

CADENCE DESIGN SYSTEMS INC

Form 10-Q

April 30, 2007

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from _____ to _____

Commission file number 0-15867

CADENCE DESIGN SYSTEMS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

**(State or Other Jurisdiction of
Incorporation or Organization)**

77-0148231

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

2655 Seely Avenue, Building 5, San Jose, California

(Address of Principal Executive Offices)

95134

(Zip Code)

(408) 943-1234

Registrant's Telephone Number, including Area Code

Edgar Filing: CADENCE DESIGN SYSTEMS INC - Form 10-Q

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X] Accelerated filer [] Non-accelerated filer []

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

On March 31, 2007, 278,341,360 shares of the registrant's common stock, \$0.01 par value, were outstanding.

**CADENCE DESIGN SYSTEMS, INC.
INDEX**

	Page
<u>PART I.</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets:</u> <u>March 31, 2007 and December 30, 2006</u>	1
<u>Condensed Consolidated Income Statements:</u> <u>Three Months Ended March 31, 2007 and April 1, 2006</u>	2
<u>Condensed Consolidated Statements of Cash Flows:</u> <u>Three Months Ended March 31, 2007 and April 1, 2006</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
<u>Item 4.</u>	
<u>Controls and Procedures</u>	36
<u>PART II.</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	38
<u>Item 1A.</u>	
<u>Risk Factors</u>	38
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	52
<u>Item 4.</u>	
<u>Submission of Matters to a Vote of Security Holders</u>	52
<u>Item 5.</u>	
<u>Other Information</u>	52
<u>Item 6.</u>	
<u>Exhibits</u>	53
<u>Signatures</u>	54
<u>EXHIBIT 31.01</u>	
<u>EXHIBIT 31.02</u>	
<u>EXHIBIT 32.01</u>	

EXHIBIT 32.02

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CADENCE DESIGN SYSTEMS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)****ASSETS**

	March 31, 2007	December 30, 2006
Current Assets:		
Cash and cash equivalents	\$ 946,754	\$ 934,342
Short-term investments	22,502	24,089
Receivables, net of allowances of \$4,757 and \$3,804, respectively	256,343	238,438
Inventories	37,854	37,179
Prepaid expenses and other	92,049	77,957
Total current assets	1,355,502	1,312,005
Property, plant and equipment, net of accumulated depreciation of \$568,919 and \$615,768, respectively	326,096	354,575
Goodwill	1,261,865	1,267,579
Acquired intangibles, net	101,507	112,738
Installment contract receivables	160,588	149,584
Other assets	364,162	246,341
Total Assets	\$ 3,569,720	\$ 3,442,822

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities:		
Current portion of long-term debt	\$ ----	\$ 28,000
Accounts payable and accrued liabilities	191,402	259,790
Current portion of deferred revenue	268,187	260,275
Total current liabilities	459,589	548,065
Long-Term Liabilities:		
Long-term portion of deferred revenue	91,366	95,018
Convertible notes	730,385	730,385
Other long-term liabilities	419,475	370,063

Edgar Filing: CADENCE DESIGN SYSTEMS INC - Form 10-Q

Total long-term liabilities	1,241,226	1,195,466
Stockholders' Equity:		
Common stock and capital in excess of par value	1,445,181	1,398,899
Treasury stock, at cost	(508,294)	(544,855)
Retained earnings	917,789	832,763
Accumulated other comprehensive income	14,229	12,484
Total stockholders' equity	1,868,905	1,699,291
Total Liabilities and Stockholders' Equity	\$ 3,569,720	\$ 3,442,822

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
Revenue:		
Product	\$ 237,904	\$ 208,122
Services	31,922	32,431
Maintenance	95,359	87,661
Total revenue	365,185	328,214
Costs and Expenses:		
Cost of product	15,652	20,480
Cost of services	23,615	24,067
Cost of maintenance	15,123	16,050
Marketing and sales	102,698	94,476
Research and development	117,065	116,261
General and administrative	40,611	35,041
Amortization of acquired intangibles	4,509	8,350
Restructuring and other charges	(945)	(430)
Write-off of acquired in-process technology	----	900
Total costs and expenses	318,328	315,195
Income from operations	46,857	13,019
Interest expense	(3,460)	(3,540)
Other income, net	19,530	28,450
Income before provision for income taxes and cumulative effect of change in accounting principle	62,927	37,929
Provision for income taxes	18,506	16,568
Net income before cumulative effect of change in accounting principle	44,421	21,361
Cumulative effect of change in accounting principle, net of tax	----	418
Net income	\$ 44,421	\$ 21,779
Net income per share before cumulative effect of change in accounting principle:		
Basic	\$ 0.16	\$ 0.08

Edgar Filing: CADENCE DESIGN SYSTEMS INC - Form 10-Q

Diluted	\$	0.15	\$	0.07
Net income per share after cumulative effect of change in accounting principle:				
Basic	\$	0.16	\$	0.08
Diluted	\$	0.15	\$	0.07
Weighted average common shares outstanding	basic	269,660		281,642
Weighted average common shares outstanding	diluted	293,603		315,354

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

CADENCE DESIGN SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	March 31, 2007	April 1, 2006
Cash and Cash Equivalents at Beginning of Period	\$ 934,342	\$ 861,315
Cash Flows from Operating Activities:		
Net income	44,421	21,779
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	----	(418)
Depreciation and amortization	31,920	40,942
Stock-based compensation	27,682	29,665
Equity in loss from investments, net	637	300
Gain on investments, net	(7,498)	(20,048)
Gain on sale and leaseback of land and buildings	(11,127)	----
Write-down of investment securities	----	1,001
Write-off of acquired in-process technology	----	900
Non-cash restructuring and other charges	59	44
Tax benefit of call options	1,906	954
Deferred income taxes	191	3,880
Proceeds from the sale of receivables, net	41,434	24,595
Provisions (recoveries) for losses (gains) on trade accounts receivable and sales returns	1,283	(1,240)
Other non-cash items	3,157	2,251
Changes in operating assets and liabilities, net of effect of acquired businesses:		
Receivables	18,156	66,015
Installment contract receivables	(87,504)	(57,333)
Inventories	(651)	2,133
Prepaid expenses and other	(9,832)	(8,492)
Other assets	(4,346)	(2,139)
Accounts payable and accrued liabilities	(37,729)	(89,530)
Deferred revenue	6,661	20,693
Other long-term liabilities	143	5,442
Net cash provided by operating activities	18,963	41,394
Cash Flows from Investing Activities:		
Proceeds from sale of available-for-sale securities	----	3,687
Proceeds from sale of short-term investments	197	----
Proceeds from the sale of long-term investments	4,787	20,000
Proceeds from the sale of property, plant and equipment	46,500	----
Purchases of property, plant and equipment	(20,394)	(15,279)
Investment in venture capital partnerships and equity investments	(1,499)	(2,000)

Edgar Filing: CADENCE DESIGN SYSTEMS INC - Form 10-Q

Cash paid in business combinations, net of cash acquired, and acquisition of intangibles	(1,547)	(1,329)
Net cash provided by investing activities	28,044	5,079
Cash Flows from Financing Activities:		
Principal payments on term loan	(28,000)	(33,000)
Tax benefit from employee stock transactions	8,642	6,140
Proceeds from issuance of common stock	111,616	61,460
Purchases of treasury stock	(127,678)	(69,032)
Net cash used for financing activities	(35,420)	(34,432)
Effect of exchange rate changes on cash and cash equivalents	825	(470)
Increase in cash and cash equivalents	12,412	11,571
Cash and Cash Equivalents at End of Period	\$ 946,754	\$ 872,886

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

**CADENCE DESIGN SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

NOTE 1. BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q have been prepared by Cadence Design Systems, Inc., or Cadence, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, Cadence believes that the disclosures contained in this Quarterly Report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These Condensed Consolidated Financial Statements are meant to be, and should be, read in conjunction with the Consolidated Financial Statements and the notes thereto included in Cadence's Annual Report on Form 10-K for the fiscal year ended December 30, 2006.

The unaudited Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q reflect all adjustments (which include only normal, recurring adjustments and those items discussed in these Notes) that are, in the opinion of management, necessary to state fairly the results for the periods presented. The results for such periods are not necessarily indicative of the results to be expected for the full fiscal year.

Preparation of the Condensed Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cadence adopted the provisions of Financial Accounting Standards Interpretation, or FIN, No. 48 Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 on December 31, 2006, which was the first day of Cadence's 2007 fiscal year. FIN No. 48 prescribes a new recognition threshold and measurement attribute for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Upon its adoption of FIN No. 48, Cadence applied the provisions of FIN No. 48 to all income tax positions. The cumulative effect of applying the provisions of FIN No. 48 have been reported as an adjustment to the opening balance of retained earnings or other appropriate components of equity or net assets in the Condensed Consolidated Balance Sheet as of the beginning of fiscal year 2007.

Cadence adopted the provisions of Emerging Issues Task Force, or EITF, Issue No. 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) on December 31, 2006, which was the first day of Cadence's 2007 fiscal year. EITF No. 06-03 allows companies to choose either the gross basis or net basis of income statement presentation for taxes collected from customers and remitted to governmental authorities and requires companies to disclose such policy. Cadence applies the net basis presentation for taxes collected from customers and remitted to governmental authorities.

NOTE 2. STOCK-BASED COMPENSATION

Cadence has equity incentive plans that provide for the grant to employees of stock-based awards, including stock options and restricted stock. In addition, the 1995 Directors Plan provides for the automatic grant of stock options to non-employee members of Cadence's Board of Directors. Cadence also has an employee stock purchase plan, or ESPP, which enables employees to purchase shares of Cadence common stock.

Table of Contents

Stock-based compensation expense and the related income tax benefit recognized under Statement of Financial Accounting Standards, or SFAS, No. 123R, Share-Based Payment in the Condensed Consolidated Income Statements in connection with stock options, restricted stock and the ESPP for the three months ended March 31, 2007 and April 1, 2006 were as follows:

	Three Months Ended	
	March 31, 2007	April 1, 2006
	(In thousands)	
Stock options	\$ 10,430	\$ 13,257
Restricted stock	15,184	13,169
ESPP	2,068	3,239
Total stock-based compensation expense	\$ 27,682	