SYNOPSYS INC
Form 10-K
December 17, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

OR

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

Commission File Number 0-19807

SYNOPSYS, INC.

(Exact name of registrant as specified in its charter)

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

700 East Middlefield Road, Mountain View, California 94043

(Address of principal executive offices, including zip code)

(650) 584-5000

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	**NASDAQ Global Select Market**

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant s most recently completed second fiscal quarter was approximately $2.2 billion. Aggregate market value excludes an aggregate of approximately 53.1 million shares of common stock held by officers and directors and by each person known by the registrant to own 5% or more of the outstanding common stock on such date. Exclusion of shares held by any of these persons should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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SYNOPSYS, INC.

ANNUAL REPORT ON FORM 10-K

Year ended October 31, 2010

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Cautionary Note Regarding Forward-Looking Statements

In addition to current and historical information, this Annual Report on Form 10-K (this Form 10-K or Annual Report) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the Securities Act) and Section 21E of the Securities Exchange Act of 1934 (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. This Fo includes, among others, forward-looking statements regarding our expectations about:

- our business, product and platform strategies;
- prior and future acquisitions;
- the impact of macroeconomic conditions on our business and our customers businesses;
- customer license renewals;
- the completion of development of our unfinished products, or further development or integration of our existing products;
- our ability to successfully compete in the electronic design automation industry;
- the continuation of current industry trends towards vendor consolidation;
- our license mix;
- customer interest in more highly integrated tools and design flows;
- our ability to protect our intellectual property rights;
- 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 listed in Part I, Item 1A. Risk Factors of this Form 10-K. The information included herein is given as of the filing date of this Form 10-K 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. 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.

Fiscal Year End

Our fiscal year ends on the Saturday nearest October 31. For 2010, our fiscal year ended on October 30, 2010. For 2009 and 2008, our fiscal years ended on October 31, 2009 and November 1, 2008, respectively. For presentation purposes in this Form 10-K, in general we refer to October 31 as the end of a fiscal year.

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PART I

Item 1. *Business*

Introduction

Synopsys, Inc. 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.

Corporate Information

We incorporated in 1986 in North Carolina and reincorporated in Delaware in 1987. Our headquarters are located at 700 East Middlefield Road, Mountain View, California 94043, and our telephone number there is (650) 584-5000. We have approximately 70 offices worldwide.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Proxy Statements relating to our annual meetings of stockholders, Current Reports on Form 8-K and amendments to these reports, as well as filings made by our executive officers and directors, are available on our Internet website *(www.synopsys.com)* free of charge. We post these reports to our website as soon as practicable after we file them with, or furnish them to, the U.S. Securities and Exchange Commission (www.sec.gov). The contents of our website are not part of this Form 10-K.

Background

The proliferation of consumer and wireless products, the growth of the Internet, and the development of higher speed computers and more robust visual communication systems, as well as the increasing electronics content in automotive, defense and other applications, has created demand for integrated circuits and systems with greater functionality and performance, reduced size, and less power consumption, at lower prices. These demands, as well as ever-shortening time-to-market requirements, introduce challenges for all participants in the production of these products, from designers and manufacturers of chips and electronic systems to equipment manufacturers.

It is not uncommon for a single chip to contain many discrete sections (processor, communications, memory, custom logic, input/output) that may have been implemented on separate chips in previous generations. This combination of many chips into a single System-on-Chip (SoC) results in highly complex designs. The most complex chips today contain more than a billion transistors, the basic building blocks for integrated circuits, each of which may have features that are less than 1/1,000th the diameter of a human hair.

The designer s task is to determine where each of those billion transistors should be located and how they should be connected to each other, verify that the resulting design behaves as intended, and ensure that the design can be manufactured cost-effectively. This task is a complicated, multi-step process which is both expensive and time-consuming. Errors can be especially costly.

Synopsys provides the software tools, hardware and other technologies to help designers of complex integrated circuits and systems. We offer a wide range of products that address the different

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steps in the overall design process, both for the design of individual integrated circuits and for the design of larger systems. Synopsys products can increase designer productivity and efficiency by automating tasks, keeping track of large amounts of design data, adding intelligence to the design process, facilitating reuse of past designs and reducing errors. Our global service and support engineers also provide expert technical support and design assistance to our customers.

Products and Services

Our products and services are organized into four groups: Core EDA (which includes the Galaxy Design Platform, the Discovery Verification Platform and our FPGA (Field Programmable Gate Array) design products), Intellectual Property (IP) and System-Level Solutions, Manufacturing Solutions, and Professional Services.

Core EDA products

The process of designing integrated circuits contains many complex steps: architecture definition, RTL (register transfer level) design, functional/RTL verification, logic design or synthesis, gate-level verification, floorplanning, and place and route, to name just a few. Designers use our Core EDA products to automate the integrated circuit design process and to reduce errors. We offer a large number of Core EDA products intended to address the process comprehensively. Our Core EDA products generally fall into the following suites: the Galaxy Design Platform, which includes tools to design an integrated circuit, the Discovery Verification Platform, which includes tools to verify that an integrated circuit behaves as intended, and the FPGA design products.

Galaxy Design Platform

Our Galaxy Design Platform provides our customers with a single, integrated chip design solution that includes industry-leading individual products and incorporates common libraries and consistent timing, delay calculation and constraints throughout the design process. The platform allows designers the flexibility to integrate internally-developed and third-party tools. With this advanced functionality, common foundation and flexibility, our Galaxy Design Platform helps reduce design times, decrease integration costs and minimize the risks inherent in advanced, complex integrated circuit designs. Our products span both digital and analog/mixed-signal designs.

The principal products included in the Galaxy Design Platform are the IC Compiler physical design solution, Design Compiler® logic synthesis product, Galaxy Custom Designer® physical design solution for analog/mixed-signal designs, PrimeTime®/PrimeTime SI timing analysis products, StarRC product for extraction, and the Hercules and IC Validator physical verification product family.

The Lynx Design System is a production-ready chip implementation environment that combines a complete Galaxy-based design flow, GUI-based runtime automation, design metrics capture and reporting, and utilities that automate the configuration of pre-validated foundry data. The Lynx Design System helps customers improve their productivity and optimally deploy Synopsys tools and methodologies.

Discovery Verification Platform

Our Discovery Verification Platform is a comprehensive, integrated portfolio of functional, analog/mixed-signal, formal and low-power verification products. The platform includes our simulation and verification products and design-for-verification methodologies, and provides a consistent control environment to help significantly improve the speed, breadth and accuracy of our customers

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verification efforts. The Discovery Verification Platform s components support industry standards and span both digital and analog/mixed-signal designs.

The principal products included in the Discovery Verification Platform are the VCS® comprehensive RTL verification solution, Formality® formal verification sign-off solution, NanoSim® FastSPICE circuit simulation and analysis product, HSIM® hierarchical FastSPICE circuit simulation and analysis product, HSPICE® circuit simulator, and CustomSim circuit simulation solution.

FPGA Design Products

FPGAs are complex chips that can be customized or programmed to perform a specific function after they are manufactured. For FPGA design, we offer Synplify® Pro and Premier implementation and Identify® debug software tools.

Intellectual Property (IP) and System-Level Solutions

IP Products

As more functionality converges into a single device, the number of third-party provided IP blocks is rapidly increasing. Synopsys is a leading provider of high-quality, silicon-proven IP solutions for SoC designs. The broad DesignWare IP portfolio includes high quality solutions for widely used interfaces such as USB, PCI Express®, DDR, Ethernet, SATA and HDMI. In addition, Synopsys offers analog IP for high definition video, analog-to-digital data conversion, and audio. With our recent acquisition of Virage Logic Corporation, we added embedded memories, including SRAMs and non-volatile memory, logic libraries, embedded test and repair IP and configurable processor cores, to our IP portfolio.

System-Level Solutions

Today s complex chips are really SoCs. By optimizing the design earlier in the development cycle, at the system level, customers can reduce time-to-market, development costs and power consumption. Synopsys has the industry s broadest portfolio of tools, models and services for the system-level design of SoCs. Primary system-level products include Platform Architect for architectural optimization, SPW and System Studio for algorithm design, Processor Designer for custom processor design, and Synphony Model and C Compiler for High Level Synthesis.

In addition to these tools for the system-level design of SoCs, our portfolio includes prototyping tools for hardware verification, software development and hardware-software integration. With FPGA-based prototyping systems (HAPS), designers can speed embedded software development by three to six months with near real runtime speeds and real world interfaces, such as our pre-tested DesignWare IP components. The HAPS hardware systems are a modular, scalable and accurate way to model a chip.

Virtual prototypes are fully functional software models of an SoC or OEM system. Our virtual prototyping solutions enable software engineers to start SoC and application software up to twelve months before traditional methods.

Manufacturing Solutions

As technology progresses, features on integrated circuits become smaller and more difficult to manufacture, which results in lower yields of usable chips. Our Manufacturing Solutions products and technologies address this problem by introducing manufacturability and yield considerations early in the design process, thereby improving yields. For example, some of our Manufacturing Solutions

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address mask-making and yield enhancement of very small-geometry integrated circuits, as well as high-level modeling of physical effects within the integrated circuit.

Our Manufacturing Solutions include the Technology-CAD (TCAD) device modeling products, Proteus OPC optical proximity correction (OPC) products, CATS® mask data preparation product, and Yield Management solutions, including Odyssey and Recipe Manager and Editor (RME), and Yield Explorer.

Professional Services and Training

Synopsys provides consulting and design services that address all phases of the SoC development process. These services assist Synopsys customers with new tool and methodology adoption, chip architecture and specification development, functional and low power design and verification, and physical implementation and signoff. We also provide a broad range of expert training and workshops on our latest tools and methodologies.

Customer Service and Technical Support

A high level of customer service and support is critical to the adoption and successful use of our products. We provide technical support for our products through both field-based and corporate-based application engineering teams. Customers who purchase Technology Subscription Licenses (TSLs) receive software maintenance services bundled with their license fee. Customers who purchase term licenses and perpetual licenses may purchase these services separately. See *Product Sales and Licensing Agreements* below.

Software maintenance services include minor product enhancements, bug fixes and access to our technical support center for primary support. Software maintenance also includes access to SolvNet, our web-based support solution that gives customers access to Synopsys   complete design knowledge database. Updated daily, SolvNet includes documentation, design tips and answers to user questions. Customers can also engage, for additional charges, our worldwide network of applications consultants for additional support needs.

In addition, Synopsys also offers training workshops designed to increase customer design proficiency and productivity with our products. Workshops cover Synopsys products and methodologies used in our design and verification flows, as well as specialized modules addressing system design, logic design, physical design, simulation and test. We offer regularly scheduled public and private courses in a variety of locations worldwide, as well as Virtual Classroom on-demand and live online training.

Product Warranties

We generally warrant our products to be free from defects in media and to substantially conform to material specifications for a period of 90 days for our software products and for up to six months for our hardware products. In certain cases, we also provide our customers with limited indemnification with respect to claims that their use of our software products infringe on United States patents, copyrights, trademarks or trade secrets. We have not experienced material warranty or indemnity claims to date, although we are currently defending some of our customers against claims that their use of one of our products infringes on a patent held by a Japanese electronics company.

Support for Industry Standards

We actively create and support standards that help our customers increase productivity, facilitate efficient design flows, improve interoperability of tools from different vendors, and ensure connectivity,

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functionality and interoperability of IP building blocks. Standards in the electronic design industry can be established by formal accredited organizations, from industry consortia, by company licensing made available to all, from de facto usage, or through open source licensing.

Synopsys products support more than 60 standards, including the most commonly used hardware description languages: SystemVerilog, Verilog, VHDL, and SystemC. Our products utilize numerous industry standard data formats, application programming interfaces, and databases for the exchange of design data among our tools, other EDA vendors products, and applications that customers develop internally. We also comply with a wide range of industry standards within our IP product family to ensure usability and interconnectivity.

Sales, Distribution and Backlog

We market our products and services primarily through direct sales in the United States and principal foreign markets. We typically distribute our software products and documentation to customers electronically, but provide physical media (i.e., CD-ROMs) when requested by the customer.

We maintain sales/support centers throughout the United States. Outside the United States, we maintain sales, support or service offices in Canada, multiple countries in Europe, Israel, Japan, and other countries in Asia. Our foreign headquarters is located in Dublin, Ireland. Our offices are further described under Part I, Item 2, *Properties*.

In fiscal 2010, 2009 and 2008, an aggregate of 52%, 51% and 50%, respectively, of Synopsys total revenue was derived from sales outside of the United States. Additional information relating to domestic and foreign operations, including revenue and long-lived assets by geographic area, is contained in Note 12 of *Notes to Consolidated Financial Statements* in Part II, Item 8. *Financial Statements and Supplementary Data* and is included herein.

Synopsys backlog was approximately $2.4 billion on October 31, 2010, representing a 9% increase from backlog of $2.2 billion on October 31, 2009. This increase resulted primarily from the timing of large contract renewals and backlog acquired from the various acquisitions which occurred in fiscal 2010, and to a lesser extent, by the strength of the Japanese yen in fiscal 2010. Backlog represents committed orders that are expected to be recognized as revenue over the following three years. Backlog may not be a reliable predictor of our future sales as business conditions may change and technologies may evolve, and customers may seek to renegotiate their arrangements or default on their payment obligations. For this and other reasons, we may not be able to recognize expected revenue from backlog when anticipated.

The following table summarizes the revenue attributable to our four common groupings, or platforms, established for management reporting purposes as a percentage of total revenue for the last three fiscal years.

	Fiscal Years		
	2010	**2009**	**2008**
Core EDA	71%	74%	75%
Intellectual Property and System-Level Solutions	13%	10%	8%
Manufacturing Solutions	12%	12%	12%
Professional Services and Other	4%	4%	5%
Consolidated	100%	100%	100%

Revenue derived from Intel Corporation and its subsidiaries in the aggregate accounted for 10.9%, 10.8%, and 10.8% of our total revenue in fiscal 2010, 2009 and 2008, respectively.

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Research and Development

Our future performance depends in large part on our ability to further enhance and integrate our design and verification platforms and to expand our manufacturing, IP and system-level product offerings. Research and development on existing and new products is primarily conducted within each product group. We also use targeted acquisitions to augment our own research and development efforts.

Our research and development expenses were $449.2 million, $419.9 million and $394.7 million in fiscal 2010, 2009 and 2008, respectively. Our capitalized software development costs were approximately $2.9 million, $3.0 million and $3.0 million in fiscal 2010, 2009 and 2008, respectively.

Competition

The EDA industry is highly competitive. We compete against other EDA vendors and against our customers own design tools and internal design capabilities. In general, we compete principally on technology leadership, product quality and features (including ease-of-use), license terms, post-contract customer support, interoperability with our own and other vendors products, price and payment terms.

Our competitors include EDA vendors that offer varying ranges 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 with customers internally developed design tools and capabilities. In the IP area, we compete primarily with our customers internally developed IP. No one factor drives an EDA customer s buying decision, and we compete on all fronts to capture a higher portion of our customers budgets.

Product Sales and Licensing Agreements

We typically license our software to customers under non-exclusive license agreements that transfer title to the media only and restrict use of our software to specified purposes within specified geographical areas. The majority of our licenses are network licenses that allow a number of individual users to access the software on a defined network, including, in some cases, regional or global networks. License fees depend on the type of license, product mix and number of copies of each product licensed.

In many cases, we provide our customers the right to re-mix a portion of the software they initially licensed for other specified Synopsys products. For example, a customer may use our front-end design products for a portion of the license term and then exchange such products for back-end place and route software for the remainder of the term in order to complete the customer s IC design. This practice helps assure the customer s access to the complete design flow needed to design its product. The ability to offer this right to customers often gives us an advantage over competitors who offer a narrower range of products, because customers can obtain more of their design flow from a single vendor. At the same time, because in such cases the customer need not obtain a new license and pay an additional license fee for the use of the additional products, the use of these arrangements could result in reduced revenue compared to licensing the individual products separately without re-mix rights.

We currently offer our software products under various license types: renewable TSLs, term licenses and perpetual licenses. For a full discussion of these licenses, see Part II, Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates* and *Results of Operations Revenue Background*.

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We typically license our DesignWare Core intellectual property products under nonexclusive license agreements that provide usage rights for specific applications. Fees under these licenses are typically charged on a per design basis plus, in some cases, royalties.

Finally, our Global Technical Services team typically provides design consulting services to our customers under consulting agreements with statements of work specific to each project.

Proprietary Rights

Synopsys primarily relies upon a combination of copyright, patent, trademark and trade secret laws and license and nondisclosure agreements to establish and protect its proprietary rights. We have a diversified portfolio of more than 1,200 patents issued. Our issued patents have expiration dates through 2030. Our patents primarily relate to our products and the technology used in connection with our products. Our source code is protected both as a trade secret and as an unpublished copyrighted work. However, third parties may develop similar technology independently. In addition, effective copyright and trade secret protection may be unavailable or limited in some foreign countries. We currently hold United States and foreign patents on some of the technologies included in our products and will continue to pursue additional patents in the future. We are not significantly dependent upon any single patent, copyright, trademark or license with respect to our proprietary rights.

In many cases, under our customer agreements and other license agreements, we offer to indemnify our customers if the licensed products infringe on 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 are currently defending some of our customers against claims that their use of one of our products infringes on a patent held by a Japanese electronics company. We believe this claim is without merit and will continue to vigorously defend against it.

Employees

As of October 31, 2010, Synopsys had 6,707 employees, of which 3,063 were based in the United States.

Acquisitions in Fiscal 2010

For information about acquisitions we completed during fiscal 2010, see Note 3 of *Notes to Consolidated Financial Statements* which information is included herein.

Executive Officers of the Registrant

The executive officers of Synopsys and their ages as of December 16, 2010, were:

Name	Age	Position
Aart J. de Geus	56	Chief Executive Officer and Chairman of the Board of Directors
Chi-Foon Chan	61	President and Chief Operating Officer
Brian M. Beattie	57	Chief Financial Officer
Joseph W. Logan	51	Senior Vice President, Worldwide Sales
Brian E. Cabrera	45	Vice President, General Counsel and Secretary

Aart J. de Geus co-founded Synopsys and has served as Chairman of our Board of Directors since February 1998 and Chief Executive Officer since January 1994. Since the inception of Synopsys in December 1986, he has held a variety of positions at Synopsys, including President, Senior Vice President of Engineering and Senior Vice President of Marketing. Dr. de Geus has served as a

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director since 1986, and also served as Chairman of the Board from 1986 to 1992 and again from 1998 until present. Dr. de Geus holds an M.S.E.E. from the Swiss Federal Institute of Technology in Lausanne, Switzerland and a Ph.D. in Electrical Engineering from Southern Methodist University.

Chi-Foon Chan has served as our Chief Operating Officer since April 1997 and as our President and a member of our Board since February 1998. Dr. Chan joined Synopsys in May 1990 and has held various senior management positions, including Executive Vice President, Office of the President from September 1996 to February 1998 and Senior Vice President, Design Tools Group from February 1994 to April 1997. Dr. Chan has also held senior management and engineering positions at NEC Electronics and Intel Corporation. Dr. Chan holds a B.S. in Electrical Engineering from Rutgers University, and an M.S. and a Ph.D. in Computer Engineering from Case Western Reserve University.

Brian M. Beattie has served as our Chief Financial Officer since January 2006. From October 1999 to January 2006, he was Executive Vice President of Finance and Administration and Chief Financial Officer of SupportSoft, Inc. From May 1998 to May 1999, he served as Vice President of Finance, Mergers and Acquisitions of Nortel Networks Corporation. From July 1996 to April 1998, Mr. Beattie served as Group Vice President of Meridian Solutions of Nortel Networks Corporation. From February 1993 to June 1996, Mr. Beattie served as Vice President of Finance, Enterprise Networks, for Nortel Networks Corporation. Mr. Beattie holds a Bachelor of Commerce and an M.B.A. from Concordia University in Montreal.

Joseph W. Logan has served as our Senior Vice President of Worldwide Sales since September 2006. Previously, he was head of sales for Synopsys North America East region from September 2001 to September 2006. Prior to Synopsys, Mr. Logan was head of North American Sales and Support at Avant! Corporation. Mr. Logan holds a B.S.E.E. from the University of Massachusetts, Amherst.

Brian E. Cabrera has served as our Vice President, General Counsel and Secretary since June 2006. From August 1999 to June 2006, he held various positions with Callidus Software, most recently as Senior Vice President, General Counsel and Secretary and prior to 2004 as General Counsel and Vice President of Operations and Human Resources. Prior to Callidus, Mr. Cabrera held senior legal positions at PeopleSoft, Netscape Communications, and Silicon Graphics. Mr. Cabrera holds a Bachelor of Arts in Political Science and Philosophy and a Masters in Public Administration from the University of Southern California, as well as a Juris Doctorate from the University of Southern California Law School.

There are no family relationships among any Synopsys executive officers or directors.

Item 1A. ***Risk Factors***
We describe our risk factors below.

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 and 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;

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- Product competition in the EDA industry, which can change rapidly due to 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 and 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. If these trends continue, demand for our products and services could fall and our financial condition and results of operations would be adversely affected. Additionally, as the EDA industry matures, industry 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.

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, to increase revenue and expand our product offerings, and we expect to make additional acquisitions in the future. Achieving the potential financial or

technological benefits from these transactions is difficult and time consuming, and the integration of these acquisitions poses 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;
- Assumption of unknown liabilities, including tax and litigation, and the related unanticipated 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 recent acquisition of Virage Logic, we may not be able 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 harm our operating results.

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

As a result of the recent major global recession, the global economy continues to experience 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. These declines, and uncertainty about future economic conditions, could continue to 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 in their research and development budgets out of which spending on EDA products and services occurs. 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.

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 have caused some of our customers to postpone their decision-making, decrease their spending and/or delay their payments to us. Continued periods of decreased committed average annual revenue, additional customer bankruptcies, or consolidation among our customers, could adversely affect our year-over-year revenue growth.

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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 provide 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 the timing, strength or duration of the global economic downturn or any subsequent recovery, so our future business and financial results are subject to considerable uncertainty, and our stock price is at risk of volatile change. If economic conditions further deteriorate or fail to significantly improve for any extended period of time, or, in particular, if semiconductor industry revenues do not grow, our future revenues and financial results will 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.

If we do not successfully compete in the EDA industry 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. Moreover, our customers internally develop design tools and capabilities that compete with our products.

The demand for EDA products 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 EDA 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 harmed.

Consolidation in the EDA industry may negatively impact our operating results.

The EDA industry in recent years has been subject to increased consolidation. We expect this trend to continue as companies within the industry attempt to increase or maintain market share by complimenting or expanding product offerings, or as companies are acquired or are unable to continue operations. Industry consolidation may result in stronger competition from companies that are better

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able to compete as sole-source vendors for customers. This could lead to fewer customers or the loss of one or more major customers, which would have an adverse effect on 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 and make comparability between periods less meaningful.

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.

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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. Changes to tax laws in the jurisdictions in which we do business, such as 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 May 5, 2009 and February 1, 2010, the President of the United States and the U.S. Treasury Department proposed changing certain U.S. tax rules for U.S. corporations doing business outside the United States. Specific legislation has not yet been proposed or 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. On August 10, 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 on transactions we enter into after fiscal 2010.

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. Examinations of our federal tax returns for the years 2000-2001 and 2002-2004 by the IRS resulted in significant proposed adjustments which were subsequently settled. 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. Certain foreign operations are subject to temporary favorable foreign tax rates. Therefore, any changes in our geographical earnings mix in various tax jurisdictions, including those resulting from transfer pricing adjustments and expiration of, or amendments to, foreign tax rulings could materially increase our effective tax rate.

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

We derive approximately 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;

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- Inadequate local infrastructure that could result in business disruptions;
- Additional taxes and penalties; and
- Other factors beyond our control such as 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. We are currently defending some of our customers against claims that their use of one of our products infringes on a patent held by a Japanese electronics company. We believe this claim to be without merit and are vigorously defending against it. However, there can be no assurances that we will prevail. 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. 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.

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 from stockholders, who must approve any increases in our equity pool, to limit the use of such equity-based compensation and 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, on July 21, 2010, Congress 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.

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

We rely on our network infrastructure and 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. 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.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

United States Facilities

Our principal offices are located in four adjacent buildings in Mountain View, California, which together provide approximately 400,000 square feet of available space. This space is leased through February 2015. We also lease approximately 294,000 square feet of additional space in four separate buildings in Sunnyvale, California, which is used for administrative, marketing, research and development and sales and support activities. These leases have expiration dates ranging from April 2012 to September 2019.

We currently lease 21 other offices throughout the United States, primarily for sales and support activities, including approximately 55,000 square feet of space in Marlboro, Massachusetts for sales and support, research and development and customer education activities.

We own one building in Sunnyvale, California with approximately 120,000 square feet of available space, which is used for administrative, marketing, research and development, and sales and support. We own two additional buildings totaling approximately 230,000 square feet on approximately 43 acres of land in Hillsboro, Oregon. We use one facility for administrative, marketing, research and development and support activities and the other facility is currently vacant. We also own 13 acres of undeveloped land in Marlboro, Massachusetts.

International Facilities

We lease additional space for sales, service and research and development activities in approximately 30 countries throughout the world, including 45,000 square feet in Dublin, Ireland for our international headquarters, as well as significant sites in Yerevan, Armenia, Bangalore, India and Shanghai, China. We also own a 40,000 square foot building in Yerevan, Armenia which is used for research and development activities.

We believe that our existing facilities, including both owned and leased properties, are in good condition and suitable for the current conduct of our business.

Item 3. ***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 4. ***(Removed and Reserved)***

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PART II

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

Common Stock Market Price

Our common stock trades on the NASDAQ Global Select Market under the symbol SNPS. The following table sets forth for the periods indicated the high and low sale prices of our common stock, as reported by the NASDAQ Global Select Market.

	Quarter Ended			
	January 31,	**April 30,**	**July 31,**	**October 31,**
2010:				
High	$ 23.74	$ 23.45	$ 22.99	$ 25.71
Low	$ 20.39	$ 20.71	$ 20.27	$ 21.42
2009:				
High	$ 19.68	$ 22.04	$ 22.29	$ 23.58
Low	$ 13.94	$ 17.22	$ 17.83	$ 19.49

As of October 31, 2010, we had approximately 426 stockholders of record. To date, we have paid no cash dividends on our capital stock and have no current intention to do so. Our credit facility contains financial covenants requiring us to maintain certain specified levels of cash and cash equivalents. Such provisions could have the effect of preventing us from paying dividends in the future. See Note 5 of *Notes to Consolidated Financial Statements* for further information regarding our credit facility.

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Performance graph

The following graph compares the 5-year total return to stockholders of our common stock relative to the cumulative total returns of the S&P 500 Index, the S&P Information Technology Index and the NASDAQ Composite Index. The graph assumes that $100 was invested on October 31, 2005 in Synopsys common stock and in each of the indexes and that all dividends were reinvested. No cash dividends were declared on our common stock during such time. The comparisons in the table are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of our common stock.

The information presented above in the stock performance graph shall not be deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C, except to the extent that we subsequently specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act of 1933 or Securities Exchange Act of 1934.

Stock Repurchase Program

In December 2002, our Board of Directors approved a stock repurchase program pursuant to which we were authorized to purchase up to $500.0 million of our common stock. Since 2002, our

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Board of Directors has periodically replenished the stock repurchase program up to $500.0 million. The authorization is available until expended or until the program is suspended by our Chief Financial Officer or Board of Directors. As of October 31, 2010, $315.3 million remained authorized for future repurchases. See Note 8 of *Notes to Consolidated Financial Statements* for further information regarding our stock repurchase program.

The table below sets forth information regarding repurchases of Synopsys common stock by Synopsys during the three months ended October 31, 2010.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum dollar value of shares that may yet be purchased under the programs
Month #1				
August 1, 2010 through September 5, 2010	735,238	$ 22.9250	735,238	$ 357,887,556
Month #2				
September 6, 2010 through October 3, 2010	1,285,500	$ 24.2112	1,285,500	$ 326,764,025
Month #3				
October 4, 2010 through October 30, 2010	460,678	$ 24.8840	460,678	$ 315,300,518
Total	2,481,416	$ 23.9550	2,481,416	$ 315,300,518

Item 6. ***Selected Financial Data***

	Fiscal Year Ended October 31,(1)(2)				
	2010	2009	2008	2007	2006
	(in thousands, except per share data)				
Revenue	$ 1,380,661	$ 1,360,045	$ 1,336,951	$ 1,212,469	$ 1,095,560
Income before provisions for income taxes(3)	198,658	233,070	218,956	165,799	43,719
(Benefit) provision for income taxes(4)	(38,405)	65,389	28,978	35,308	18,977
Net income	237,063	167,681	189,978	130,491	24,742
Net income per share:					
Basic	1.60	1.17	1.33	0.91	0.17
Diluted	1.56	1.15	1.29	0.87	0.17
Working capital	325,987	649,207	413,307	296,463	23,394
Total assets	3,286,541	2,938,854	2,742,478	2,617,337	2,157,822
Stockholders equity(5)	2,100,182	1,844,166	1,528,371	1,436,393	1,163,167

(1) Synopsys has a fiscal year that ends on the Saturday nearest October 31. Fiscal 2010, 2009, 2008, and 2006 were 52-week years. Fiscal 2007 was a 53-week fiscal year.

(2) Includes results of operations from business combinations from the date of acquisition for which information is included herein. See Note 3 of *Notes to Consolidated Financial Statements*.

(3) Includes $12.5 million litigation settlement received from Magma Design Automation, Inc. during fiscal 2007.

(4) Includes $94.3 million and $17.3 million tax benefit from an IRS settlement received in fiscal 2010 and fiscal 2008, respectively. See Note 10 of *Notes to Consolidated Financial Statements*.

(5) Includes an adjustment to the beginning balance of fiscal 2007 retained earnings as a result of the adoption of Staff Accounting Bulletin No. 108 (SAB 108) and an adjustment to the beginning balance of fiscal 2008 retained earnings as a result of the accounting guidance for uncertainty in income taxes.

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

Overview

The following summary of our financial condition and results of operations is qualified in its entirety by the more complete discussion contained in this Item 7 and by the risk factors set forth in Item 1A of this Annual Report. Please also see the cautionary language at the beginning of Part 1 of this Annual Report regarding forward-looking statements.

Business Summary

Synopsys is a world leader in providing technology solutions used to develop electronics and electronic systems. We supply the 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 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. The recent global recession intensified the cost and investment challenges for our customers.

Despite the recent global recession, 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 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.

Although our customers in the semiconductor industry generally have experienced revenue growth in 2010, they still remain cautious and focused on their costs, including in their research and development budgets. In addition, increased spending by our customers with us may not immediately affect our revenue results, due to our revenue business model.

While we are still cautious about the magnitude and sustainability of an economic recovery, our business outlook is positive given our strong financials, diligent expense management, and acquisition strategy. In fiscal 2010, we completed eight acquisitions for total cash of approximately $500.8 million, net of cash acquired. Through our acquisitions, we have enhanced our technology and expanded our product portfolio and our total addressable market, especially in IP and system-level solutions. We expect to continue 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 also continue to monitor market conditions and may make adjustments to our business in the event that the recent revenue growth experienced by the semiconductor industry is irregular or not sustained. We believe that the combination of our solid financials, leading technology and strong customer relationships will help us successfully execute our strategies.

Fiscal 2010 Financial Performance Summary

- Total revenue of $1,380.7 million increased by $20.7 million or 2% from $1,360.0 million in fiscal 2009 due to an increase in upfront license revenue of $11.1 million, time-based revenue of $7.9 million, and maintenance and service revenue of $1.6 million. In general, fluctuations in revenue are primarily due to customer requirements including payment terms and the timing of contract renewals.

- We derived approximately 95% and 96% of our total revenue from time-based licenses, maintenance and services, and 5% and 4% from upfront revenue in fiscal 2010 and fiscal 2009, respectively. This reflects our continued adherence to our business model.

- Our net income increased by $69.4 million, or 41%, from $167.7 million to $237.1 million compared to the same period in fiscal 2009. The increase was primarily due to a one-time tax benefit of $94.3 million from an IRS settlement recognized in fiscal 2010.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial results under the heading Results of Operations below are based on our audited results of operations, which we have prepared in accordance with U.S. generally accepted accounting principles. 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. For further information on our significant accounting policies, see Note 2 of *Notes to Consolidated Financial Statements*.

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.

Revenue Recognition

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

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

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

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

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

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 consolidated statement 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 consolidated statement of operations. For term licenses in which less than 75% of the license fee and 100% of the maintenance fee is payable within one year from shipment, we recognize revenue as customer payments become due and payable. Such revenue is reported as time-based license revenue in the consolidated statement of operations.

Perpetual Licenses. 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 consolidated statement of operations. For perpetual licenses in which less than 75% of the license fee and 100% of the maintenance fee is payable within one year from shipment, we recognize revenue as customer installments become due and payable. Such revenue is reported as time-based license revenue in the consolidated statement 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 consolidated statement of operations. These arrangements were not 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 consolidated statement of operations except in the event that a technology subscription license is sold together with the hardware. In that event, we recognize total revenue ratably over the term of the software license period, or as customer installments become due and payable, whichever is later, and revenue attributable to such hardware sales is reported as time-based license revenue in the consolidated statement of operations. Hardware sales were not material to our total revenue.

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 consolidated statement 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 per the guidance provided in ASC 605-35*, Construction-Type and Production-Type Contracts*. We use the percentage of completion method to account for such transactions 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.

Our determination of fair value of each element in multiple element arrangements is based on vendor-specific objective evidence (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, we recognize revenue from maintenance ratably over the maintenance term, and we 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 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 by 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.

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

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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 to us, 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.

Valuation of Stock Compensation

Stock compensation expense is measured on the grant date based on the fair value of the award and is recognized as expense over the vesting period in accordance with ASC 718, *Stock Compensation*. We use the Black-Scholes option-pricing model to determine the fair value of stock options and employee stock purchase plan awards. The Black-Scholes option-pricing model incorporates various subjective assumptions including expected volatility, expected term and risk-free interest rates. We estimate the expected volatility by a combination of implied volatility for publicly traded options of our stock with a term of six months or longer and the historical stock price volatility over the estimated expected term of our stock awards. We determine the expected term of our stock awards based on historical experience. In addition, judgment is required in estimating the forfeiture rate on stock awards. We calculate the expected forfeiture rate based on average historical trends. These input factors are subjective and are determined using management s judgment. If a difference arises between the assumptions used in determining stock compensation cost and the actual factors which become known over time, we may change the input factors used in determining future stock compensation costs. Any such changes could materially impact our results of operations in the period in which the changes are made and in periods thereafter.

Valuation of Intangible Assets

We evaluate our intangible assets for indications of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets consist of purchased technology, contract rights intangibles, customer-installed base/relationships, trademarks and trade names, covenants not to compete, customer backlog, capitalized software development and other intangibles. Factors that could trigger an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business or significant negative industry or economic trends. If this evaluation indicates that the value of the intangible asset may be impaired, we make an assessment of the recoverability of the net carrying value of the asset over its remaining useful life. If this assessment indicates that the intangible asset is not recoverable, based on the estimated undiscounted future cash flows of the technology over the remaining amortization period, we reduce the net carrying value of the related intangible asset to fair value and may adjust the remaining amortization period. Any such impairment charge could be significant and could have a material adverse effect on our reported financial results. We did not record any impairment charges on our intangible assets during fiscal 2010.

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Income Taxes

Our tax provisions are calculated using estimates in accordance with ASC 740, *Income Taxes*. Our estimates and assumptions may differ from the actual results as reflected in our income tax returns and we record the required adjustments when they are identified or resolved.

We recognize deferred tax assets and liabilities for the temporary differences between the book and tax bases of assets and liabilities using enacted tax rates in effect for the year in which we expect the differences to reverse, and for tax loss and credit carryovers. We record a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. In evaluating our ability to utilize our deferred tax assets, we consider all available positive and negative evidence, including our past operating results, our forecast of future taxable income on a jurisdiction by jurisdiction basis, as well as feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses. We believe that the net deferred tax assets of approximately $342.0 million that are recorded on our balance sheet as of October 31, 2010 will ultimately be realized. However, if we determine in the future that it is more likely than not we will not be able to realize a portion or the full amount of deferred tax assets, we would record an adjustment to the deferred tax asset valuation allowance as a charge to earnings in the period such determination is made.

We apply a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining whether it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

The calculation of tax liabilities involves the inherent uncertainty associated with the application of complex tax laws. We are also subject to examination by various taxing authorities. We believe we have adequately provided in our financial statements for potential additional taxes. If we ultimately determine that these amounts are not owed, we would reverse the liability and recognize the tax benefit in the period in which we determine that the liability is no longer necessary. If an ultimate tax assessment exceeds our estimate of tax liabilities, we would record an additional charge to earnings.

Results of Operations

Our fiscal year ends on the Saturday nearest October 31. In fiscal year 2010, the Saturday nearest October 31 was October 30, 2010. Our fiscal years are generally 52-week years, although periodically we have one extra week in our fiscal year that occurs in the first quarter. Fiscal 2010, 2009 and 2008 were 52-week years.

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. Revenues on contracts requiring significant modification or development are accounted for using the percentage

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of completion method over the period of the development. Revenue on hardware product orders is generally recognized in full at the time when 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 service 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 service revenue primarily from orders received in prior quarters, since we recognize revenue from professional services when 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 shipped 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 shipped, 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 is 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 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

Year Ended October 31, 2010	2009	2008	$ Change 2009 to 2010	% Change 2009 to 2010	$ Change 2008 to 2009	% Change 2008 to 2009
(dollars in millions)						
$1,380.7	$1,360.0	$1,337.0	$20.7	2%	$23.0	2%

Our revenues are subject to fluctuations, primarily due to customer requirements including payment terms, the timing of contract renewals and bookings associated with our acquisitions. Foreign currency fluctuations, net of hedging, did not have a significant impact on revenue during fiscal 2010 as compared to fiscal 2009 or fiscal 2009 as compared to fiscal 2008. See Note 5 of *Notes to Consolidated Financial Statements* for details on our foreign exchange hedging programs.

The increase in total revenue for fiscal 2010 compared to fiscal 2009 was primarily due to higher upfront license revenue of $11.1 million and time-based license revenue of $7.9 million. The fluctuations in revenue for each type of revenue are explained below.

The increase in total revenue for fiscal 2009 compared to fiscal 2008 was primarily due to bookings in prior years including bookings with new products and features obtained through acquisitions leading to increased current period time-based license revenue.

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Beginning in fiscal 2010, we included contingent revenue as time-based revenue. As a result, $11.9 million and $14.2 million in contingent revenue were reclassified from upfront license revenue to time-based license revenue in fiscal 2009 and 2008, respectively, to conform to fiscal 2010 presentation. This reclassification had no impact on total revenue.

Time-Based License Revenue

	Year Ended October 31, 2010	2009	2008	$ Change 2009 to 2010	% Change 2009 to 2010	$ Change 2008 to 2009	% Change 2008 to 2009
	(dollars in millions)						
	$ 1,158.4	$ 1,150.5	$ 1,140.0	$ 7.9	1%	$ 10.5	1%
Percentage of total revenue	84%	85%	84%				

The increase in time-based license revenue for fiscal 2010 compared to fiscal 2009 was primarily due to the increase in contingent revenue from royalties received and recognized in fiscal 2010.

The increase in time-based license revenue for fiscal 2009 compared to fiscal 2008 was primarily due to the result of more revenue recognized in fiscal 2009 from licenses booked in prior periods in which revenue is recognized as customer installment payments become due and payable. The increase was partially offset by a decrease in revenue from TSLs as a result of factors relating to the economic turmoil and uncertainty, including several customer bankruptcies in fiscal 2009.

Upfront License Revenue

	Year Ended October 31, 2010	2009	2008	$ Change 2009 to 2010	% Change 2009 to 2010	$ Change 2008 to 2009	% Change 2008 to 2009
	(dollars in millions)						
	$ 68.6	$ 57.5	$ 57.2	$ 11.1	19%	$ 0.3	1%
Percentage of total revenue	5%	4%	5%				

The increase in upfront license revenue for fiscal 2010 compared to fiscal 2009 was primarily attributable to higher customer demand in hardware and IP perpetual license requirements, which drives the amount of upfront orders and revenue in any particular period.

The upfront license revenue for fiscal 2009 compared to fiscal 2008 slightly increased primarily due to normal fluctuations in customer license requirements, which drive the amount of upfront orders and revenue in any particular period.

Maintenance and Service Revenue

	Year Ended October 31, 2010	2009	2008	$ Change 2009 to 2010	% Change 2009 to 2010	$ Change 2008 to 2009	% Change 2008 to 2009
	(dollars in millions)						
Maintenance revenue	$ 78.1	$ 85.3	$ 66.6	$ (7.2)	(8)%	$ 18.7	28%
Professional service and other revenue	75.5	66.7	73.1	8.8	13%	(6.4)	(9)%
Total	$ 153.6	$ 152.0	$ 139.7	$ 1.6	1%	$ 12.3	9%
Percentage of total revenue	11%	11%	11%				

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Maintenance revenue decreased in fiscal 2010 compared to fiscal 2009 primarily due to the timing and the type of contracts renewed on maintenance contracts.

Maintenance revenue increased in fiscal 2009 compared to fiscal 2008 primarily due to the recognition of a full year of maintenance revenue for the products related to our acquisition in fiscal 2008.

Professional services and other revenue increased in fiscal 2010 compared to fiscal 2009, primarily due to an increase in recognition of professional services from customer contracts acquired through acquisition offset by a decrease in consulting contracts completed in fiscal 2010.

Professional services and other revenue decreased in fiscal 2009 compared to fiscal 2008, primarily due to decrease in customer demand in fiscal 2009 and the timing of customer acceptance of services performed under ongoing consulting contracts.

Cost of Revenue and Operating Expenses

	Year Ended October 31,			$ Change	% Change	$ Change	% Change
	2010	2009	2008	2009 to 2010		2008 to 2009	
	(dollars in millions)						
Cost of revenue	$ 281.1	$ 273.7	$ 258.9	$ 7.4	3%	$ 14.8	6%
Operating expenses	915.5	878.1	858.9	37.4	4%	19.2	2%
Total	$ 1,196.6	$ 1,151.8	$ 1,117.8	$ 44.8	4%	$ 34.0	3%
Total expenses as a percentage of total revenue	87%	85%	84%				

Our expenses are generally impacted by changes in employee related costs including salaries, benefits, stock compensation and variable compensation, changes in amortization and changes in selling and marketing expenses. The increase in our expenses compared to prior fiscal years was primarily due to an increase in employee related costs driven by increased headcount from our acquisitions and due to an increase in commission expense driven by higher shipments. Furthermore, beginning in fiscal 2010, acquisition-related costs such as severance, contract terminations, professional service fees and other directly related costs are expensed in the period in which they are incurred as required by new accounting standards. Prior to fiscal 2010, such costs were recorded as purchase consideration.

We allocate certain human resource programs, information technology and facility expenses among our functional income statement categories based on headcount within each functional area. Annually, or upon a significant change in headcount (such as a workforce reduction, realignment or acquisition) or other factors, management reviews the allocation methodology and expenses included in the allocation pool. Consequently, fluctuations in these drivers impact the amounts allocated to each functional area.

Foreign currency fluctuations, net of hedging, did not have a significant impact on expenses during fiscal 2010 as compared to fiscal 2009 or fiscal 2009 as compared to fiscal 2008. See Note 5 of *Notes to Consolidated Financial Statements* for details on our foreign exchange hedging programs.

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Cost of Revenue

	Year Ended October 31, 2010	2009	2008	$ Change 2009 to 2010	% Change	$ Change 2008 to 2009	% Change
			(dollars in millions)				
Cost of license revenue	$ 180.2	$ 175.6	$ 172.0	$ 4.6	3%	$ 3.6	2%
Cost of maintenance and service revenue	64.8	65.4	63.6	(0.6)	(1)%	1.8	3%
Amortization of intangible assets	36.1	32.7	23.3	3.4	10%	9.4	40%
Total	$ 281.1	$ 273.7	$ 258.9	$ 7.4	3%	$ 14.8	6%
Percentage of total revenue	20%	20%	19%				

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 maintain 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.

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

Cost of revenue as a percentage of total revenue was 20% for fiscal years 2010 and 2009. The increase in cost of revenue in fiscal 2010 compared to fiscal 2009 was primarily due to an increase of $3.4 million in intangibles amortization primarily as a result of our recent acquisitions, an increase of $1.1 million in travel related costs, an increase of $1.1 million in other direct costs and an increase of $1.6 million in functionally allocated expenses as previously described.

Cost of revenue as a percentage of total revenue increased 1% in fiscal 2009 compared with fiscal 2008. The increase in cost of revenue in fiscal 2009 compared to fiscal 2008 was primarily due to an increase of $5.7 million in employee related costs primarily as a result of our recent acquisitions, and an increase in fair value of $2.4 million in our deferred compensation plan obligation. The increase was partially offset by a decrease in travel related costs of $4.1 million.

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Operating Expenses

Research and Development

	Year Ended October 31,			$ Change	% Change	$ Change	% Change
	2010	2009	2008	2009 to 2010		2008 to 2009	
	(dollars in millions)						
	$ 449.2	$ 419.9	$ 394.7	$ 29.3	7%	$ 25.2	6%
Percentage of total revenue	33%	31%	30%				

The increase in research and development expense in fiscal 2010 compared to fiscal 2009 was primarily due to an increase of $7.9 million in personnel related costs as a result of headcount increases primarily from our acquisitions, $7.8 million in acquisition-related costs, an increase of $2.4 million in stock compensation expense, an increase of $3.9 million in other research and development expenses, and an increase of $8.6 million in functionally allocated expenses as previously described. This increase was partially offset by a decrease of $1.4 million in depreciation expense.

The increase in research and development expense in fiscal 2009 compared to fiscal 2008 was primarily due to an increase of $4.8 million in employee related costs as a result of headcount increases primarily from our acquisitions, an increase of $16.6 million in the fair value of our deferred compensation plan obligation, and an increase of $6.0 million in functionally allocated expenses as previously described. The increase was partially offset by a decrease of $4.1 million in travel related costs.

Sales and Marketing

	Year Ended October 31,			$ Change	% Change	$ Change	% Change
	2010	2009	2008	2009 to 2010		2008 to 2009	
	(dollars in millions)						
	$ 339.8	$ 324.1	$ 334.8	$ 15.7	5%	$ (10.7)	(3)%
Percentage of total revenue	25%	24%	25%				

The increase in sales and marketing expense for fiscal 2010 compared with fiscal 2009 was primarily attributable to an increase of $18.9 million in commissions, other variable compensation and employee related costs, an increase of $3.4 million in acquisition-related costs and an increase of $1.1 million in travel related costs. The increase in commissions and other variable compensation was primarily driven by higher shipments during fiscal 2010 as compared to fiscal 2009. The increase was partially offset by a decrease of $8.0 million of other sales and marketing expense, including consulting, marketing and communications.

The decrease in sales and marketing expense for fiscal 2009 compared with fiscal 2008 was primarily attributable to a decrease of $17.7 million in variable compensation and employee related costs, and a decrease of $6.3 million in travel related costs. The decrease in variable compensation was primarily driven by lower shipments. The decrease was partially offset by the increase of $8.1 million in the fair value of our deferred compensation plan obligation, and $6.5 million of other sales and marketing expense.

General and Administrative

	Year Ended October 31,			$ Change	% Change	$ Change	% Change
	2010	2009	2008	2009 to 2010		2008 to 2009	
	(dollars in millions)						
	$ 114.9	$ 119.1	$ 103.9	$ (4.2)	(4)%	$ 15.2	15%
Percentage of total revenue	8%	9%	8%				

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The decrease in general and administrative expense for fiscal 2010 compared with fiscal 2009 was primarily due to a reduction of $3.4 million in bad debt expense based on our review of customer receivables, a decrease of $7.9 million in functionally allocated expenses as previously described, and a decrease in expense due to a $4.5 million restructuring charge related to a facility closure recorded in fiscal 2009. These decreases were offset by an increase of $9.3 million in acquisition-related costs and an increase of $3.0 million in facilities expense primarily due to our acquisitions.

The increase in general and administrative expense for fiscal 2009 compared with fiscal 2008 was primarily due to $5.1 million in facility relocation expenses in fiscal 2009, including a $4.5 million restructuring charge related to a facility closure, an increase of $4.7 million in the fair value of our deferred compensation plan obligation, an increase of $2.3 million in bad debt reserve based on our review of customer receivables, and an increase of $2.7 million in depreciation expense.

Change in Fair Value of Deferred Compensation

The income or loss, due to the change in fair value of the non-qualified deferred compensation plan obligation, is recorded in cost of sales and each functional operating expense. The offsetting income or loss due to the change in fair value of the non-qualified deferred compensation plan asset is recorded in other income (loss), net as the assets are classified as trading securities. The overall net impact to our consolidated statements of operations from the income or loss of our deferred compensation plan obligation and asset is immaterial for all periods presented.

The year-over-year effect of the fair value change was an increase of $0.5 million in fiscal 2010 compared with fiscal 2009. Correspondingly, the decrease in the fair value of the deferred compensation plan asset was approximately $1.2 million in fiscal 2010 compared to fiscal 2009.

The year-over-year effect of the fair value change was an increase of $31.7 million in fiscal 2009 compared with fiscal 2008. Correspondingly, the increase in the fair value of the deferred compensation plan asset was approximately $33.1 million in fiscal 2009 compared to fiscal 2008. This change was a result of the better performing financial markets in fiscal 2009 as compared to fiscal 2008.

Acquired In-Process Research and Development

In-process research and development (IPR&D) costs relate to in-process technologies acquired in acquisitions. The value assigned to IPR&D is determined by considering the importance of each project to our overall development plan, estimating costs to develop the IPR&D into commercially viable products, estimating the resulting net cash flows from such projects when completed and discounting the net cash flows back to their present value. The utilized discount rate is our weighted average cost of capital, taking into account the inherent uncertainties in future revenue estimates and the profitability of such technology, the successful development of the IPR&D, its useful life and the uncertainty of technological advances, all of which are unknown at the time of determination.

Effective for fiscal 2010, upon adoption of new accounting guidance, ASC 805, Business Combinations, acquired IPR&D in fiscal 2010 has been capitalized at fair value as an intangible asset with an indefinite life and is assessed for impairment in subsequent periods. Upon completion of development, the underlying R&D intangible asset will be amortized over its estimated useful life. Prior to the adoption, IPR&D was expensed upon acquisition if it had no alternative future use. IPR&D expense was $2.2 million for fiscal 2009 and $4.8 million for fiscal 2008. Acquired IPR&D projects are anticipated to be completed over a period of one to three years from the date of the acquisition. See Note 3 of *Notes to Consolidated Financial Statements.*

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Amortization of Intangible Assets

Amortization of intangible assets includes the amortization of the contract rights associated with certain executory contracts and the amortization of core/developed technology, trademarks, trade names, customer relationships, covenants not to compete, and other intangibles related to acquisitions completed in prior years. Amortization expense is included in the consolidated statements of operations as follows:

	Year Ended October 31,			$ Change	% Change	$ Change	% Change
	2010	2009	2008	2009 to 2010		2008 to 2009	
				(dollars in millions)			
Included in cost of revenue	$ 36.1	$ 32.7	$ 23.3	$ 3.4	10.4%	$ 9.4	40.3%
Included in operating expenses	11.6	12.8	20.8	(1.2)	(9.4)%	(8.0)	(38)%
Total	$ 47.7	$ 45.5	$ 44.1	$ 2.2	4.8%	$ 1.4	3%
Percentage of total revenue	3%	3%	3%				

Amortization of capitalized software development costs is not presented in the above table as it is included in cost of license revenue in the consolidated statements of operations.

The increase in amortization of intangible assets for fiscal 2010 as compared to fiscal 2009 was primarily due to the addition of intangible assets from our recent acquisitions in fiscal 2010 offset by certain intangible assets acquired in prior years becoming fully amortized.

The increase in amortization of intangible assets for fiscal 2009 as compared to fiscal 2008 was primarily due to addition of intangible assets from our recent acquisitions in fiscal 2009 offset by certain intangible assets acquired in prior years becoming fully amortized.

See Note 4 of *Notes to Consolidated Financial Statements* for a schedule of future amortization amounts which information is included herein.

Impairment of Intangible Assets. We did not record any impairment charges to the intangible assets during fiscal 2010, 2009, or 2008.

Other Income (Loss), Net

	Year Ended October 31,			$ Change	% Change	$ Change	% Change
	2010	2009	2008	2009 to 2010		2008 to 2009	
				(dollars in millions)			
Interest income	$ 5.4	$ 10.8	$ 21.2	$ (5.4)	(50)%	$ (10.4)	(49)%
Gain (loss) on sale of investment	$ 3.8	(6.4)	0.3	10.2	(159)%	(6.7)	(2,233)%
Income (loss) on assets related to executive deferred compensation plan	8.8	10.0	(23.1)	(1.2)			