic conditions caused some of our customers to postpone their decision-making, decrease their spending and/or delay their payments to us. Future periods of decreased committed average annual revenue, customer bankruptcies, or consolidation among our customers, could adversely affect our year-over-year revenue growth.

The recent global recession also adversely affected the banking and financial industry. If the global economy continues to experience uncertainty, our ability to obtain credit on favorable terms could be jeopardized. Furthermore, we rely on several large financial institutions to act as counterparties under our foreign currency forward contracts, provide credit and banking transactions and deposit services worldwide. Should any of our banking partners declare bankruptcy or otherwise default on their obligations, it could adversely affect our financial results and our business.

We cannot predict if or when global economic confidence will be restored. Accordingly, our future business and financial results are subject to considerable uncertainty, and our stock price is at risk of volatile change. If economic conditions fail to significantly improve for any extended period of time or deteriorate in the future, or, in particular, if semiconductor industry revenues do not continue to grow, our future revenues and financial results could be adversely affected. Conversely, in the event of future improvements in economic conditions for our customers, the positive impact on our revenues and financial results may be deferred due to our business model.

Our operating results may fluctuate in the future, which may adversely affect our stock price.

Our operating results are subject to quarterly and annual fluctuations, which may adversely affect our stock price. Our historical results should not be viewed as indicative of our future performance due to these periodic fluctuations. Many factors may cause our revenue or earnings to fluctuate, including:

- Changes in demand for our products due to fluctuations in demand for our customers products and due to constraints in our customers budgets for research and development and EDA products and services;
- Product competition in the EDA industry, which can change rapidly due to industry or customer consolidation and technological innovation;
- Our ability to innovate and introduce new products and services or effectively integrate products and technologies that we acquire;
- Failures or delays in completing sales due to our lengthy sales cycle;
- Cancellations or changes to levels of license orders or the mix between upfront and time-based license revenue;
- Our ability to implement effective cost control measures;
- Delay of one or more orders for a particular period, particularly orders generating upfront revenue;
- Our dependence on a relatively small number of large customers for a large portion of our revenue;
- Changes in or challenges to our revenue recognition model;

Amendments or renewals of customer contracts which provide discounts or require the deferral of revenue to later periods;

Delays, increased costs or quality issues resulting from our reliance on third parties to manufacture our hardware products; and

General economic and political conditions that affect the semiconductor and electronics industries.

These factors, or any other factors or risks discussed herein, could negatively impact our revenue or earnings and cause our stock price to decline.

The growth of our business depends on the semiconductor and electronics industries.

The growth of the EDA industry as a whole, and our business in particular, is dependent on the semiconductor and electronics industries. A substantial portion of our business and revenue depends upon the commencement of new design projects by semiconductor manufacturers and their customers. The increasing complexity of designs of SoCs and ICs, and customers concerns about managing costs, have in recent periods led to a decrease in design starts and design activity in general, with some customers focusing more on one discrete phase of the design process. Demand for our products and services could fall and our financial condition and results of operations could be adversely affected if the semiconductor and electronics industries do not continue to grow, or grow at a slower rate. Additionally, as the EDA industry matures, consolidation has caused increased levels of competition for a greater share of our customers EDA spending. This increased competition may cause our revenue growth rate to decline and exert downward pressure on our operating margins, which may have an adverse effect on our business and financial condition.

Table of Contents

If we do not successfully compete in the industries in which we operate, our business and financial condition will be harmed.

We compete against EDA vendors that offer a variety of products and services, primarily Cadence Design Systems, Inc., Mentor Graphics Corporation and Magma Design Automation, Inc. We also compete with other EDA vendors, including frequent new entrants to the marketplace, that offer products focused on one or more discrete phases of the IC design process, as well as vendors of IP products and system-level solutions. Moreover, our customers internally develop design tools and capabilities that compete with our products.

These industries are highly competitive and the demand for our products and services is dynamic and depends on a number of factors, including demand for our customers products, design starts and our customers budgetary constraints. In addition, our customers continue to demand an overall lower total cost of design, which can lead to the consolidation of their purchases with one vendor. We compete principally on the basis of technology, product quality and features (including ease-of-use), license or usage terms, post-contract customer support, interoperability among products, and price and payment terms. Specifically, we believe the following competitive factors affect our success:

- Our ability to anticipate and lead critical development cycles, innovate rapidly and efficiently, improve our existing products, and successfully develop or acquire new products;

- Our ability to offer products that provide both a high level of integration into a comprehensive platform and a high level of individual product performance;

- Our ability to enhance the value of our offering through more favorable terms such as expanded license usage, future purchase rights, price discounts and other unique rights, such as multiple tool copies, post-contract customer support, and the ability to purchase pools of technology; and

- Our ability to compete on the basis of payment terms which continue to lengthen over time.

If we fail to successfully manage these competitive factors, or if we fail to address new competitive forces, our business will be adversely affected.

We may not be able to acquire businesses and technology and we may not be able to realize the potential financial or strategic benefits of the acquisitions we complete, which could hurt our ability to grow our business, develop new products or sell our products.

Acquisitions are an important part of our growth strategy. We have completed a significant number of acquisitions in recent years, including the acquisitions of CoWare, Inc., VaST Systems Technology Corporation, and Virage Logic Corporation. We expect to make additional acquisitions in the future, but we may not find suitable acquisition targets or we may not be able to consummate desired acquisitions due to unfavorable credit markets or other risks, which could harm our operating results. Acquisitions are difficult, time consuming, and pose a number of risks, including:

- Potential negative impact on our earnings per share;

- Failure of acquired products to achieve projected sales;

- Problems in integrating the acquired products with our products;

Potential downward pressure on operating margins due to lower operating margins of acquired businesses, increased headcount costs and other expenses associated with adding and supporting new products;

Difficulties in retaining and integrating key employees;

Failure to realize expected synergies or cost savings;

Dilution of our current stockholders through the issuance of common stock, a substantial reduction of our cash resources and/or the incurrence of debt;

Assumption of unknown liabilities, including tax and litigation, and the related expenses and diversion of resources;

Potential negative impact on our relationships with customers, distributors and business partners; and

Negative impact on our earnings resulting from the application of ASC 805, *Business Combinations*, which became applicable to us in the first quarter of fiscal 2010.

If we do not manage these risks, the acquisitions that we complete may have an adverse effect on our business and financial condition. For instance, if we are unable to successfully integrate the products and technology from our acquisition of Virage Logic, we may not be able to achieve the anticipated revenue growth from this transaction. Additionally, if we determine we cannot use or sell the acquired products or technology, we will be required to write down the associated intangible assets, which would negatively impact our operating results.

Table of Contents

Consolidation among our customers, as well as within the industries in which we operate, may negatively impact our operating results.

A number of business combinations, including mergers, asset acquisitions and strategic partnerships, among our customers and in the semiconductor and electronics industries have occurred recently, and more could occur in the future. Consolidation among our customers could lead to fewer customers or the loss of customers, increased customer bargaining power, or reduced customer spending on software and services. Moreover, business combinations within the industries in which we compete may result in stronger competition from companies that are better able to compete as sole source vendors to customers. The loss of customers or reduced customer spending could adversely affect our business and financial condition.

If we fail to protect our proprietary technology our business will be harmed.

Our success depends in part upon protecting our proprietary technology. We rely on agreements with customers, employees and others and on intellectual property laws worldwide to protect our proprietary technology. These agreements may be breached, and we may not have adequate remedies for any breach. Additionally, some foreign countries do not currently provide effective legal protection for intellectual property and our ability to prevent the unauthorized use of our products in those countries is therefore limited. Our trade secrets may also otherwise become known or be independently developed by competitors.

We may need to commence litigation or other legal proceedings in order to:

- Assert claims of infringement of our intellectual property;

- Protect our trade secrets or know-how; or

- Determine the enforceability, scope and validity of the propriety rights of others.

If we do not obtain or maintain appropriate patent, copyright or trade secret protection, for any reason, or cannot fully defend our intellectual property rights in some jurisdictions, our business and operating results would be harmed. In addition, intellectual property litigation is lengthy, expensive and uncertain and legal fees related to such litigation will increase our operating expenses and may reduce our net income.

Changes in accounting principles or standards, or in the way they are applied, could result in unfavorable accounting charges or effects and unexpected financial reporting fluctuations, and could adversely affect our reported operating results.

We prepare our consolidated financial statements in conformity with U.S. GAAP. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles and guidance. A change in these principles or guidance can have a significant effect on our reported results and may retroactively affect previously reported results. Additionally, proposed accounting standards could have a significant impact on our operational processes, revenues and expenses, and could cause unexpected financial reporting fluctuations.

We may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively affect our operating results.

We devote substantial resources to research and development. New competitors, technological advances by existing competitors, our acquisitions, our entry into new markets, or other competitive factors may require us to invest significantly greater resources than we anticipate. If we are required to invest significantly greater resources than anticipated without a corresponding increase in revenue, our operating results could decline. Additionally, our research and development expenses are likely to fluctuate from time to time to the extent we make periodic incremental investments in research and development. These investments may be independent of our level of revenue which could negatively impact our financial results.

Unfavorable tax law changes, an unfavorable government review of our tax returns or changes in our geographical earnings mix or forecasts of foreign source income could adversely affect our effective tax rate and our operating results.

Our operations are subject to income and transaction taxes in the United States and in multiple foreign jurisdictions. A change in the tax law in the jurisdictions in which we do business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, could result in a material increase in our tax expense. Currently, a substantial portion of our revenue is generated from customers located outside the United States, and a substantial portion of our assets, including employees, are located outside the United States. United States income taxes and foreign withholding taxes have not been provided on undistributed earnings for certain non-United States subsidiaries to the extent such earnings are considered to be indefinitely reinvested in the operations of those subsidiaries. On August 10,

Table of Contents

2010, the Education Jobs and Medicaid Assistance Act of 2010 (P.L. 111-226) was enacted, which may limit our ability to use foreign tax credits, effective for transactions entered into after our fiscal year 2010. Additionally, on February 14, 2011, the President of the United States and the U.S. Treasury Department proposed changes to the U.S. tax rules for U.S. corporations doing business outside the United States. Specific legislation regarding such changes has not yet been enacted, but it is possible that these or other changes in the U.S. tax laws could increase our U.S. income tax liability in the future. A number of proposals for broad reform of the corporate tax system in the U.S. are under evaluation by various legislative and administrative bodies, but it is not possible to determine accurately the overall impact of such proposals on our effective tax rate at this time.

Our tax filings are subject to review or audit by the IRS and state, local and foreign taxing authorities. We exercise judgment in determining our worldwide provision for income taxes and, in the ordinary course of our business, there may be transactions and calculations where the ultimate tax determination is uncertain. The IRS examinations of our federal tax returns for the years 2000 through 2001 and 2002 through 2004 resulted in significant proposed adjustments which were subsequently settled without a material financial statement impact. In addition, we are currently being audited in jurisdictions outside the U.S. Although we believe our tax estimates are reasonable, we can provide no assurance that any final determination in an audit will not be materially different than the treatment reflected in our historical income tax provisions and accruals. An assessment of additional taxes as a result of an audit could adversely affect our income tax provision and net income in the period or periods for which that determination is made.

We have operations both in the United States and in multiple foreign jurisdictions with a wide range of statutory tax rates. Therefore, any changes in our geographical earnings mix in various tax jurisdictions, including those resulting from transfer pricing adjustments, could materially increase our effective tax rate. Furthermore, we maintain deferred tax assets related to federal foreign tax credits and certain state tax credits. Our ability to use these credits is dependent upon having sufficient future foreign source income in the United States, as well as sufficient taxable income in certain states. Changes in our forecasts of future income could result in an adjustment to the deferred tax asset and a related charge to earnings which could materially affect our financial results.

The global nature of our operations exposes us to increased risks and compliance obligations which may adversely affect our business.

We derive more than half of our revenue from sales outside the United States, and we expect our orders and revenue to continue to depend on sales to customers outside the United States. In addition, we have expanded our non-U.S. operations significantly in the past several years. This strategy requires us to recruit and retain qualified technical and managerial employees, manage multiple, remote locations performing complex software development projects and ensure intellectual property protection outside of the United States. Our international operations and sales subject us to a number of increased risks, including:

- International economic and political conditions, such as political tensions between countries in which we do business;
- Difficulties in adapting to cultural differences in the conduct of business;
- Ineffective legal protection of intellectual property rights;
- Financial risks such as longer payment cycles and difficulty in collecting accounts receivable;
- Inadequate local infrastructure that could result in business disruptions;
- Additional taxes and penalties; and
- Other factors beyond our control such as natural disasters, terrorism, civil unrest, war and infectious diseases.

If any of the foreign economies in which we do business deteriorate or if we fail to effectively manage our global operations, our business and results of operations will be harmed.

In addition, our global operations are subject to numerous U.S. and foreign laws and regulations, including those related to anti-corruption, tax, corporate governance, imports and exports, financial and other disclosures, privacy and labor relations. These laws and regulations are complex and may have differing or conflicting legal standards, making compliance difficult and costly. If we violate these laws and regulations we could be subject to fines, penalties or criminal sanctions, and may be prohibited from conducting business in one or more countries. Although we have implemented policies and procedures to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors or agents will not violate these laws and regulations. Any violation individually or in the aggregate could have a material adverse effect on our operations and financial condition.

Our operating results are affected by foreign currency exchange rate fluctuations.

Our operating results are affected by fluctuations in foreign currency exchange rates. Our results of operations can be adversely affected when the U.S. dollar weakens relative to other currencies, as a result of the translation of expenses of our foreign operations denominated in foreign currencies into the U.S. dollar. Exchange rates are subject to significant and rapid fluctuations, and therefore we cannot predict the prospective impact of exchange rate fluctuations on our business, results of operations and financial condition. Although we engage in foreign currency hedging activity, we may be unable to hedge all of our foreign currency risk. If foreign currency exchange rates deteriorate our operating results would be adversely affected by reducing the amount of revenue derived from outside of the United States.

From time to time we are subject to claims that our products infringe on third party intellectual property rights.

Under our customer agreements and other license agreements, we agree in many cases to indemnify our customers if our products infringe a third party s intellectual property rights. As a result, we are from time to time subject to claims that our products infringe on these third party rights. For example, we have recently defended some of our customers against claims that their use of one of our products infringes on a patent held by a Japanese electronics company. Although we were successful in that case, there can be no assurances that we will prevail in defending against any future claims of infringement. In addition, these types of claims can result in costly and time-consuming litigation, require us to enter into royalty arrangements, subject us to damages or injunctions restricting our sale of products, invalidate a patent or family of patents, require us to refund license fees to our customers or to forgo future payments or require us to redesign certain of our products, any one of which could harm our business and operating results.

Product errors or defects could expose us to liability and harm our reputation and we could lose market share.

Software products frequently contain errors or defects, especially when first introduced, when new versions are released or when integrated with technologies developed by acquired companies. Product errors could affect the performance or interoperability of our products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance or perception of our products. In addition, allegations of IC manufacturability issues resulting from use of our IP products could, even if untrue, adversely affect our reputation and our customers willingness to license IP products from us. Any such errors or delays in releasing new products or new versions of products or allegations of unsatisfactory performance could cause us to lose customers, increase our service costs, subject us to liability for damages and divert our resources from other tasks, any one of which could materially and adversely affect our business and operating results.

Customer payment defaults or related issues could harm our operating results.

The majority of our revenue backlog consists of customer payment obligations not yet due that are attributable to software we have already delivered. A significant portion of the revenue we recognize in any period comes from backlog and is dependent upon our receipt of cash from customers. We will not achieve expected revenue and cash flow if customers default, declare bankruptcy, or otherwise fail to pay amounts owed. Moreover, existing customers may seek to renegotiate pre-existing contractual commitments due to adverse changes in their own businesses. Our customers financial condition, and in turn their ability or willingness to fulfill their contractual and financial obligations, could be adversely affected by current economic conditions. If payment defaults by our customers significantly increase or we experience significant reductions in existing contractual commitments, our operating results would be harmed.

We may be subject to litigation proceedings that could harm our business.

We may be subject to legal claims or regulatory matters involving stockholder, consumer, competition, and other issues on a global basis. Litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or, in cases for which injunctive relief is sought, an injunction prohibiting us from manufacturing or selling one or more products. If we were to receive an unfavorable ruling on a matter, our business and results of operations could be materially harmed.

If we fail to timely recruit and retain senior management and key employees our business may be harmed.

We depend in large part upon the services of key members of our senior management team to drive our future success. If we were to lose the services of any member of our senior management team, our business could be adversely affected.

To be successful, we must also attract and retain key technical, sales and managerial employees, including those who join Synopsys in connection with acquisitions. There are a limited number of qualified EDA and IC design engineers, and competition for these individuals is intense and has increased. Our employees are often recruited aggressively by our competitors and our customers. Any failure to recruit and retain key technical, sales and managerial employees would harm our business, results of operations and financial condition. Additionally, efforts to recruit and retain qualified employees could negatively impact our operating expenses.

Table of Contents

We issue stock options and restricted stock units and maintain employee stock purchase plans as a key component of our overall compensation. We face pressure to limit the use of such equity-based compensation due to its dilutive effect on stockholders. In addition, we are required under U.S. GAAP to recognize compensation expense in our results from operations for employee share-based equity compensation under our equity grants and our employee stock purchase plan, which has increased the pressure to limit share-based compensation. These factors may make it more difficult for us to grant attractive share-based packages in the future, which could adversely impact and limit our ability to attract and retain key employees.

Our business is subject to evolving corporate governance and public disclosure regulations that have increased both our compliance costs and the risk of noncompliance, which could have an adverse effect on our stock price.

We are subject to changing rules and regulations promulgated by a number of governmental and self-regulated organizations, including the SEC, the NASDAQ Global Market, and the Financial Accounting Standards Board. These rules and regulations continue to evolve in scope and complexity and many new requirements have been created in response to laws enacted by Congress, making compliance more difficult and uncertain. For example, Congress recently passed the Dodd-Frank Wall Street Reform and Protection Act. Our efforts to comply with the Dodd-Frank Act and other new regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

There are inherent limitations on the effectiveness of our controls.

Regardless of how well designed and operated it is, a control system can provide only reasonable assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. 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, have been detected. Failure of our control systems to prevent error or fraud could have a material adverse impact on our business.

Our investment portfolio may be impaired by deterioration of the capital markets.

Our cash equivalent and short-term investment portfolio as of July 31, 2011 consists of investment grade municipal bonds, tax-exempt money market mutual funds, taxable money market mutual funds and bank deposits. Our investment portfolio carries both interest rate risk and credit risk. Fixed rate debt securities may have their market value adversely impacted due to a credit downgrade or a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall or a credit downgrade occurs. As a result of current adverse financial market conditions, including the recent downgrade by Standard and Poor s (S&P) of the U.S. long-term sovereign credit rating, capital pressures on certain banks, especially in Europe, and the continuing low interest rate environment, some of our financial instruments may become impaired. Our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. In addition, we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in the issuer s credit quality or changes in interest rates.

Catastrophic events may disrupt our business and harm our operating results.

Due to the global nature of our business, our operating results may be negatively impacted by catastrophic events throughout the world, including such events as the recent earthquake and tsunami in Japan. We rely on a global network of infrastructure applications, enterprise applications and technology systems for our development, marketing, operational, support and sales activities. A disruption or failure of these systems in the event of a major earthquake, fire, telecommunications failure, cyber-attack, terrorist attack, or other catastrophic event could cause system interruptions, delays in our product development and loss of critical data and could prevent us from fulfilling our customers orders. Moreover, our corporate headquarters, a significant portion of our research and development activities, our data centers, and certain other critical business operations are located in California, near major earthquake faults. A catastrophic event that results in the destruction or disruption of any of our data centers or our critical business or information technology systems would severely affect our ability to conduct normal business operations and, as a result, our operating results would be adversely affected.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information regarding repurchases of Synopsys common stock by Synopsys during the three months ended July 31, 2011.

Period (1)	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program	Approximate dollar value of shares that may yet be purchased under the program
Month #1				
May 1, 2011 through June 4, 2011	1,034,900	$ 26.8583	1,034,900	$ 484,767,595
Month #2				
June 5, 2011 through July 2, 2011	2,794,660	$ 25.8365	2,794,660	$ 412,563,351
Month #3				
July 3, 2011 through July 30, 2011				$ 412,563,351
Total	3,829,560	$ 21.1126	3,829,560	$ 412,563,351

(1) All months shown are Synopsys fiscal months.

Our Board of Directors previously approved a stock repurchase program pursuant to which we were authorized to purchase up to $500.0 million of our common stock, and has periodically replenished the stock repurchase program to such amount. Our Board most recently replenished the stock repurchase program up to $500.0 million on May 25, 2011. Funds are available until expended or until the program is suspended by our Chief Financial Officer or Board of Directors. As of July 31, 2011, $412.6 million remained available for future repurchases under the program. See Note 9 of *Notes to Unaudited Condensed Consolidated Financial Statements* for further information regarding our stock repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation	10-Q	000-19807	3.1	09/15/03	
3.2	Restated Bylaws	8-K	000-19807	3.2	06/03/09	
4.1	Specimen Common Stock Certificate	S-1	33-45138	4.3	02/24/92 (effective date)	
10.1	Form of Indemnification Agreement for directors and executive officers	8-K	000-19807	99.2	07/14/11	
10.34+	Form of Notice of Grant of Stock Options and Option Agreement under the 2006 Employee Equity Incentive Plan					X
10.37+	Form of Restricted Stock Unit Grant Notice and Award Agreement under the 2006 Employee Equity Incentive Plan					X
31.1	Certification of Principal Executive Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
31.2	Certification of Principal Financial Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
32.1	Certification of Principal Executive Officer and Principal Financial Officer furnished pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code					X
101.INS*	XBRL Instance Document					X
101.SCH*	XBRL Taxonomy Extension Schema Document					X
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document					X

+ Indicates a management contract, compensatory plan or arrangement.

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SYNOPSYS, INC.	
Date: September 2, 2011	By:	/s/ Brian M. Beattie **Brian M. Beattie**
		Chief Financial Officer
		(Principal Financial Officer)

42

Table of Contents

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101.LAB*	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document					X

\+ Indicates a management contract, compensatory plan or arrangement.
* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.