CADENCE DESIGN SYSTEMS INC
Form 10-Q
October 30, 2009

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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 October 3, 2009

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes __ No __

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

Large accelerated filer [X] Accelerated filer [__] Non-accelerated filer [__] Smaller reporting company [__]
(Do not check if a 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

On October 3, 2009, 268,769,321 shares of the registrant s common stock, $0.01 par value, were outstanding.

CADENCE DESIGN SYSTEMS, INC.
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EX-32.02

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CADENCE DESIGN SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

ASSETS

	October 3, 2009	January 3, 2009 As Adjusted (Note 2)
Current Assets:		
Cash and cash equivalents	$ 570,617	$ 568,255
Short-term investments	4,756	3,840
Receivables, net of allowances of $15,208 and $7,524, respectively	195,468	298,665
Inventories	25,626	28,465
Prepaid expenses and other	64,694	54,765
Total current assets	861,161	953,990
Property, plant and equipment, net of accumulated depreciation of $630,155 and $625,010, respectively	313,398	354,852
Acquired intangibles, net of accumulated amortization of $122,677 and $134,688, respectively	33,438	49,082
Installment contract receivables, net of allowances of $9,724 and $0, respectively	64,859	160,742
Other assets	141,361	161,187
Total Assets	$ 1,414,217	$ 1,679,853

LIABILITIES AND STOCKHOLDERS EQUITY

	October 3, 2009	January 3, 2009 As Adjusted (Note 2)
Current Liabilities:		
Accounts payable and accrued liabilities	$ 159,728	$ 261,099
Current portion of deferred revenue	245,528	303,111
Total current liabilities	405,256	564,210
Long-Term Liabilities:		
Long-term portion of deferred revenue	108,941	130,354
Convertible notes	431,072	416,572
Other long-term liabilities	372,756	382,004

Total long-term liabilities	912,769	928,930
Contingencies (Notes 7 and 11)		
Stockholders Equity:		
Common stock and capital in excess of par value	1,664,029	1,659,302
Treasury stock, at cost	(433,505)	(695,152)
Accumulated deficit	(1,175,535)	(814,679)
Accumulated other comprehensive income	41,203	37,242
Total stockholders equity	96,192	186,713
Total Liabilities and Stockholders Equity	$ 1,414,217	$ 1,679,853

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

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

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008 As Adjusted (Note 2)	October 3, 2009	September 27, 2008 As Adjusted (Note 2)
Revenue:				
Product	$ 96,932	$ 107,572	$ 286,295	$ 422,365
Services	26,669	32,873	83,684	98,763
Maintenance	92,521	92,043	262,374	290,151
Total revenue	216,122	232,488	632,353	811,279
Costs and Expenses:				
Cost of product	6,405	11,829	23,828	39,241
Cost of services	21,139	25,677	69,602	78,083
Cost of maintenance	11,105	13,910	35,423	42,889
Marketing and sales	68,282	91,075	214,603	274,016
Research and development	88,049	112,486	273,394	357,929
General and administrative	28,732	32,937	101,311	105,608
Amortization of acquired intangibles	2,726	5,626	8,694	17,206
Restructuring and other charges (credits)	(175)	48,120	17,833	47,765
Write-off of acquired in-process technology	----	----	----	600
Total costs and expenses	226,263	341,660	744,688	963,337
Loss from operations	(10,141)	(109,172)	(112,335)	(152,058)
Interest expense	(7,278)	(7,042)	(21,592)	(20,696)
Other income (expense), net	2,917	(7,714)	(5,765)	(3,701)
Loss before provision (benefit) for income taxes	(14,502)	(123,928)	(139,692)	(176,455)
Provision (benefit) for income taxes	(455)	46,728	11,969	46,155
Net loss (loss)	$ (14,047)	$ (170,656)	$ (151,661)	$ (222,610)
Basic and diluted net loss per share	$ (0.05)	$ (0.67)	$ (0.59)	$ (0.87)
Weighted average common shares outstanding basic and diluted	259,193	252,915	256,792	256,119

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

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

	Nine Months Ended	
	October 3, 2009	September 27, 2008 As Adjusted (Note 2)
Cash and Cash Equivalents at Beginning of Period	$ 568,255	$ 1,062,920
Cash Flows from Operating Activities:		
Net loss	(151,661)	(222,610)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	71,334	96,037
Amortization of debt discount and fees	15,557	13,323
Stock-based compensation	43,690	57,678
Equity in loss from investments, net	369	823
Loss on investments, net	4,307	11,440
(Gain) loss on sale and leaseback of land and buildings	(122)	350
Write-down of investment securities	5,207	10,666
Write-off of acquired in-process technology	----	600
Tax benefit of call options	----	2,994
Impairment of property, plant and equipment	6,603	2,004
Deferred income taxes	(6,520)	(11,094)
Proceeds from the sale of receivables, net	5,827	48,124
Provisions for losses on trade and installment contract receivables and sales returns	18,668	462
Other non-cash items	(3,962)	(3,119)
Changes in operating assets and liabilities, net of effect of acquired businesses:		
Receivables	56,444	21,489
Installment contract receivables	122,302	46,198
Inventories	2,846	5,486
Prepaid expenses and other	(4,041)	(3,421)
Other assets	11,809	(1,849)
Accounts payable and accrued liabilities	(79,395)	(41,582)
Deferred revenue	(83,760)	(32,243)
Other long-term liabilities	(10,773)	35,972
Net cash provided by operating activities	24,729	37,728
Cash Flows from Investing Activities:		
Proceeds from the sale of available-for-sale investments	139	53,783
Purchases of available-for-sale investments	----	(62,447)
Proceeds from the sale of long-term investments	----	3,250
Purchases of property, plant and equipment	(30,504)	(81,112)

Purchases of software licenses	(774)	(1,199)
Investment in venture capital partnerships and equity investments	(2,300)	(4,053)
Cash paid in business combinations and asset acquisitions, net of cash acquired, and acquisition of intangibles	(14,126)	(20,621)
Net cash used for investing activities	(47,565)	(112,399)
Cash Flows from Financing Activities:		
Proceeds from receivable sale financing	----	17,970
Principal payments on receivable sale financing	(2,467)	----
Payment of convertible notes due 2023	----	(230,207)
Tax benefit from employee stock transactions	----	427
Proceeds from issuance of common stock	27,862	48,116
Stock received for payment of employee taxes on vesting of restricted stock	(4,055)	(3,693)
Purchases of treasury stock	----	(273,950)
Net cash provided by (used for) financing activities	21,340	(441,337)
Effect of exchange rate changes on cash and cash equivalents	3,858	4,841
Increase (decrease) in cash and cash equivalents	2,362	(511,167)
Cash and Cash Equivalents at End of Period	$ 570,617	$ 551,753

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

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 on Form 10-Q comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These Condensed Consolidated Financial Statements are meant to be, and should be, read in conjunction with the Consolidated Financial Statements and the Notes thereto included in Cadence s Annual Report on Form 10-K for the fiscal year ended January 3, 2009.

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, or GAAP, 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.

Recently Adopted Accounting Pronouncements

Cadence adopted Statement of Financial Accounting Standard, or SFAS, No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 during the three months ended October 3, 2009. SFAS No. 168 replaces the GAAP hierarchy with two levels: authoritative and nonauthoritative. The FASB Accounting Standards Codification, or Codification, became the single source of authoritative nongovernmental GAAP, except for rules and interpretive releases of the SEC. All nongrandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed nonauthoritative. Cadence has updated the Notes below to reflect the Codification and eliminated all prior references to nongrandfathered, and now nonauthoritative, accounting literature.

Cadence adopted new accounting principles for its 1.375% Convertible Senior Notes Due 2011, or the 2011 Notes, and 1.500% Convertible Senior Notes Due 2013, or the 2013 Notes, and collectively with the 2011 Notes, the Convertible Senior Notes, on the first day of fiscal 2009. See Note 2 for additional information and disclosures regarding this adoption.

Cadence adopted new accounting principles for all non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis on the first day of fiscal 2009. This adoption did not have a material impact on Cadence s consolidated financial position, results of operations or cash flows. See Note 4 for additional disclosures as a result of this adoption.

During the three months ended July 4, 2009, Cadence initially adopted new accounting principles that modified the definition of what qualifies as a subsequent event those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. Cadence evaluated subsequent events through October 30, 2009, the date on which this Quarterly Report on Form 10-Q was filed with the SEC.

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Cadence initially adopted the following three related new accounting principles during the three months ended July 4, 2009:

- The modifications to the measurement of other-than-temporary impairments for debt securities and to the presentation and frequency of related disclosures;
- The requirement for disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements; and
- Additional guidance for estimating fair value when the volume and level of activity for an asset or a liability have significantly decreased and identifying transactions that are not orderly.

The adoption of these three updates to GAAP did not have a material impact on Cadence s consolidated financial position, results of operations or cash flows.

NOTE 2. CONVERTIBLE NOTES

1.375% Convertible Senior Notes Due 2011 and 1.500% Convertible Senior Notes Due 2013

In December 2006, Cadence issued $250.0 million principal amount of the 2011 Notes, and $250.0 million of the 2013 Notes. The indentures for the Convertible Senior Notes do not contain any financial covenants. Cadence received net proceeds of approximately $487.2 million after issuance costs of approximately $12.8 million, including $12.0 million of underwriting discounts. Contractual interest payable on the Convertible Senior Notes began accruing in December 2006 and is payable semi-annually each December 15th and June 15th.

Holders may convert their Convertible Senior Notes prior to maturity upon the occurrence of one of the following events:

- The price of Cadence s common stock reaches $27.50 during certain periods of time specified in the Convertible Senior Notes;
- Specified corporate transactions occur; or
- The trading price of the Convertible Senior Notes falls below 98% of the product of (i) the last reported sale price of Cadence s common stock and (ii) the conversion rate on that date.

From November 2, 2011, in the case of the 2011 Notes, and November 1, 2013, in the case of the 2013 Notes, and until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert their Convertible Senior Notes at any time, regardless of the foregoing circumstances. Cadence may not redeem the Convertible Senior Notes prior to maturity.

The initial conversion rate for the Convertible Senior Notes is 47.2813 shares of Cadence common stock per $1,000 principal amount of Convertible Senior Notes, equivalent to a conversion price of approximately $21.15 per share of Cadence common stock. Upon conversion, a holder will receive the sum of the daily settlement amounts, calculated on a proportionate basis for each day, during a specified observation period following the conversion date. The daily settlement amount during each date of the observation period consists of:

- Cash up to the principal amount of the note; and
- Cadence s common stock to the extent that the conversion value exceeds the amount of cash paid upon conversion of the Convertible Senior Notes.

In addition, if a fundamental change occurs prior to maturity and provided that Cadence s stock price is greater than $18.00 per share, the conversion rate will increase by an additional amount of up to $8.27 per share, for a holder that elects to convert its Convertible Senior Notes in connection with such fundamental change, which amount will be paid entirely in cash. A fundamental change is any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) in which more than 50% of Cadence s common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration. No fundamental change will have occurred if at least 90% of the consideration received consists of shares of common stock, or depositary receipts representing such shares, that are:

Listed on, or immediately after the transaction or event will be listed on, a United States national securities exchange; or

Approved, or immediately after the transaction or event will be approved, for quotation on a United States system of automated dissemination of quotations of securities prices similar to the NASDAQ National Market prior to its designation as a national securities exchange.

As of October 3, 2009, none of the conditions allowing the holders of the Convertible Senior Notes to convert had been met.

Concurrently with the issuance of the Convertible Senior Notes, Cadence entered into hedge transactions with various parties whereby Cadence has the option to purchase up to 23.6 million shares of Cadence s common stock at a price of $21.15 per share, subject to adjustment. These options expire on December 15, 2011, in the case of the 2011 Notes, and December 15, 2013, in the case of the 2013 Notes, and must be settled in net shares. The aggregate cost of these hedge transactions was $119.8 million and has been recorded as a reduction to Stockholders equity. The estimated fair value of the hedges acquired in connection with the issuance of the Convertible Senior Notes was $9.3 million as of October 3, 2009. Subsequent changes in the fair value of these hedges will not be recognized in Cadence s Condensed Consolidated Financial Statements as long as the instruments remain classified as equity.

In separate transactions, Cadence also sold warrants to various parties for the purchase of up to 23.6 million shares of Cadence s common stock at a price of $31.50 per share in a private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended, or the Securities Act. The warrants expire on various dates from February 2012 through April 2012 in the case of the 2011 Notes, and February 2014 through April 2014 in the case of the 2013 Notes, and must be settled in net shares. Cadence received $39.4 million in cash proceeds from the sale of these warrants, which has been recorded as an increase in Stockholders equity. The estimated fair value of the warrants sold in connection with the issuance of the Convertible Senior Notes was $4.9 million as of October 3, 2009. Subsequent changes in the fair value of these warrants will not be recognized in Cadence s Condensed Consolidated Financial Statements as long as the instruments remain classified as equity. The warrants will be included in diluted earnings per share to the extent the impact is considered dilutive.

Zero Coupon Zero Yield Senior Convertible Notes Due 2023

In August 2003, Cadence issued $420.0 million principal amount of Zero Coupon Zero Yield Senior Convertible Notes Due 2023, or the 2023 Notes. Cadence received net proceeds of $406.4 million after issuance costs of $13.6 million that were recorded in Other long-term assets and were amortized as interest expense using the straight-line method over five years. In connection with the issuance of the Convertible Senior Notes in December 2006, Cadence repurchased $189.6 million principal amount of the 2023 Notes, and in August 2008, Cadence repurchased $230.2 million principal amount of the 2023 Notes upon the election of the holders of the 2023 Notes and pursuant to the terms of the 2023 Notes, for a total consideration of $230.8 million, reducing the balance of the outstanding 2023 Notes to $0.2 million. As of October 3, 2009, the total fair value of the outstanding 2023 Notes was $0.1 million.

Adoption of New Accounting Principles

Cadence adopted new accounting principles for its Convertible Senior Notes on the first day of fiscal 2009. These new accounting principles require issuers of certain types of convertible notes to separately account for the liability and equity components of such convertible notes in a manner that reflects the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. These new accounting principles apply to the Convertible Senior Notes, but they do not apply to the 2023 Notes. Prior to this adoption, the liability of the Convertible Senior Notes was carried at its principal value and only the contractual interest expense was recognized in Cadence s Condensed Consolidated Statements of Operations. Because these new accounting principles require retrospective adoption, Cadence was required to adjust all periods for which the Convertible Senior Notes were outstanding before the date of adoption.

Upon adoption of these new accounting principles and effective as of the issuance date of the Convertible Senior Notes, Cadence recorded $120.1 million of the principal amount to equity, representing a debt discount for the difference between Cadence s estimated nonconvertible debt borrowing rate of 6.3% at the time of issuance and the coupon rate of the Convertible Senior Notes. This debt discount is amortized as interest expense over the contractual terms of the 2011 Notes and the 2013 Notes, respectively, using the effective interest method. In addition, Cadence allocated $3.1 million of the issuance costs to the equity component of the Convertible Senior Notes and the remaining $9.7 million of the issuance costs to the debt component of the Convertible Senior Notes. The issuance costs were allocated pro rata based on their initial carrying amounts. The $9.7 million of debt issuance costs allocated to the debt component is amortized as interest expense over the respective contractual terms of the Convertible Senior Notes using the effective interest method.

The carrying amount of the equity component of the Convertible Senior Notes and the principal amount, unamortized discount and net carrying amount of the liability component of the Convertible Senior Notes as of October 3, 2009 and January 3, 2009 were as follows:

	As of	
	October 3, 2009	January 3, 2009 As Adjusted
	(In thousands)	
Equity component of Convertible Senior Notes	$ 116,993	$ 116,993
Principal amount of Convertible Senior Notes	$ 500,000	$ 500,000
Unamortized discount of Convertible Senior Notes	(69,106)	(83,606)
Liability component of Convertible Senior Notes	$ 430,894	$ 416,394

The effective interest rate, contractual interest expense, amortization of debt discount and capitalized interest associated with the amortization of debt discount for the Convertible Senior Notes for the three and nine months ended October 3, 2009 and June 28, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008 As Adjusted	October 3, 2009	September 27, 2008 As Adjusted
	(In thousands, except percentages)			
Effective interest rate	6.3%	6.3%	6.3%	6.3%
Contractual interest expense	$ 1,791	$ 1,791	$ 5,373	$ 5,373
Amortization of debt discount	$ 4,902	$ 4,605	$ 14,503	$ 13,553
Capitalized interest associated with the amortization of debt discount	$ (65)	$ (581)	$ (269)	$ (1,369)

As of October 3, 2009, the if-converted value of the Convertible Senior Notes does not exceed the principal amount of the Convertible Senior Notes and the total fair value of the Convertible Senior Notes was $425.7 million.

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Cadence s retrospective adoption of the new accounting principles for its Convertible Senior Notes resulted in the following adjustments to Cadence s Condensed Consolidated Balance Sheet as of January 3, 2009:

	As of January 3, 2009		
	As Previously Reported	Adjustments	As Adjusted
	(In thousands)		
Current assets	$ 954,548	$ (558)(A)	$ 953,990
Property, plant and equipment, net	351,961	2,891(B)	354,852
Acquired intangibles, net	49,082	----	49,082
Installment contract receivables	160,742	----	160,742
Other assets	162,381	(1,194)(C)	161,187
Total Assets	$ 1,678,714	$ 1,139	$ 1,679,853
Current liabilities	$ 564,210	$ ----	$ 564,210
Long-Term Liabilities:			
Long-term portion of deferred revenue	130,354	----	130,354
Convertible notes	500,178	(83,606)(D)	416,572
Other long-term liabilities	382,004	----	382,004
Total long-term liabilities	1,012,536	(83,606)	928,930
Stockholders Equity:			
Common stock and capital in excess of par value	1,562,079	97,223(E)	1,659,302
Treasury stock, at cost	(695,152)	----	(695,152)
Accumulated deficit	(802,201)	(12,478)(F)	(814,679)
Accumulated other comprehensive income	37,242	----	37,242
Total stockholders equity	101,968	84,745	186,713
Total Liabilities and Stockholders Equity	$ 1,678,714	$ 1,139	$ 1,679,853

Cadence s retrospective adoption of the new accounting principles for its Convertible Senior Notes resulted in the following adjustments to Cadence s Condensed Consolidated Statement of Operations for the three and nine months ended September 27, 2008:

	Three Months Ended September 27, 2008		
	As Previously Reported	Adjustments	As Adjusted
	(In thousands, except per share amounts)		
Revenue	$ 232,488	$ ----	$ 232,488
Costs and expenses	341,660	----	341,660

Loss from operations		(109,172)		----		(109,172)
Interest expense		(3,180)		(3,862)(G)		(7,042)
Other income (expense), net		(7,714)		----		(7,714)
Loss before provision for income taxes		(120,066)		(3,862)		(123,928)
Provision for income taxes		49,000		(2,272)(H)		46,728
Net loss	$	(169,066)	$	(1,590)	$	(170,656)
Basic net loss per share	$	(0.67)			$	(0.67)
Diluted net loss per share	$	(0.67)			$	(0.67)

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	Nine Months Ended September 27, 2008		
	As Previously Reported	Adjustments	As Adjusted
	(In thousands, except per share amounts)		
Revenue	$ 811,279	$ ----	$ 811,279
Costs and expenses	963,337	----	963,337
Loss from operations	(152,058)	----	(152,058)
Interest expense	(9,055)	(11,641)(G)	(20,696)
Other income (expense), net	(3,701)	----	(3,701)
Loss before provision (benefit) for income taxes	(164,814)	(11,641)	(176,455)
Provision for income taxes	50,269	(4,114)(H)	46,155
Net loss	$ (215,083)	$ (7,527)	$ (222,610)
Basic net loss per share	$ (0.84)		$ (0.87)
Diluted net loss per share	$ (0.84)		$ (0.87)

(A) This amount represents the cumulative adjustments to the current portion of debt issuance costs associated with the Convertible Senior Notes.

(B) This amount represents the cumulative capitalized interest related to the amortization of debt discount.

(C) This amount represents the cumulative adjustments to the long-term portion of debt issuance costs associated with the Convertible Senior Notes and the cumulative impact on the net deferred tax assets related to the amortization of debt discount.

(D) This amount represents the remaining unamortized debt discount on the Convertible Senior Notes as of January 3, 2009.

(E) This amount represents the equity component of the Convertible Senior Notes, net of tax adjustments to the tax benefit of call options, due to the amortization of debt discount.

(F) This amount represents the cumulative Net loss impact of the amortization of debt discount and the associated tax adjustments since inception of the Convertible Senior Notes.

(G) This amount represents the amortization of debt discount, net of the decrease in interest expense associated with the debt issuance costs.

(H) This amount represents the tax adjustments associated with the increased expense during the period.

Cadence s retrospective adoption does not affect the balance of Cash and cash equivalents and as a result did not change its Net cash flows from operating, investing or financing activities in its Condensed Consolidated Statement of Cash Flows for the nine months ended September 27, 2008.

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Cadence s retrospective adoption of the new accounting principles for its Convertible Senior Notes resulted in the following adjustments to Cadence s Statements of Stockholders Equity:

	Common Stock and Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)
	(In thousands)	
Balance, December 30, 2006, as reported	$ 1,398,899	$ 832,763
Equity component of Convertible Senior Notes	120,073	----
Equity component of debt issuance costs	(3,080)	----
Amortization of debt discount, net of capitalized interest	----	(527)
Amortization of debt issuance costs, net of reversal of previously recorded amortization of debt issuance costs	----	(44)
Tax adjustments	(7,634)	234
Balance, December 30, 2006, as adjusted	$ 1,508,258	$ 832,426
Fiscal 2007 equity activity as previously reported	117,594	329,678
Amortization of debt discount, net of capitalized interest	----	(16,589)
Amortization of debt issuance costs, net of reversal of previously recorded amortization of debt issuance costs	----	703
Tax adjustments	(5,976)	6,422
Balance, December 29, 2007, as adjusted	$ 1,619,876	$ 1,152,640
Fiscal 2008 equity activity as previously reported	45,586	(1,964,642)
Amortization of debt discount, net of capitalized interest	----	(16,460)
Amortization of debt issuance costs, net of reversal of previously recorded amortization of debt issuance costs	----	672
Tax adjustments	(6,160)	13,111
Balance, January 3, 2009, as adjusted	$ 1,659,302	$ (814,679)

Upon adoption of these new accounting principles and effective as of the issuance date of the Convertible Senior Notes, Cadence recorded, as adjustments to Common stock and capital in excess of par value, deferred taxes for the differences in the financial statement and tax basis that resulted from allocating $120.1 million of the principal amount of the Convertible Senior Notes to equity and from allocating $3.1 million of the associated issuance costs to equity. In subsequent periods, Cadence reduced the deferred taxes to reflect the tax effect of the amortization of debt discount, net of capitalized interest, and of the debt issuance costs. Cadence also recorded tax adjustments to reverse previously recorded tax benefits from the Convertible Senior Notes to Common stock and capital in excess of par value and to Retained earnings (Accumulated deficit).

NOTE 3. STOCK-BASED COMPENSATION

Cadence has equity incentive plans that provide for the grant to employees of stock options and restricted stock. Restricted stock includes restricted stock awards and restricted stock units. In addition, the 1995 Directors Stock

Option Plan, or 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.

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Stock-based compensation expense and the related income tax benefit recognized in connection with stock options, restricted stock and the ESPP for the three and nine months ended October 3, 2009 and September 27, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
	(In thousands)			
Stock options	$ 2,508	$ 5,809	$ 8,359	$ 20,036
Restricted stock and stock bonuses	8,654	4,955	27,296	27,007
ESPP	3,293	3,870	8,035	10,635
Total stock-based compensation expense	$ 14,455	$ 14,634	$ 43,690	$ 57,678
Income tax benefit	$ 400	$ 3,533	$ 1,271	$ 15,036

Stock Options

The exercise price of each stock option granted under Cadence s employee equity incentive plans is equal to or greater than the closing price of Cadence s common stock on the date of grant. Generally, option grants vest over four years, expire no later than ten years from the grant date and are subject to the employee s continuing service to Cadence. The options granted under the 1995 Directors Plan vest one year from the date of grant. Options assumed in connection with acquisitions generally have exercise prices that differ from the fair value of Cadence s common stock on the date of acquisition and such options generally continue to vest under their original vesting schedules and expire on the original dates stated in the acquired company s option agreements. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average grant date fair value of options granted and the weighted average assumptions used in the Black-Scholes option pricing model for the three and nine months ended October 3, 2009 and September 27, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Dividend yield	None	N/A	None	None
Expected volatility	54.1%	N/A	65.9%	42.9%
Risk-free interest rate	2.22%	N/A	1.90%	2.76%
Expected life (in years)	4.5	N/A	4.5	4.5
Weighted average fair value of options granted	$ 3.10	N/A	$ 2.32	$ 4.22

The computation of the expected volatility assumption used in the Black-Scholes option pricing model for new grants is based on implied volatility when the remaining maturities of the underlying traded options are at least one year and, when the remaining maturities of the underlying traded options are less than one year, it is based on an equal weighting of historical and implied volatilities. When establishing the expected life assumption, Cadence reviews annual historical employee exercise behavior with respect to option grants having similar vesting periods. The risk-free interest rate for the period within the expected term of the option is based on the yield of United States Treasury notes in effect at the time of grant. Cadence has not historically paid dividends, so the expected dividend yield used in the calculation is zero.

Restricted Stock and Stock Bonuses

The cost of restricted stock is determined using the fair value of Cadence s common stock on the date of the grant, and compensation expense is recognized over the vesting period. The weighted average grant date fair values

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of restricted stock granted during the three and nine months ended October 3, 2009 and September 27, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Weighted average fair value of restricted stock granted	$ 6.22	$ 8.02	$ 4.76	$ 11.02

Generally, restricted stock vests over three to four years and is subject to the employee s continuing service to Cadence. Cadence issues some of its restricted stock with performance-based vesting. The terms of these performance-based restricted stock grants are consistent with grants of restricted stock described above, with the exception that the vesting of the shares depends not only upon the completion of the required period of service, but also on the satisfaction of certain predetermined performance goals. Each quarterly period, Cadence estimates the probability of the achievement of these performance goals and recognizes any related stock-based compensation expense. The amount of stock-based compensation expense recognized in any one period can vary based on the attainment or estimated attainment of the various performance goals. If such performance goals are not met, no compensation expense is recognized and any previously recognized compensation expense is reversed.

Stock-based compensation expense related to performance-based restricted stock grants for the three and nine months ended October 3, 2009 and September 27, 2008 was as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
	(In thousands)			
Stock-based compensation expense (credits) related to performance-based grants	$ 259	$ (5,402)	$ 907	$ (1,471)

Liability-based Awards

Cadence maintains a performance-based bonus plan under which payments may be made in Cadence common stock or cash. Each quarterly period, Cadence estimates the most likely outcome of predetermined performance goals and recognizes any related stock-based compensation expense. The amount of stock-based compensation expense recognized in any one period can vary based on the attainment or estimated attainment of the various performance goals. If such performance goals are not met, no compensation expense is recognized and any previously recognized compensation expense is reversed. The dollar amount earned under this performance-based bonus plan is based on the achievement of the performance goals, and the number of shares to be issued under the performance-based bonus plan is based on the dollar amount earned and the average stock price for three days preceding the grant date. Stock issued under the performance-based bonus plan vests immediately. During both of the three and nine month periods ended October 3, 2009 and September 27, 2008, Cadence elected to make the payments in cash under this performance-based bonus plan. Stock-based compensation expense and the cash paid related to this performance-based bonus plan for the three and nine months ended October 3, 2009 and September 27, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
	(In thousands)			
Stock-based compensation expense related to performance-based bonus plan	$ 936	$ 1,742	$ 3,827	$ 4,569
Cash paid for performance-based bonus plan	2,866	2,948	6,097	5,626

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Employee Stock Purchase Plan

Through the January 31, 2009 purchase date, a majority of Cadence s employees could purchase Cadence s common stock under the ESPP at a price equal to 85% of the lower of the fair market value at the beginning of the applicable offering period or at the end of the applicable offering period, in an amount up to 12% of their gross annual earnings, subject to a limit in any calendar year of $25,000 worth of common stock. Currently, the offering periods of the ESPP are six months long commencing on February 1st and August 1st of each year and ending on July 31st and January 31st of each year, respectively.

On January 30, 2009, because Cadence did not have a sufficient number of authorized common stock available under the ESPP to permit all ESPP participants to purchase Cadence s common stock in the full amount that had been set aside for them through their contributions, Cadence allocated the purchase on a pro rata basis and refunded the excess contributions to the ESPP participants. At the annual meeting of Cadence s stockholders on May 13, 2009, an additional 12.5 million shares of Cadence s common stock were authorized under the ESPP.

Cadence s Board of Directors administers the ESPP and has the final authority to construe and interpret both the ESPP and the rights granted under it. Cadence s Board of Directors also has the authority, subject to the provisions of the ESPP, to determine when and how the rights to purchase Cadence common stock will be granted and the provisions of each offering of these rights, including designating any limits on the percentage and dollar amount that may be withheld from the ESPP participants annual gross earnings for a particular offering period, and Cadence s Board of Directors may modify such limits from time to time. Under the rules currently in effect under the ESPP: (i) for the offering period that commenced February 1, 2009, each eligible ESPP participant was entitled to purchase Cadence common stock in an amount not to exceed the lower of (A) $7,058.82 or (B) the difference between (x) $25,000 and (y) the aggregate amount of Cadence s common stock such participant purchased on January 30, 2009 under the ESPP; and (ii) for the offering period that commenced August 1, 2009 and thereafter, each eligible ESPP participant would be entitled to purchase Cadence common stock in an amount not to exceed $7,058.82 in any calendar year, subject to a contribution limit of 5% of such participant s gross annual earnings.

Shares of Cadence s common stock issued under the ESPP for the three and nine months ended October 3, 2009 and September 27, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
	(In thousands, except per share amounts)			
Cadence shares issued under the ESPP	2,610	3,358	8,661	6,076
Cash received from the exercise of purchase rights under the ESPP	8,076	21,093	27,517	44,547
Weighted average purchase price per share	$ 3.09	$ 6.28	$ 3.18	$ 7.33

Stock-based compensation expense is calculated using the fair value of the employees purchase rights under the Black-Scholes option pricing model. The weighted average grant date fair value of purchase rights granted under the ESPP and the weighted average assumptions used in the model for the three and nine months ended October 3, 2009 and September 27, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Dividend yield	None	None	None	None
Expected volatility	48.0%	50.3%	51.3%	48.0%
Risk-free interest rate	0.28%	1.88%	0.21%	1.95%
Expected life (in years)	0.50	0.50	0.32	0.48
Weighted average fair value of purchase rights granted	$ 1.70	$ 2.09	$ 1.96	$ 2.40

The computation of the expected volatility assumption used in the Black-Scholes option pricing model for new grants is based on implied volatility when the remaining maturities of the underlying traded options are at least one year and, when the remaining maturities of the underlying traded options are less than one year, it is based on an equal weighting of historical and implied volatilities. The expected life assumption is based on the average exercise date for the purchase periods in each offering period. The risk-free interest rate for the period within the expected life of the purchase right is based on the yield of United States Treasury notes in effect at the time of grant. Cadence has not historically paid dividends, so the expected dividend yield used in the calculation is zero.

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

<u>Level 1</u> Quoted prices for identical instruments in active markets;

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

<u>Level 3</u> Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires Cadence to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value.

On a quarterly basis, Cadence measures at fair value certain financial assets, including cash equivalents, available-for-sale securities, time deposits, trading securities held in Cadence s Nonqualified Deferred Compensation Plans, or NQDCs, and foreign exchange contracts. The fair value of financial assets and liabilities was determined using the following levels of inputs as of October 3, 2009:

	Fair Value Measurements as of October 3,2009:			
	Total	Level 1	Level 2	Level 3

	(In thousands)			
Assets				
Cash equivalents Money market mutual funds	$ 402,992	$ 402,992	$ ----	$ ----
Available-for-sale securities	4,519	4,519	----	----
Time deposits	237	237	----	----
Trading securities held in NQDCs	27,576	27,576	----	----
Foreign currency exchange contracts	650	----	650	----
Total	$ 435,974	$ 435,324	$ 650	$ ----

Cadence determined that certain of its non-marketable securities were other-than-temporarily impaired based on the current prices of similar non-marketable securities offered by the investees. Cadence wrote down the investments by $0.6 million during the three months ended October 3, 2009 and $5.2 million during the nine months ended October 3, 2009. These amounts are included in Other income (expense), net in Cadence s Condensed Consolidated Statement of Operations. The fair value of these non-marketable securities was estimated using Level 2 inputs.

Cadence exited certain facilities in connection with a restructuring plan and recorded lease losses and adjustments to the recorded lease losses during the three and nine months ended October 3, 2009. These losses are included in Restructuring and other charges (credits) in Cadence s Condensed Consolidated Statement of Operations for the three and nine months ended October 3, 2009. See Note 5 for additional details on Cadence s lease loss estimates. The fair value of these lease losses was estimated using Level 2 inputs.

The fair value of Cadence s cash and cash equivalents, short-term investments, receivables, accounts payable and foreign currency forward exchange contracts approximate their carrying value due to the short-term nature of these instruments. The fair market values of Cadence s long-term investments and installment contract receivables approximate their carrying values based upon current market rates of interest. The fair value of Cadence s convertible notes is influenced by interest rates and Cadence s stock price and stock price volatility and is determined by market trading. See Note 2 for the fair value of Cadence s Convertible Senior Notes, 2023 Notes, and convertible note hedges and warrants.

NOTE 5. RESTRUCTURING AND OTHER CHARGES

During the three months ended July 4, 2009, Cadence initiated a restructuring plan, or the 2009 Restructuring Plan, to decrease costs by reducing its workforce. Since initiating the 2009 Restructuring Plan, Cadence has recorded total costs associated with the 2009 Restructuring Plan of $21.3 million.

Cadence also initiated a restructuring plan during fiscal 2008, or the 2008 Restructuring Plan, and restructuring plans in each year from 2001 through 2005, or the Other Restructuring Plans, in an effort to operate more efficiently. As of October 3, 2009, Cadence had a liability of $2.5 million related to the 2008 Restructuring Plan that consisted primarily of estimated lease losses and a liability of $4.8 million related to the Other Restructuring Plans that consisted solely of estimated lease losses.

As of October 3, 2009, Cadence s total amount accrued for the 2009 Restructuring Plan, the 2008 Restructuring Plan and the Other Restructuring Plans was $13.1 million, consisting of $6.9 million of estimated lease losses related to these restructuring plans and $6.2 million of severance and severance-related benefits. The estimated lease losses will be adjusted in the future based on changes in the assumptions used to estimate the lease losses. The lease losses could be as high as $10.8 million and will be influenced by rental rates and the amount of time it takes to find suitable tenants to sublease the facilities, as compared to current expectations. Of the $13.1 million accrued as of October 3, 2009, $7.7 million was included in Accounts payable and accrued liabilities and $5.4 million was included in Other long-term liabilities on Cadence s Condensed Consolidated Balance Sheets.

Cadence regularly evaluates the adequacy of its lease loss and severance and related benefits accruals, and adjusts the balances based on actual costs incurred or changes in estimates and assumptions. Cadence may incur future charges to reflect actual costs incurred or for changes in estimates related to amounts previously recorded under its restructuring plans.

2009 Restructuring Plan

Cadence has recorded total costs associated with the 2009 Restructuring Plan of $21.3 million, which includes $19.7 million recorded during the three months ended July 4, 2009 and $1.6 million recorded during the three months ended October 3, 2009. The costs recorded as part of the 2009 Restructuring Plan include severance payments, severance-related benefits and costs for outplacement services that were communicated to the affected employees before October 3, 2009, and estimated severance payments and related benefits that were both probable and estimable as of October 3, 2009 for employees notified after October 3, 2009.

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Cadence provides severance and termination benefits in compliance with the varying regulations in the jurisdictions and countries in which Cadence operates. Total severance and termination benefits of approximately $15.7 million were paid to employees before October 3, 2009 and severance and termination benefits of approximately $5.8 million will be paid after October 3, 2009. Cadence expects to pay substantially all of the anticipated severance payments and termination benefits related to the 2009 Restructuring Plan by July 2, 2010.

The following table presents activity for the 2009 Restructuring Plan for the three months ended October 3, 2009:

	Severance and Benefits (In thousands)
Balance, July 4, 2009	$ 17,649
Restructuring and other charges, net	1,632
Cash payments	(13,588)
Effect of foreign currency translation	61
Balance, October 3, 2009	$ 5,754

During the three months ended October 3, 2009, Cadence recorded additional severance costs of approximately $2.4 million as part of the 2009 Restructuring Plan, partially offset by a reversal of $0.8 million related to termination and related benefits costs that were less than initially estimated.

The following table presents activity for the 2009 Restructuring Plan for the nine months ended October 3, 2009:

	Severance and Benefits (In thousands)
Balance, January 3, 2009	$ ----
Restructuring and other charges, net	21,361
Cash payments	(15,684)
Effect of foreign currency translation	77
Balance, October 3, 2009	$ 5,754

2008 Restructuring Plan

The following table presents activity for the 2008 Restructuring Plan for the three months ended October 3, 2009:

	Severance and	Excess

	Benefits	Facilities	Other	Total
	(In thousands)			
Balance, July 4, 2009	$ 984	$ 3,821	$ 40	$ 4,845
Restructuring and other charges (credits), net	(330)	(1,427)	----	(1,757)
Non-cash charges	----	42	----	42
Cash payments	(219)	(346)	(7)	(572)
Effect of foreign currency translation	19	(39)	2	(18)
Balance, October 3, 2009	$ 454	$ 2,051	$ 35	$ 2,540

During the three months ended October 3, 2009, Cadence recorded a reversal of $1.7 million, consisting of $0.3 million in termination and related benefits costs that were less than initially estimated, and $1.4 million of

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excess facilities costs due to a reduction in the estimated lease obligation associated with a facility vacated as part of the 2008 Restructuring Plan.

The following table presents activity for the 2008 Restructuring Plan for the nine months ended October 3, 2009:

	Severance and Benefits	Excess Facilities	Other	Total
		(In thousands)		
Balance, January 3, 2009	$ 29,667	$ 2,164	$ 84	$ 31,915
Restructuring and other charges (credits), net	(2,880)	515	----	(2,365)
Non-cash charges	----	87	----	87
Cash payments	(25,969)	(918)	(49)	(26,936)
Effect of foreign currency translation	(364)	203	----	(161)
Balance, October 3, 2009	$ 454	$ 2,051	$ 35	$ 2,540

Cadence has incurred approximately $41.4 million of net headcount reduction costs associated with the 2008 Restructuring Plan. These costs included severance payments, severance-related benefits and costs for outplacement services. Of the $41.4 million, $0.5 million will be paid after October 3, 2009. Cadence expects to complete payments for substantially all of the anticipated benefits related to the 2008 Restructuring Plan by January 2, 2010.

Other Restructuring Plans

The following table presents activity for the three months ended October 3, 2009 associated with the Other Restructuring Plans:

	2005 Restructuring	2003 Restructuring	2002 Restructuring	2001 Restructuring	Total
			(In thousands)		
Balance, July 4, 2009	$ 303	$ 2,733	$ 52	$ 1,978	$ 5,066
Adjustments to Restructuring and other charges (credits), net	----	----	(50)	----	(50)
Non-cash charges	15	48	(2)	----	61
Cash payments	(36)	(250)	----	(1)	(287)
Effect of foreign currency translation	(5)	(54)	----	83	24
Balance, October 3, 2009	$ 277	$ 2,477	$ ----	$ 2,060	$ 4,814

The following table presents activity for the nine months ended October 3, 2009 associated with the Other Restructuring Plans:

	2005 Restructuring	2003 Restructuring	2002 Restructuring	2001 Restructuring	Total
			(In thousands)		
Balance, January 3, 2009	$ 329	$ 2,837	$ 1,065	$ 2,028	$ 6,259
Adjustments to Restructuring and other charges (credits), net	----	(101)	(1,015)	(47)	(1,163)
Non-cash charges	42	137	(4)	----	175
Cash payments	(108)	(621)	(46)	(1)	(776)
Effect of foreign currency translation	14	225	----	80	319
Balance, October 3, 2009	$ 277	$ 2,477	$ - - -	$ 2,060	$ 4,814

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NOTE 6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Cadence analyzes the creditworthiness of its customers, historical experience, changes in customer demand, and the overall economic climate in the industries that Cadence serves, makes judgments as to its ability to collect outstanding receivables, and provides allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of customer receivables and are recorded in operating expenses. Receivables and Installment contract receivables are presented net of allowance for doubtful accounts of $24.9 million as of October 3, 2009 and $7.5 million as of January 3, 2009.

Cadence s customers are primarily concentrated within the semiconductor sector, which is experiencing a significant downturn with limited visibility to the extent and timing of recovery. Approximately half of Cadence s total Receivables, net and Installment contract receivables, net as of October 3, 2009 relate to ten customers.

Cadence believes that its allowance for doubtful accounts is adequate and represents Cadence s current best estimate, but Cadence will continue to monitor customer liquidity and other economic conditions, which may result in changes to Cadence s estimates regarding its allowance for doubtful accounts. Such adjustments could be material to Cadence s Condensed Consolidated Financial Statements.

NOTE 7. INCOME TAXES

Cadence has recognized $7.3 million of Provision for income taxes during the nine months ended October 3, 2009 that should have been recognized during multiple periods between fiscal 2004 through fiscal 2008. As a result, Cadence s Net income (loss) would have increased (decreased) as follows, with a corresponding change in Cadence s Provision for income taxes:

		Increase (decrease) in Net income (loss) (In thousands)
Period:		
2004	$	(4,908)
2005		(2,416)
2006		(2,089)
2007		(258)
2008		2,409
	$	(7,262)

The effects on Cadence s fiscal 2009 expected annual results and the Consolidated Financial Statements for prior periods is not considered material.

During the nine months ended October 3, 2009, Cadence determined that it would carryback its anticipated fiscal 2009 federal United States net operating loss to prior year tax returns which resulted in a tax benefit of approximately $11.9 million being recognized in the calculation of Cadence s fiscal 2009 annual effective tax rate.

Internal Revenue Service Examinations

The Internal Revenue Service, or IRS, and other tax authorities regularly examine Cadence s income tax returns. In July 2006, the IRS completed its field examination of Cadence s federal income tax returns for the tax years 2000 through 2002 and issued a Revenue Agent s Report, or RAR, in which the IRS proposed to assess an aggregate tax deficiency for the three-year period of approximately $324.0 million. In November 2006, the IRS revised the proposed aggregate tax deficiency for the three-year period to approximately $318.0 million. The IRS is contesting Cadence s qualification for deferred recognition of certain proceeds received from restitution and settlement in connection with litigation during the period. The proposed tax deficiency for this item is approximately $152.0 million. The remaining proposed tax deficiency of approximately $166.0 million is primarily related

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to proposed adjustments to Cadence s transfer pricing arrangements with its foreign subsidiaries and to Cadence s deductions for foreign trade income. Cadence has filed a timely protest with the IRS and is seeking resolution of the issues through the Appeals Office of the IRS, or the Appeals Office.

In May 2009, the IRS completed its field examination of Cadence s federal income tax returns for the tax years 2003 through 2005 and issued a RAR, in which the IRS proposed to assess an aggregate deficiency for the three-year period of approximately $94.1 million. In August 2009, the IRS revised the proposed aggregate tax deficiency for the three-year period to approximately $60.7 million. The IRS is contesting Cadence s transfer pricing arrangements with its foreign subsidiaries and deductions for foreign trade income. The IRS made similar claims against Cadence s transfer pricing arrangements and deductions for foreign trade income in prior examinations. Cadence has filed a timely protest with the IRS and will seek resolution of the issues through the Appeals Office.

Cadence believes that the proposed IRS adjustments are inconsistent with applicable tax laws and Cadence is vigorously challenging these proposed adjustments. The RARs are not final Statutory Notices of Deficiency, but the IRS imposes interest on the proposed deficiencies until the matters are resolved. Interest is compounded daily at rates that are published and adjusted quarterly by the IRS and have been between 4% and 10% since 2001.

Unrecognized Tax Benefits

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

Upon Cadence s adoption of new accounting principles related to Cadence s prior business combinations on the first day of fiscal 2009, Cadence increased the amount of unrecognized tax benefits by $22.2 million and which, if recognized, would reduce Cadence s effective tax rate. Prior to this adoption, these unrecognized tax benefits, if recognized, were accounted for as an adjustment to goodwill.

Cadence s Provision for income taxes for the three months ended October 3, 2009 included a decrease in unrecognized tax benefits, penalties and interest of $1.8 million and current year interest expense related to unrecognized tax benefits of $3.2 million. Cadence s Provision for income taxes for the nine months ended October 3, 2009 included an increase in unrecognized tax benefits, penalties and interest of $10.5 million related to prior year tax positions, and current year interest expense related to unrecognized tax benefits of $9.5 million.

In May 2009, in a case between Xilinx, Inc. and the IRS, the U.S. Court of Appeals for the Ninth Circuit, or the Ninth Circuit, overturned a 2005 ruling by the U.S. Tax Court. While Cadence was not a named party to the case, the Ninth Circuit s decision impacts Cadence s tax position for certain years prior to fiscal 2004. The Ninth Circuit held that related parties to a research and development cost sharing arrangement must share stock option costs, notwithstanding the U.S. Tax Court finding that unrelated parties in such an arrangement would not share such costs. As a result of the Ninth Circuit s decision, Cadence increased its liability for unrecognized tax benefits and decreased Common stock and capital in excess of par value by approximately $6.4 million during the nine months ended October 3, 2009.

Cadence believes that it is reasonably possible that the total amount of unrecognized tax benefits related to the IRS examination of its federal income tax returns for the tax years 2000 through 2002 could decrease during fiscal 2009 if Cadence is able to effectively settle the disputed issues with the Appeals Office. Cadence believes that the range of reasonably possible outcomes is a decrease in existing unrecognized tax benefits for the tax years 2000 through 2002 as much as $244.0 million.

In addition, Cadence believes that it is reasonably possible that the total amounts of unrecognized tax benefits for its transfer pricing arrangements with its foreign subsidiaries could significantly increase or decrease during fiscal 2009 if the Appeals Office develops new settlement guidelines that change its measurement of the tax benefits to be recognized upon effective settlement with the IRS. Because of the uncertain impact of any potential settlement guidelines, Cadence cannot currently provide an estimate of the range of possible outcomes.

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The calculation of Cadence s Provision for income taxes requires significant judgment and involves dealing with uncertainties in the application of complex tax laws and regulations. In determining the adequacy of the provision for income taxes, Cadence regularly assesses the potential settlement outcomes resulting from income tax examinations. However, the final outcome of tax examinations, including the total amount payable or the timing of any such payments upon resolution of these issues, cannot be estimated with certainty. In addition, Cadence cannot be certain that such amount will not be materially different from the amount that is reflected in its historical income tax provisions and accruals. Should the IRS or other tax authorities assess additional taxes as a result of a current or a future examination, Cadence may be required to record charges to operations in future periods that could have a material impact on its results of operations, financial position or cash flows in the applicable period or periods.

NOTE 8. NET LOSS PER SHARE

Basic and diluted net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding, less unvested restricted stock, during the period. In periods in which a net loss is recorded, potentially dilutive equity instruments would decrease the loss per share and therefore are not added to the weighted average shares outstanding for the diluted net loss per share calculation.

The following table presents the potential shares of Cadence s common stock outstanding for the three and nine months ended October 3, 2009 and September 27, 2008 that were not included in the computation of diluted net loss per share because the effect of including these shares would have been anti-dilutive:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
	(In thousands)			
Options to purchase shares of common stock (various expiration dates through 2019)	37,657	39,257	37,657	39,257
Non-vested shares of restricted stock	9,630	7,673	9,630	7,673
2023 Notes	11	11	11	11
Warrants to purchase shares of common stock related to the Convertible Senior Notes (various expiration dates through 2014)	23,640	23,640	23,640	23,640
Total potential common shares excluded	70,938	70,581	70,938	70,581

NOTE 9. ACCUMULATED DEFICIT

The changes in accumulated deficit for the three and nine months ended October 3, 2009 were as follows:

	Three Months Ended (In thousands)
Balance as of July 4, 2009	$ (1,116,869)
Net loss	(14,047)

Losses on re-issuance of treasury stock allocated to accumulated deficit		(44,619)
Balance as of October 3, 2009	$	(1,175,535)

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		Nine Months Ended (In thousands)
Balance as of January 3, 2009, as adjusted (Note 2)	$	(814,679)
Net loss		(151,661)
Losses on re-issuance of treasury stock allocated to accumulated deficit		(209,195)
Balance as of October 3, 2009	$	(1,175,535)

Cadence records an adjustment on re-issuance of treasury stock based on the difference between the total proceeds received in the re-issuance transaction and the original purchase price of the treasury stock. If treasury stock is re-issued at a higher price than its purchase price, the difference is recorded as a component of Capital in excess of par in Stockholders Equity. If the treasury stock re-issuance price is lower than its purchase price, the difference is recorded as a component of Common stock and capital in excess of par value to the extent that there are gains to offset the losses. If there are no treasury stock gains in Common stock and capital in excess of par value, the losses upon re-issuance of treasury stock are recorded as a component of Accumulated deficit in Stockholders Equity.

NOTE 10. OTHER COMPREHENSIVE LOSS

Other comprehensive loss includes foreign currency translation adjustments and unrealized gains and losses on available-for-sale marketable securities, net of related tax effects. These items have been excluded from net loss and are reflected instead in Stockholders Equity. Cadence s comprehensive loss for the three and nine months ended October 3, 2009 and September 27, 2008 was as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008 As Adjusted	October 3, 2009	September 27, 2008 As Adjusted
	(In thousands)			
Net loss	$ (14,047)	$ (170,656)	$ (151,661)	$ (222,610)
Foreign currency translation adjustments, net of related tax effects	4,141	(417)	2,772	2,221
Changes in unrealized holding gains and losses on available-for-sale securities, net of reclassification adjustment for realized gains and losses and related tax effects	(544)	(6,677)	1,082	(1,759)
Other	143	----	108	----
Comprehensive loss	$ (10,307)	$ (177,750)	$ (147,699)	$ (222,148)

NOTE 11. CONTINGENCIES

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

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During fiscal 2008, three complaints were filed in the United States District Court for the Northern District of California, or District Court, all alleging violations of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder, on behalf of a purported class of purchasers of Cadence s common stock. The first such complaint was filed on October 29, 2008, captioned Hu v. Cadence Design Systems, Inc., Michael J. Fister, William Porter and Kevin S. Palatnik; the second such complaint was filed on November 4, 2008, captioned Vyas v. Cadence Design Systems, Inc., Michael J. Fister, and Kevin S. Palatnik; and the third such complaint was filed on November 21, 2008, captioned Collins v. Cadence Design Systems, Inc., Michael J. Fister, John B. Shoven, Kevin S. Palatnik and William Porter. On March 4, 2009, the District Court entered an order consolidating these three complaints and captioning the consolidated case In re Cadence Design Systems, Inc. Securities Litigation. The District Court also named a lead plaintiff and lead counsel for the consolidated litigation. The lead plaintiff filed its consolidated amended complaint on April 24, 2009, naming Cadence, Michael J. Fister, Kevin S. Palatnik, William Porter and Kevin Bushby as defendants, and alleging violations of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder, on behalf of a purported class of purchasers of Cadence s common stock who traded Cadence s common stock between April 23, 2008 and December 10, 2008, or the Alleged Class Period. The amended complaint alleged that Cadence and the individual defendants made statements during the Alleged Class Period regarding Cadence s financial results that were false and misleading because Cadence had recognized revenue that should have been recognized in subsequent quarters. The amended complaint requested certification of the action as a class action, unspecified damages, interest and costs, and unspecified equitable relief. On June 8, 2009, Cadence and the other defendants filed a motion to dismiss the amended complaint. On September 11, 2009, the District Court held that the plaintiffs had failed to allege a valid claim under the relevant legal standards, and granted the defendants motion to dismiss the amended complaint. The District Court gave the plaintiffs leave to file another amended complaint, and the plaintiffs did so on October 13, 2009. The amended complaint filed on October 13, 2009 names the same defendants. Cadence intends to move to dismiss the October 13, 2009 amended complaint, and to continue to vigorously defend these consolidated cases and any other securities lawsuits that may be filed.

During fiscal 2008, two derivative complaints were filed in Santa Clara County Superior Court. The first was filed on November 20, 2008, and captioned Ury Priel, derivatively on behalf of nominal defendant Cadence Design Systems, Inc. v. John B. Shoven, Lip-Bu Tan, Alberto Sangiovanni-Vincentelli, Donald L. Lucas, Sr., Roger Siboni, George Scalise, Michael J. Fister, and Doe Defendants 1-15. The second was filed on December 1, 2008, and captioned Mark Levine, derivatively on behalf of nominal defendant Cadence Design Systems, Inc. v. John B. Shoven, Lip-Bu Tan, Alberto Sangiovanni-Vincentelli, Donald L. Lucas, Sr., Roger Siboni, George Scalise, Michael J. Fister, John Swainson and Doe Defendants 1-10. These complaints purport to bring suit derivatively, on behalf of Cadence, against certain of Cadence s current and former directors for alleged breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. Many of the allegations underlying these claims are similar or identical to the allegations in the consolidated securities class action lawsuits described above, and the claims also include allegations that the individual defendants approved compensation based on inflated financial results. The plaintiffs request unspecified damages, restitution, equitable relief and their reasonable attorneys fees, experts fees, costs and expenses on behalf of Cadence against the individual defendants. A motion to consolidate these complaints was granted on January 20, 2009. Cadence is analyzing these derivative complaints and will respond to them appropriately. The parties to these cases have agreed to a temporary stay of the proceedings.

In light of the preliminary status of these lawsuits, Cadence cannot predict the outcome of these matters. While the outcome of these litigation matters cannot be predicted with any certainty, management does not believe that the outcome of any current matters will have a material adverse effect on Cadence s consolidated financial position, liquidity or results of operations.

Other Contingencies

Cadence provides its customers with a warranty on sales of hardware products, generally for a 90-day period. If the potential loss from any warranty claim is considered probable and the amount or the range of loss can be estimated, Cadence accrues a liability for the estimated loss. To date, Cadence has not incurred any significant costs related to warranty obligations.

Cadence s product license and services agreements typically include a limited indemnification provision for claims from third parties relating to Cadence s intellectual property. If the potential loss from any indemnification claim is considered probable and the amount or the range of loss can be estimated, Cadence accrues a liability for the estimated loss. The indemnification is generally limited to the amount paid by the customer. To date, claims under such indemnification provisions have not been significant.

NOTE 12. STATEMENT OF CASH FLOWS

The supplemental cash flow information for the nine months ended October 3, 2009 and September 27, 2008 is as follows:

	Nine Months Ended	
	October 3, 2009	September 27, 2008
	(In thousands)	
Cash Paid During the Period for:		
Interest	$ 3,594	$ 3,594
Income taxes, including foreign withholding tax	$ 8,630	$ 25,183
Non-Cash Investing and Financing Activities:		
Stock options assumed for acquisitions	$ ----	$ 1,140

NOTE 13. OTHER INCOME (EXPENSE), NET

Cadence s Other income (expense), net, for the three and nine months ended October 3, 2009 and September 27, 2008 was as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
	(In thousands)			
Interest income	$ 278	$ 3,989	$ 2,056	$ 17,823
Gains on sale of non-marketable securities	----	----	----	884
Gains (losses) on sale of available-for-sale securities	32	(9,379)	32	(7,945)
Gains (losses) on sale of trading securities in Cadence s non-qualified deferred compensation trust	3,652	(331)	(4,339)	(4,379)
Gains (losses) on foreign exchange	(881)	269	1,542	689
Equity in loss from investments, net	(138)	(105)	(369)	(823)
Write-down of investment securities	(601)	(2,362)	(5,207)	(10,666)
Other income	575	205	520	716
Total other income (expense), net	$ 2,917	$ (7,714)	$ 5,765	$ (3,701)

It is Cadence s policy to review the fair value of its investment securities on a regular basis to determine whether its investments in these companies are other-than-temporarily impaired. This evaluation includes, but is not limited to, reviewing each company s cash position, financing needs, earnings or revenue outlook, operational performance, management or ownership changes and competition. If Cadence believes the carrying value of an investment is in excess of its fair value, and this difference is other-than-temporary, it is Cadence s policy to write down the investment to reduce its carrying value to fair value.

Cadence determined that certain of its non-marketable securities were other-than-temporarily impaired and Cadence wrote down the investments by $0.6 million during the three months ended October 3, 2009, $5.2 million during the nine months ended October 3, 2009 and $2.9 million during the nine months ended September 27, 2008. Cadence determined that one of its available-for-sale securities was other-than-temporarily impaired based on the severity and duration of the impairment and Cadence wrote down the investment by $2.4 million during the three months ended September 27, 2008 and $7.8 million during the nine months ended September 27, 2008.

NOTE 14. SEGMENT REPORTING

Segment reporting requires disclosures of certain information regarding operating segments, products and services, geographic areas of operation and major customers. Segment reporting is based upon the management approach : how management organizes the company s operating segments for which separate financial information is (i) available and (ii) evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Cadence s chief operating decision maker is its President and Chief Executive Officer, or CEO.

Cadence s CEO reviews Cadence s consolidated results within one segment. In making operating decisions, the CEO primarily considers consolidated financial information, accompanied by disaggregated information about revenues by geographic region.

Outside the United States, Cadence markets and supports its products and services primarily through its subsidiaries. Revenue is attributed to geography based on the country in which the product is used or services are delivered. Long-lived assets are attributed to geography based on the country where the assets are located.

The following table presents a summary of revenue by geography:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
	(In thousands)			
Americas:				
United States	$ 87,926	$ 91,032	$ 263,877	$ 339,801
Other Americas	4,069	10,403	14,039	25,780
Total Americas	91,995	101,435	277,916	365,581
Europe, Middle East and Africa:				
Germany	12,918	12,134	36,112	38,932
Other Europe, Middle East and Africa	30,472	40,142	100,518	141,421
Total Europe, Middle East and Africa	43,390	52,276	136,630	180,353
Japan	50,218	46,555	125,594	162,940
Asia	30,519	32,222	92,213	102,405
Total	$ 216,122	$ 232,488	$ 632,353	$ 811,279

No single customer accounted for 10% or more of total revenue for the three and nine months ended October 3, 2009 or for the three and nine months ended September 27, 2008.

As of October 3, 2009, one customer accounted for 16% and one customer accounted for 10% of Cadence s Receivables, net and Installment contract receivables, net. As of January 3, 2009, two customers each accounted for 11% of Cadence s Receivables, net and Installment contract receivables, net.

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The following table presents a summary of long-lived assets by geography:

	As of October 3, 2009	As of January 3, 2009 As Adjusted
	(In thousands)	
Americas:		
United States	$ 283,181	$ 320,770
Other Americas	30	34
Total Americas	283,211	320,804
Europe, Middle East and Africa:		
Germany	947	1,002
Other Europe, Middle East and Africa	5,502	6,357
Total Europe, Middle East and Africa	6,449	7,359
Japan	5,665	6,415
Asia	18,073	20,274
Total	$ 313,398	$ 354,852

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

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included in this Quarterly Report on Form 10-Q, or this Quarterly Report, and in conjunction with our Annual Report on Form 10-K for the fiscal year ended January 3, 2009. Certain of these statements, including, without limitation, statements regarding the extent and timing of future revenues and expenses and customer demand, statements regarding the deployment of our products, statements regarding our reliance on third parties and other statements using words such as anticipates, believes, could, estimates, expects, intends, may, plans, should, will and would, and words of similar import and the negatives thereof, constitute forward-looking statements. These statements are predictions based upon our current expectations about future events. Actual results could vary materially as a result of certain factors, including but not limited to, those expressed in these statements. We refer you to the Risk Factors, Results of Operations, Disclosures About Market Risk, and Liquidity and Capital Resources sections contained in this Quarterly Report, and the risks discussed in our other Securities Exchange Commission, or SEC, filings, which identify important risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements.

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

Overview

We develop electronic design automation, or EDA, software and hardware. We license software, sell or lease hardware technology, provide maintenance for our software and hardware and provide engineering and education services throughout the world to help manage and accelerate product development processes for electronics. Our broad range of products and services are used by the world s leading electronics companies to design and develop complex integrated circuits, or ICs, and electronics systems.

We primarily generate revenue from licensing our EDA software, selling or leasing our hardware technology, providing maintenance for our software and hardware and providing engineering services. In the past, our revenue has been significantly affected by the mix of license types executed in any given period. Our revenue may also be deferred until payments become due and payable or cash is received from certain customers and for certain contracts. Substantially all of our revenue is generated from IC manufacturers and designers and electronics systems companies and is dependent upon their commencement of new design projects. As a result, our revenue is significantly influenced by our customers business outlook and investment in the introduction of new products and the improvement of existing products.

The IC, electronics systems and semiconductor industries are continuing to experience significant challenges, primarily due to a challenging macroeconomic environment, which could be characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. As a result of this downturn, some of our customers faced financial challenges during fiscal 2008 and the first three quarters of fiscal 2009 and may continue to face such challenges during the remainder of fiscal 2009. It is unclear when the macroeconomic environment may improve. We are continuing to see pressures on our customers research and development budgets, and therefore our customers are still looking for more flexibility in the type of software and hardware products they purchase and how and when they purchase them. The current economic downturn in our customers industries has contributed to the substantial reduction in our revenue and could continue to harm our business, operating results and financial condition.

Facing uncertainty and cost pressures in their own businesses or otherwise as a result of the overall economic downturn, some of our customers are continuing to wait to purchase our products and to seek purchasing terms and conditions that are less favorable to us, including lower prices and shorter contract duration. As a result of this trend, we experienced lower business levels for fiscal 2008 and we have forecasted lower business levels for fiscal 2009. We incurred net losses for fiscal 2008 and the first three quarters of fiscal 2009 and we expect to incur net losses