SYNOPSYS INC
Form 10-Q
May 24, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 000-19807

SYNOPSYS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	56-1546236
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

690 EAST MIDDLEFIELD ROAD
MOUNTAIN VIEW, CA 94043
(Address of principal executive offices, including zip code)
(650) 584-5000
(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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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.

Large accelerated filer ý	Accelerated Filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of May 23, 2016, there were 151,826,274 shares of the registrant's common stock outstanding.

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SYNOPSYS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE FISCAL QUARTER ENDED APRIL 30, 2016
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
SYNOPSYS, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value amounts)

	April 30, 2016	October 31, 2015*
ASSETS		
Current assets:		
Cash and cash equivalents	$827,946	$836,188
Short-term investments	131,976	128,747
Total cash, cash equivalents and short-term investments	959,922	964,935
Accounts receivable, net	299,076	385,694
Income taxes receivable and prepaid taxes	48,397	46,732
Prepaid and other current assets	95,802	71,446
Total current assets	1,403,197	1,468,807
Property and equipment, net	258,856	263,077
Goodwill	2,500,804	2,471,241
Intangible assets, net	320,076	363,659
Long-term prepaid taxes	17,480	18,736
Long-term deferred income taxes	282,393	273,909
Other long-term assets	182,457	186,310
Total assets	$4,965,263	$5,045,739
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$285,196	$385,542
Accrued income taxes	23,653	19,565
Deferred revenue	926,363	968,246
Short-term debt	250,000	205,000
Total current liabilities	1,485,212	1,578,353
Long-term accrued income taxes	34,471	37,763
Long-term deferred revenue	91,420	93,613
Other long-term liabilities	204,155	202,021
Total liabilities	1,815,258	1,911,750
Stockholders' equity:		
Preferred stock, $0.01 par value: 2,000 shares authorized; none outstanding	—	—
Common stock, $0.01 par value: 400,000 shares authorized; 152,255 and 155,157 shares outstanding, respectively	1,523	1,552
Capital in excess of par value	1,642,783	1,610,460
Retained earnings	1,838,704	1,725,727
Treasury stock, at cost: 5,009 and 2,107 shares, respectively	(229,942)	(98,375)
Accumulated other comprehensive income (loss)	(103,063)	(105,375)
Total stockholders' equity	3,150,005	3,133,989
Total liabilities and stockholders' equity	$4,965,263	$5,045,739

* Derived from audited financial statements.
See accompanying notes to unaudited condensed consolidated financial statements.

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SYNOPSYS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2016	2015	2016	2015
Revenue:				
Time-based license	$484,175	$447,844	$948,455	$878,870
Upfront license	58,163	44,313	101,600	90,793
Maintenance and service	62,667	65,047	123,554	129,584
Total revenue	605,005	557,204	1,173,609	1,099,247
Cost of revenue:				
License	85,444	70,350	161,837	141,134
Maintenance and service	21,631	29,010	44,156	56,993
Amortization of intangible assets	24,555	25,612	55,081	51,478
Total cost of revenue	131,630	124,972	261,074	249,605
Gross margin	473,375	432,232	912,535	849,642
Operating expenses:				
Research and development	216,172	188,315	412,877	369,925
Sales and marketing	120,926	120,579	243,546	226,748
General and administrative	41,553	40,975	81,250	77,329
Amortization of intangible assets	7,024	6,436	13,959	12,878
Restructuring charges	894	—	2,987	15,336
Total operating expenses	386,569	356,305	754,619	702,216
Operating income	86,806	75,927	157,916	147,426
Other income (expense), net	10,417	7,957	3,649	13,073
Income before income taxes	97,223	83,884	161,565	160,499
Provision (benefit) for income taxes	27,847	28,288	32,154	39,714
Net income	$69,376	$55,596	$129,411	$120,785
Net income per share:				
Basic	$0.46	$0.36	$0.85	$0.78
Diluted	$0.45	$0.35	$0.84	$0.77
Shares used in computing per share amounts:				
Basic	152,250	154,515	152,609	154,486
Diluted	154,536	157,483	154,921	157,409

See accompanying notes to unaudited condensed consolidated financial statements.

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SYNOPSYS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2016	2015	2016	2015
	(in thousands)			
Net income	$69,376	$55,596	$129,411	$120,785
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	17,388	3,677	2,933	(19,778)
Changes in unrealized gains (losses) on available-for-sale securities, net of tax of $0 for periods presented	106	12	59	30
Cash flow hedges:				
Deferred gains (losses), net of tax of $(2,367) and $1,285, for the three and six months ended April 30, 2016, respectively, and of $668 and $5,513 for each of the same periods in fiscal 2015, respectively	3,041	(1,345)	(9,593)	(14,120)
Reclassification adjustment on deferred (gains) losses included in net income, net of tax of $(1,790) and $(3,171), for the three and six months ended April 30, 2016, respectively, and of $(3,018) and $(3,408), for each of the same periods in fiscal 2015, respectively	5,197	6,371	8,913	7,427
Other comprehensive income (loss), net of tax effects	25,732	8,715	2,312	(26,441)
Comprehensive income	$95,108	$64,311	$131,723	$94,344

See accompanying notes to unaudited condensed consolidated financial statements.

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SYNOPSYS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended April 30, 2016	2015
Cash flow from operating activities:		
Net income	$ 129,411	$ 120,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	107,226	102,051
Stock compensation	46,472	40,864
Allowance for doubtful accounts	450	600
(Gain) loss on sale of investments	(10)	(17)
Excess tax benefits from stock-based compensation	(920)	—
Deferred income taxes	(9,984)	27,636
Net changes in operating assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	93,619	(16,491)
Prepaid and other current assets	(23,208)	(34,584)
Other long-term assets	656	(13,359)
Accounts payable and accrued liabilities	(108,005)	(62,142)
Income taxes	4,409	(27,077)
Deferred revenue	(52,852)	(70,530)
Net cash provided by operating activities	187,264	67,736
Cash flows from investing activities:		
Proceeds from sales and maturities of short-term investments	75,570	17,721
Purchases of short-term investments	(79,079)	(154,744)
Proceeds from sales of long-term investments	1,785	—
	(28,900)	(43,979)

Purchases of property and equipment				
Cash paid for acquisitions and intangible assets, net of cash acquired	(46,100	)	(2,303	)
Capitalization of software development costs	(1,973	)	(1,865	)
Other	—		900	
Net cash used in investing activities	(78,697	)	(184,270	)
Cash flows from financing activities:				
Proceeds from credit facility	60,000		250,000	
Repayment of debt	(15,000	)	(105,424	)
Issuances of common stock	36,783		54,006	
Purchase of equity forward contract	(20,000	)	(36,000	)
Purchases of treasury stock	(180,000	)	(144,000	)
Excess tax benefits from stock-based compensation	920		—	
Other	(1,470	)	(116	)
Net cash provided by (used in) financing activities	(118,767	)	18,466	
Effect of exchange rate changes on cash and cash equivalents	1,958		(18,849	)
Net change in cash and cash equivalents	(8,242	)	(116,917	)
Cash and cash equivalents, beginning of year	836,188		985,762	
Cash and cash equivalents, end of period	$ 827,946		$ 868,845	

See accompanying notes to unaudited condensed consolidated financial statements.

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SYNOPSYS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Note 1. Description of Business
Synopsys, Inc. (Synopsys or the Company) is a global leader in providing software, intellectual property and services used by designers along the entire silicon to software spectrum, from engineers creating advanced semiconductors to software developers seeking to ensure the quality and security of their products. The Company is a global leader in supplying the electronic design automation (EDA) software that engineers use to design and test integrated circuits, also known as chips. The Company also offers intellectual property (IP) products, which are pre-designed circuits that engineers use as components of larger chip designs rather than designing those circuits themselves. The Company provides software and hardware used to develop the electronic systems that incorporate chips and the software that runs on them. To complement these offerings, which are sold primarily to semiconductor and electronics companies, the Company provides technical services to support these solutions and help its customers develop chips and electronic systems. The Company is also a leading provider of software tools that developers use to improve the quality and security of software code in a wide variety of industries, including electronics, financial services, energy, and industrials.
Note 2. Summary of Significant Accounting Policies
The Company has prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Pursuant to these rules and regulations, the Company has condensed or omitted certain information and footnote disclosures it normally includes in its annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). In management’s opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present its unaudited condensed consolidated balance sheets, results of operations, comprehensive income and cash flows. The Company’s interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in Synopsys’ Annual Report on Form 10-K for the fiscal year ended October 31, 2015 as filed with the SEC on December 14, 2015.
Use of Estimates. To prepare financial statements in conformity with GAAP, management must make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates and may result in material effects on the Company’s operating results and financial position.
Principles of Consolidation. The unaudited condensed consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated.
Fiscal Year End. The Company’s fiscal year ends on the Saturday nearest to October 31 and consists of 52 weeks, with the exception that approximately every five years, the Company has a 53-week year. Fiscal 2016 and 2015 are both 52-week years. The second fiscal quarters of fiscal 2016 and 2015 ended on April 30, 2016 and May 2, 2015, respectively, and the prior fiscal year ended on October 31, 2015. For presentation purposes, the unaudited condensed consolidated financial statements and accompanying notes refer to the closest calendar month end.
Note 3. Business Combinations
During the six months ended April 30, 2016, the Company completed several acquisitions. The aggregate total purchase consideration was $40.4 million, net of cash acquired. The Company does not consider these acquisitions to be material, individually or in the aggregate, to the Company’s consolidated balance sheet and results of operations. The preliminary purchase price allocations resulted in $27.2 million of goodwill, of which $6.1 million is deductible for tax purposes, and $16.9 million of acquired identifiable intangible assets valued using an income method. The intangible assets are being amortized over their respective useful lives ranging from one to seven years. The acquisition-related costs for these acquisitions totaling $2.0 million were expensed as incurred in the condensed unaudited consolidated statement of operations. The Company funded the acquisitions with existing cash.
The preliminary fair value estimates for the assets acquired and liabilities assumed for all fiscal 2016 acquisitions are not yet finalized and may change as additional information becomes available during the respective measurement

periods. The primary areas of those preliminary estimates relate to certain tangible assets and

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liabilities, identifiable intangible assets, and taxes. Additional information, which existed as of the acquisition date but is not yet known to the Company, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Changes to the provisional amounts recorded as assets or liabilities during the measurement period may result in an adjustment to goodwill.

Note 4. Goodwill and Intangible Assets

Goodwill as of April 30, 2016 and October 31, 2015 consisted of the following:

	(in thousands)
As of October 31, 2015	$ 2,471,241
Additions	27,224
Adjustments(1)	140
Effect of foreign currency translation	2,199
As of April 30, 2016	$ 2,500,804

(1) Adjustments relate to changes in estimates for acquisitions that closed in the prior fiscal year for which the purchase price allocation was finalized during the reporting period.

Intangible assets as of April 30, 2016 consisted of the following:

	Gross Assets	Accumulated Amortization	Net Assets
	(in thousands)		
Core/developed technology	$ 604,463	$ 419,254	$ 185,209
Customer relationships	235,697	127,603	108,094
Contract rights intangible	167,647	153,590	14,057
Covenants not to compete	2,530	2,530	—
Trademarks and trade names	20,729	12,248	8,481
Capitalized software development costs	27,483	23,248	4,235
Total	$ 1,058,549	$ 738,473	$ 320,076

Intangible assets as of October 31, 2015 consisted of the following:

	Gross Assets	Accumulated Amortization	Net Assets
	(in thousands)		
Core/developed technology	$ 584,293	$ 375,395	$ 208,898
Customer relationships	231,908	115,170	116,738
Contract rights intangible	165,623	141,763	23,860
Covenants not to compete	2,530	2,530	—
Trademarks and trade names	20,729	10,665	10,064
Capitalized software development costs	25,511	21,412	4,099
Total	$ 1,030,594	$ 666,935	$ 363,659

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Amortization expense related to intangible assets consisted of the following:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2016	2015	2016	2015
	(in thousands)			
Core/developed technology	$21,607	$17,808	$43,863	$35,817
Customer relationships	6,295	5,715	12,488	11,462
Contract rights intangible	2,885	7,826	11,106	15,678
Trademarks and trade names	792	699	1,583	1,398
Capitalized software development costs(2)	921	911	1,836	1,817
Total	$32,500	$32,959	$70,876	$66,172

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

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

Fiscal Year	(in thousands)
Remainder of fiscal 2016	$ 61,299
2017	94,184
2018	68,496
2019	44,920
2020	30,861
2021 and thereafter	20,316
Total	$ 320,076

Note 5. Financial Assets and Liabilities

Cash equivalents and short-term investments. The Company classifies time deposits and other investments with maturities less than three months as cash equivalents. Debt securities and other investments with maturities longer than three months are classified as short-term investments. The Company’s investments generally have a term of less than three years and are classified as available-for-sale carried at fair value, with unrealized gains and losses included in the unaudited condensed consolidated balance sheets as a component of accumulated other comprehensive income (loss), net of tax. Those unrealized gains or losses deemed other than temporary are reflected in other income (expense), net. The cost of securities sold is based on the specific identification method and realized gains and losses are included in other income (expense), net.

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As of April 30, 2016, the balances of our available-for-sale securities are:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	Gross Unrealized Losses 12 Months or Longer	Estimated Fair Value(1)
	(in thousands)				
Cash equivalents:					
Money market funds	$308,004	$ —	$ —	$ —	$ 308,004
Commercial paper	600	—	—	—	600
Certificates of deposit	4,901	—	—	—	4,901
U.S. government agency securities	3,399	—	—	—	3,399
Total:	$316,904	$ —	$ —	$ —	$ 316,904
Short-term investments:					
U.S. government agency securities	$11,612	$ 2	$ (2)	$ —	$ 11,612
Municipal bonds	1,401	1	—	—	1,402
Certificates of deposit	13,598	—	—	—	13,598
Commercial paper	12,010	—	—	—	12,010
Corporate debt securities	66,777	43	(9)	—	66,811
Asset-backed securities	20,591	8	(10)	—	20,589
Non-U.S. government agency securities	1,005	—	(1)	—	1,004
Other	4,950	—	—	—	4,950
Total:	$131,944	$ 54	$ (22)	$ —	$ 131,976

(1) See Note 6. Fair Value Measures for further discussion on fair values of cash equivalents and short-term investments.

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As of October 31, 2015, the balances of our available-for-sale securities are:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Continuous Months	Gross Unrealized Losses 12 Continuous Months or Longer	Estimated Fair Value(1)
	(in thousands)				
Cash equivalents:					
Money market funds	$233,839	$ —	$ —	$ —	$ 233,839
Commercial paper	1,834	—	—	—	1,834
Certificates of deposit	3,500	—	—	—	3,500
Asset-backed securities	300	—	(1)	—	299
Total:	$239,473	$ —	$ (1)	$ —	$ 239,472
Short-term investments:					
U.S. government agency securities	$12,615	$ 3	$ (4)	$ —	$ 12,614
Municipal bonds	1,403	1	(1)	—	1,403
Certificates of deposit	9,800	—	—	—	9,800
Commercial paper	12,129	—	—	—	12,129
Corporate debt securities	67,201	27	(40)	—	67,188
Asset-backed securities	24,619	2	(13)	—	24,608
Non-U.S. government agency securities	1,007	—	(2)	—	1,005
Total:	$128,774	$ 33	$ (60)	$ —	$ 128,747

(1) See Note 6. Fair Value Measures for further discussion on fair values of cash equivalents and short-term investments.

As of April 30, 2016, the stated maturities of the Company's available-for-sale securities are:

	Amortized Cost	Fair Value
	(in thousands)	
Due in 1 year or less	$83,453	$83,466
Due in 2-5 years	48,432	48,451
Due in 6-10 years	59	59
Total	$131,944	$131,976

Non-marketable equity securities. The Company’s strategic investment portfolio consists of non-marketable equity securities in privately-held companies. The securities accounted for under cost method investments are reported at cost net of impairment losses. Securities accounted for under equity method investments are recorded at cost plus the proportional share of the issuers’ income or loss, which is recorded in the Company’s other income (expense), net. The cost basis of securities sold is based on the specific identification method. Refer to Note 6. Fair Value Measures.
Derivatives. The Company recognizes derivative instruments as either assets or liabilities in the unaudited condensed consolidated financial statements at fair value and provides qualitative and quantitative disclosures about such derivatives. The Company operates internationally and is exposed to potentially adverse movements in foreign currency exchange rates. The Company enters into hedges in the form of foreign currency forward contracts

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to reduce its exposure to foreign currency rate changes on non-functional currency denominated forecasted transactions and balance sheet positions including: (1) certain assets and liabilities, (2) shipments forecasted to occur within approximately one month, (3) future billings and revenue on previously shipped orders, and (4) certain future intercompany invoices denominated in foreign currencies.

The duration of forward contracts ranges from approximately one month to 22 months, the majority of which are short-term. The Company does not use foreign currency forward contracts for speculative or trading purposes. The Company enters into foreign exchange forward contracts with high credit quality financial institutions that are rated ‘A’ or above and to date has not experienced nonperformance by counterparties. Further, the Company anticipates continued performance by all counterparties to such agreements.

The assets or liabilities associated with the forward contracts are recorded at fair value in other current assets or accrued liabilities in the unaudited condensed consolidated balance sheets. The accounting for gains and losses resulting from changes in fair value depends on the use of the foreign currency forward contract and whether it is designated and qualifies for hedge accounting.

Cash Flow Hedging Activities

Certain foreign exchange forward contracts are designated and qualify as cash flow hedges. These contracts have durations of approximately 22 months or less. Certain forward contracts are rolled over periodically to capture the full length of exposure to the Company’s foreign currency risk, which can be up to three years. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on the hedged transactions. The effective portion of gains or losses resulting from changes in fair value of these hedges is initially reported, net of tax, as a component of other comprehensive income (OCI) in stockholders’ equity and reclassified into revenue or operating expenses, as appropriate, at the time the hedged transactions affect earnings. The Company expects a majority of the hedge balance in OCI to be reclassified to the statements of operations within the next 12 months.

Hedging effectiveness is evaluated monthly using spot rates, with any gain or loss caused by hedging ineffectiveness recorded in other income (expense), net. The premium/discount component of the forward contracts is recorded to other income (expense), net, and is not included in evaluating hedging effectiveness.

Non-designated Hedging Activities

The Company’s foreign exchange forward contracts that are used to hedge non-functional currency denominated balance sheet assets and liabilities are not designated as hedging instruments. Accordingly, any gains or losses from changes in the fair value of the forward contracts are recorded in other income (expense), net. The gains and losses on these forward contracts generally offset the gains and losses associated with the underlying assets and liabilities, which are also recorded in other income (expense), net. The duration of the forward contracts for hedging the Company’s balance sheet exposure is approximately one month.

The Company also has certain foreign exchange forward contracts for hedging certain international revenues and expenses that are not designated as hedging instruments. Accordingly, any gains or losses from changes in the fair value of the forward contracts are recorded in other income (expense), net. The gains and losses on these forward contracts generally offset the gains and losses associated with the foreign currency in operating income. The duration of these forward contracts is usually less than one year. The overall goal of the Company’s hedging program is to minimize the impact of currency fluctuations on its net income over its fiscal year.

The effects of the changes in the fair values of non-designated forward contracts are summarized as follows:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2016	2015	2016	2015
	(in thousands)			
Gain (loss) recorded in other income (expense), net	$1,914	$(235)	$(1,849)	$(2,993)

The notional amounts in the table below for derivative instruments provide one measure of the transaction volume outstanding:

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	As of April 30, 2016	As of October 31, 2015
	(in thousands)	
Total gross notional amount	$719,816	$781,752
Net fair value	$(9,203)	$(3,819)

The notional amounts for derivative instruments do not represent the amount of the Company's exposure to market gain or loss. The Company's exposure to market gain or loss will vary over time as a function of currency exchange rates. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

The following represents the unaudited condensed consolidated balance sheet location and amount of derivative instrument fair values segregated between designated and non-designated hedge instruments:

	Fair values of derivative instruments designated as hedging instruments	Fair values of derivative instruments not designated as hedging instruments
	(in thousands)	
As of April 30, 2016		
Other current assets	$ 5,239	$ 45
Accrued liabilities	$ 13,558	$ 929
As of October 31, 2015		
Other current assets	$ 6,461	$ 1
Accrued liabilities	$ 10,141	$ 140

The following table represents the unaudited condensed consolidated statement of operations location and amount of gains and losses on derivative instrument fair values for designated hedge instruments, net of tax:

	Location of gain (loss) recognized in OCI on derivatives	Amount of gain (loss) recognized in OCI on derivatives (effective portion)	Location of gain (loss) reclassified from OCI	Amount of gain (loss) reclassified from OCI (effective portion)
	(in thousands)			
Three months ended April 30, 2016				
Foreign exchange contracts	Revenue	$ (6,182)	Revenue	$ (1,429)
Foreign exchange contracts	Operating expenses	9,322	Operating expenses	(3,768)
Total		$ 3,140		$ (5,197)
Three months ended April 30, 2015				
Foreign exchange contracts	Revenue	$ 374	Revenue	$ 26
Foreign exchange contracts	Operating expenses	(1,704)	Operating expenses	(6,397)
Total		$ (1,330)		$ (6,371)
Six months ended April 30, 2016				
Foreign exchange contracts	Revenue	$ (7,673)	Revenue	$ (1,217)
Foreign exchange contracts	Operating expenses	(1,945)	Operating expenses	(7,696)
Total		$ (9,618)		$ (8,913)
Six months ended April 30, 2015				

Foreign exchange contracts	Revenue	$ 3,340	Revenue	$ 2,406
Foreign exchange contracts	Operating expenses	(17,499)	Operating expenses	(9,833)
Total		$ (14,159)		$ (7,427)

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The following table represents the ineffective portions and portions excluded from effectiveness testing of the hedge gains (losses) for derivative instruments designated as hedging instruments, which are recorded in other income (expense), net:

Foreign exchange contracts	Amount of gain (loss) recognized in statement of operations on derivatives (ineffective portion)(1)	Amount of gain (loss) recognized in statement of operations on derivatives (excluded from effectiveness testing)(2)
	(in thousands)	
For the three months ended April 30, 2016	$ 201	$ 2,140
For the three months ended April 30, 2015	$ (40)	$ 1,234
For the six months ended April 30, 2016	$ 455	$ 3,541
For the six months ended April 30, 2015	$ 700	$ 2,306

(1) The ineffective portion includes forecast inaccuracies.
(2) The portion excluded from effectiveness testing includes the discount earned or premium paid for the contracts.

Note 6. Fair Value Measures

Accounting Standards Codification (ASC) 820-10, Fair Value Measurements and Disclosures, defines fair value, establishes guidelines and enhances disclosure requirements for fair value measurements. The accounting guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The accounting guidance also establishes a fair value hierarchy based on the independence of the source and objective evidence of the inputs used. There are three fair value hierarchies based upon the level of inputs that are significant to fair value measurement:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical instruments in active markets;

Level 2—Observable inputs other than quoted prices included in Level 1 for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-driven valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3—Unobservable inputs to the valuation derived from fair valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

On a recurring basis, the Company measures the fair value of certain of its assets and liabilities, which include cash equivalents, short-term investments, non-qualified deferred compensation plan assets, and foreign currency derivative contracts.

The Company’s cash equivalents and short-term investments are classified within Level 1 or Level 2 because they are valued using quoted market prices in an active market or alternative independent pricing sources and models utilizing market observable inputs.

The Company’s non-qualified deferred compensation plan assets consist of money market and mutual funds invested in domestic and international marketable securities that are directly observable in active markets and are therefore classified within Level 1.

The Company’s foreign currency derivative contracts are classified within Level 2 because these contracts are not actively traded and the valuation inputs are based on quoted prices and market observable data of similar instruments.

The Company’s borrowings under its credit and term loan facilities are classified within Level 2 because these borrowings are not actively traded and have a variable interest rate structure based upon market rates currently available to the Company for debt with similar terms and maturities. Refer to Note 8. Credit Facility.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below as of April 30, 2016:

Description	Total	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets				
Cash equivalents:				
Money market funds	$308,004	$ 308,004	$ —	$ —
Commercial paper	600	—	600	—
Certificates of deposit	4,901	—	4,901	—
U.S. government agency securities	3,399	—	3,399	—
Short-term investments:				
U.S. government agency securities	11,612	—	11,612	—
Municipal bonds	1,402	—	1,402	—
Certificates of deposit	13,598	—	13,598	—
Commercial paper	12,010	—	12,010	—
Corporate debt securities	66,811	—	66,811	—
Asset-backed securities	20,589	—	20,589	—
Non-U.S. government agency securities	1,004	—	1,004	—
Other	4,950	4,950	—	—
Prepaid and other current assets:				
Foreign currency derivative contracts	5,284	—	5,284	—
Other long-term assets:				
Deferred compensation plan assets	157,135	157,135	—	—
Total assets	$611,299	$ 470,089	$ 141,210	$ —
Liabilities				
Accounts payable and accrued liabilities:				
Foreign currency derivative contracts	$14,487	$ —	$ 14,487	$ —
Other long-term assets:				
Deferred compensation plan liabilities	157,135	157,135	—	—
Total liabilities	$171,622	$ 157,135	$ 14,487	$ —

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Assets and liabilities measured at fair value on a recurring basis are summarized below as of October 31, 2015:

Description	Total	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets				
Cash equivalents:				
Money market funds	$233,839	$ 233,839	$ —	$ —
Commercial paper	1,834	—	1,834	—
Certificates of deposit	3,500	—	3,500	—
Asset-backed securities	299	—	299	—
Short-term investments:				
U.S. government agency securities	12,614	—	12,614	—
Municipal bonds	1,403	—	1,403	—
Certificates of deposit	9,800	—	9,800	—
Commercial paper	12,129	—	12,129	—
Corporate debt securities	67,188	—	67,188	—
Asset-backed securities	24,608	—	24,608	—
Non-U.S. government agency securities	1,005	—	1,005	—
Prepaid and other current assets:				
Foreign currency derivative contracts	6,462	—	6,462	—
Other long-term assets:				
Deferred compensation plan assets	158,462	158,462	—	—
Total assets	$533,143	$ 392,301	$ 140,842	$ —
Liabilities				
Accounts payable and accrued liabilities:				
Foreign currency derivative contracts	$10,281	$ —	$ 10,281	$ —
Other long-term liabilities:				
Deferred compensation plan liabilities	158,462	158,462	—	—
Total liabilities	$168,743	$ 158,462	$ 10,281	$ —

Assets/Liabilities Measured at Fair Value on a Non-Recurring Basis

Non-Marketable Equity Securities

Equity investments in privately-held companies, also called non-marketable equity securities, are accounted for using either the cost or equity method of accounting.

The non-marketable equity securities are measured and recorded at fair value when an event or circumstance which impacts the fair value of these securities indicates an other-than-temporary decline in value has occurred. In such events, these equity investments would be classified within Level 3 as they are valued using significant unobservable inputs or data in an inactive market, and the valuation requires management judgment due to the absence of market price and inherent lack of liquidity. The non-marketable equity securities are measured and recorded at fair value when an event or circumstance which impacts the fair value of these securities indicates an other-than-temporary decline in value has occurred. The Company monitors these investments and generally uses the income approach to assess impairments based primarily on the financial conditions of these companies.

The Company did not recognize any impairment during the six months ended April 30, 2016 and 2015, respectively. As of April 30, 2016, the fair value of the Company’s non-marketable securities was $8.7 million, of which $6.2 million and $2.5 million were accounted for under the cost method and equity method, respectively. As of

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October 31, 2015, the fair value of non-marketable securities was $10.3 million, of which $6.6 million and $3.7 million were accounted for under the cost method and equity method, respectively.

Note 7. Liabilities and Restructuring Charges

During fiscal 2015, the Company recorded restructuring costs of $15.1 million which included a voluntary retirement program (VRP) and a minimal headcount reduction program. As of October 31, 2015, there was no outstanding balance in restructuring charges.

During the six months ended April 30, 2016, we recorded $3.0 million of restructuring charges due to employee severance and benefits. Payments of these restructuring charges are anticipated to be completed before the end of fiscal 2016.

Accounts payable and accrued liabilities consist of:

	April 30, 2016	October 31, 2015
	(in thousands)	
Payroll and related benefits	$198,378	$ 315,078
Other accrued liabilities	56,729	60,545
Accounts payable	30,089	9,919
Total	$285,196	$ 385,542

Other long-term liabilities consist of:

	April 30, 2016	October 31, 2015
	(in thousands)	
Deferred compensation liability	$157,135	$ 158,462
Other long-term liabilities	47,020	43,559
Total	$204,155	$ 202,021

Note 8. Credit Facility

On February 17, 2012, the Company entered into an agreement with several lenders (the Credit Agreement) providing for (i) a $350.0 million senior unsecured revolving credit facility (the Revolver) and (ii) a $150.0 million senior unsecured term loan facility (the Term Loan). Principal payments on a portion of the Term Loan are due in equal quarterly installments of $7.5 million, with the remainder due in October 2016. The Company can elect to make prepayments on the Term Loan, in whole or in part, without premium or penalty. On May 19, 2015, the Credit Agreement was amended and restated in order to increase the size of the Revolver from $350.0 million to $500.0 million and to extend the termination date of the Revolver from October 14, 2016 to May 19, 2020. The amended and restated Credit Agreement also replaced a financial covenant requiring the Company to maintain a minimum specified level of cash with a covenant requiring a minimum interest coverage ratio. Subject to obtaining additional commitments from lenders, the principal amount of the loans provided under the amended and restated Credit Agreement may be increased by the Company by up to an additional $150.0 million through May 2019. The amended and restated Credit Agreement contains financial covenants requiring the Company to operate within a maximum leverage ratio and a minimum interest coverage ratio, as well as other non-financial covenants. As of April 30, 2016, the Company is in compliance with all financial covenants.

As of April 30, 2016, the Company had a $30.0 million outstanding balance under the Term Loan and a $220.0 million outstanding balance under the Revolver, all of which are considered short-term liabilities. As of October 31, 2015, the Company had a $45.0 million outstanding balance under the Term Loan and a $160.0 million outstanding balance under the Revolver, all of which are considered short-term liabilities. Borrowings bear interest at a floating rate based on a margin over the Company’s choice of market observable base rates as defined in the amended and restated Credit Agreement. As of April 30, 2016, borrowings under the Term Loan bore interest at LIBOR +1.125% and the applicable interest rate for the Revolver was LIBOR +1.000%. In addition, commitment fees are payable on the Revolver at rates between 0.125% and 0.200% per year based on the Company’s leverage ratio on the daily amount of the revolving commitment.

Subsequent to the end of the quarter, the Company drew down an additional $125.0 million under the Revolver. The total outstanding balance of the Revolver as of May 24, 2016 is $335.0 million, net of repayments.

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The carrying amount of the short-term and long-term debt approximates the estimated fair value. These borrowings under the amended and restated Credit Agreement have a variable interest rate structure and are classified within Level 2 of the fair value hierarchy.

Note 9. Accumulated Other Comprehensive Income (Loss)

Components of accumulated other comprehensive income (loss), on an after-tax basis where applicable, were as follows:

	April 30, 2016	October 31, 2015
	(in thousands)	
Cumulative currency translation adjustments	$(87,574)	$(90,508)
Unrealized gain (loss) on derivative instruments, net of taxes	(15,520)	(14,839)
Unrealized gain (loss) on available-for-sale securities, net of taxes	31	(28)
Total accumulated other comprehensive income (loss)	$(103,063)	$(105,375)

The effect of amounts reclassified out of each component of accumulated other comprehensive income (loss) into net income was as follows:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2016	2015	2016	2015
	(in thousands)			
Reclassifications from accumulated other comprehensive income (loss) into unaudited condensed consolidated statement of operations:				
Gain (loss) on cash flow hedges, net of taxes				
Revenues	$(1,429)	$26	$(1,217)	$2,406
Operating expenses	(3,768)	(6,397)	(7,696)	(9,833)
Gain (loss) on available-for-sale securities				
Other income (expense)	$13	5	10	$17
Total reclassifications into net income	$(5,184)	$(6,366)	$(8,903)	$(7,410)

Note 10. Stock Repurchase Program

The Company’s Board of Directors (the Board) previously approved a stock repurchase program pursuant to which the Company was authorized to purchase up to $500.0 million of its common stock, and has periodically replenished the stock repurchase program to such amount. The Board replenished the stock repurchase program up to $500.0 million on September 1, 2015. The program does not obligate Synopsys to acquire any particular amount of common stock, and the program may be suspended or terminated at any time by Synopsys’ Chief Financial Officer or the Board. The Company repurchases shares to offset dilution caused by ongoing stock issuances from existing equity plans for equity compensation awards and issuances related to acquisitions, and when management believes it is a good use of cash. Repurchases are transacted in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and may be made through any means including, but not limited to, open market purchases, plans executed under Rule 10b5-1(c) of the Exchange Act and structured transactions. As of April 30, 2016, $300.0 million remained available for further repurchases under the program.

In August 2015, the Company entered into an accelerated share repurchase agreement (the August 2015 ASR) to repurchase an aggregate of $100.0 million of the Company’s common stock. Pursuant to the August 2015 ASR, the Company made a prepayment of $100.0 million and received an initial share delivery of shares valued at $80.0 million. The remaining balance of $20.0 million was settled in the first quarter of fiscal 2016. Total shares purchased under the August 2015 ASR were approximately 2.1 million shares, at an average purchase price of $48.06 per share.

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In December 2015, the Company entered into two simultaneous accelerated share repurchase agreements (the December 2015 ASRs) to repurchase an aggregate of $200.0 million of the Company's common stock. Pursuant to the December 2015 ASRs, the Company made a prepayment of $200.0 million and received initial share deliveries of shares valued at $160.0 million. The December 2015 ASRs expired on April 29, 2016 with $20.0 million settled in April 2016 and the final $20.0 million settled in May 2016. Total shares purchased under the December 2015 ASRs were approximately 4.5 million shares, at an average purchase price of $44.40 per share.

In May 2016, the Company entered into an accelerated share repurchase agreement (the May 2016 ASR) to repurchase an aggregate of $125.0 million of the Company's common stock. Pursuant to the May 2016 ASR, the Company will make a prepayment of $125.0 million to receive initial share deliveries of shares valued at $100.0 million. The remaining balance of $25.0 million is anticipated to be settled on or before August 15, 2016, upon completion of the repurchase. Under the terms of the May 2016 ASR, the specific number of shares that the Company ultimately repurchases will be based on the volume-weighted average share price of the Company's common stock during the repurchase period, less a discount.

Stock repurchase activities are as follow:

Three Months Ended April 30,		Six Months Ended April 30,
2016	2015	