CADENCE DESIGN SYSTEMS INC
Form 10-Q/A
December 11, 2008

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

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended March 29, 2008

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 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 March 29, 2008, 257,854,529 shares of the registrant s common stock, $0.01 par value, were outstanding.

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Amendment No. 1 to the Quarterly Report on Form 10-Q
For the Quarterly Period Ended March 29, 2008

EXPLANATORY NOTE

Overview

Cadence Design Systems, Inc., or Cadence, is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended March 29, 2008, initially filed with the Securities and Exchange Commission, or the SEC, on April 25, 2008, to restate its unaudited Condensed Consolidated Financial Statements as of and for the three months ended March 29, 2008. This restatement corrects revenue recognition for one arrangement under which $24.8 million of Product revenue was recognized during the three months ended March 29, 2008, but should be recognized during the term of the arrangement, beginning in the fourth quarter of 2008.

Since Cadence is restating its Quarterly Report on Form 10-Q for the quarter ended March 29, 2008 for this one revenue arrangement, Cadence has also recorded two other Product revenue adjustments, in the aggregate amount of $8.4 million, that were previously disclosed in Cadence s Quarterly Report on Form 10-Q for the quarter ended June 28, 2008, initially filed with the SEC on July 29, 2008. See Note 2 to the accompanying unaudited Condensed Consolidated Financial Statements for additional information.

As a result of these revenue adjustments, certain other line items in our unaudited Condensed Consolidated Financial Statements were also adjusted.

Effects of Restatement

This Amendment No. 1 to the Quarterly Report on Form 10-Q/A restates the Quarterly Report on Form 10-Q for the quarter ended March 29, 2008 in its entirety. However, Cadence has not modified nor updated disclosures presented in the Quarterly Report on Form 10-Q for the quarter ended March 29, 2008, except as required to reflect the effects of the matters discussed above. Accordingly, this Amendment No. 1 to the Quarterly Report on Form 10-Q/A does not reflect events occurring after the filing of the Quarterly Report on Form 10-Q for the quarter ended March 29, 2008, initially filed with the SEC on April 25, 2008, or modify or update those disclosures affected by subsequent events or discoveries. Therefore, this Amendment No. 1 to the Quarterly Report on Form 10-Q/A should be read in conjunction with Cadence s Annual Report on Form 10-K for the year ended December 29, 2007, Cadence s Amendment No. 1 to its Quarterly Report on Form 10-Q/A for the quarter ended June 28, 2008 and Cadence s Quarterly Report on Form 10-Q for the quarter ended September 27, 2008.

Cadence has amended, to the extent relevant, the following items, which were impacted by the revenue adjustments described above:

Part I

Item 1 Financial Statements Cadence has added Note 2 to explain the restatement and corrected the financial statements and footnotes to reflect the restatement described in this Explanatory Note.

Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Cadence has added an introductory paragraph summarizing the effect of the restatement and has corrected the relevant sections to reflect the restatement.

Item 4 Controls and Procedures Cadence has reevaluated its internal controls and procedures and included remediation steps to address a material weakness.

Part II

Item 1A Risk Factors Cadence has corrected revenue-related percentages to reflect the reduction in revenue in international locations as revised in its restated Condensed Consolidated Financial Statements.

In addition, in accordance with applicable SEC rules, this Amendment No. 1 to the Quarterly Report on Form 10-Q/A includes currently-dated certifications from our Member and Chief of Staff of the Office of the Chief Executive, who is performing functions similar to a Principal Executive Officer, and Principal Financial Officer in Exhibits 31.01, 31.02, 32.01 and 32.02.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS

	Restated March 29, 2008	December 29, 2007
Current Assets:		
Cash and cash equivalents	$ 825,545	$ 1,062,920
Short-term investments	11,157	15,193
Receivables, net of allowances of $2,752 and $2,895, respectively	326,974	326,211
Inventories	29,771	31,003
Prepaid expenses and other	97,940	94,236
Total current assets	1,291,387	1,529,563
Property, plant and equipment, net of accumulated depreciation of $633,059 and $624,680, respectively	345,918	339,463
Goodwill	1,315,561	1,310,211
Acquired intangibles, net	124,196	127,072
Installment contract receivables	214,991	238,010
Other assets	326,003	326,831
Total Assets	$ 3,618,056	$ 3,871,150

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities:		
Convertible notes	$ 230,385	$ 230,385
Accounts payable and accrued liabilities	220,906	289,934
Current portion of deferred revenue	296,048	265,168
Total current liabilities	747,339	785,487
Long-Term Liabilities:		
Long-term portion of deferred revenue	135,465	136,655
Convertible notes	500,000	500,000
Other long-term liabilities	352,023	368,942

Total long-term liabilities	987,488	1,005,597
Stockholders Equity:		
Common stock and capital in excess of par value	1,528,671	1,516,493
Treasury stock, at cost	(780,999)	(619,125)
Retained earnings	1,108,700	1,162,441
Accumulated other comprehensive income	26,857	20,257
Total stockholders equity	1,883,229	2,080,066
Total Liabilities and Stockholders Equity	$ 3,618,056	$ 3,871,150

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	
	Restated March 29, 2008	March 31, 2007
Revenue:		
Product	$ 139,754	$ 237,904
Services	32,196	31,922
Maintenance	98,800	95,359
Total revenue	270,750	365,185
Costs and Expenses:		
Cost of product	12,001	15,652
Cost of services	25,193	23,615
Cost of maintenance	14,540	15,123
Marketing and sales	93,034	102,698
Research and development	125,356	117,065
General and administrative	37,708	40,611
Amortization of acquired intangibles	5,760	4,509
Restructuring and other charges (credits)	----	(945)
Write-off of acquired in-process technology	600	----
Total costs and expenses	314,192	318,328
Income (loss) from operations	(43,442)	46,857
Interest expense	(2,995)	(3,460)
Other income, net	5,763	19,530
Income (loss) before provision (benefit) for income taxes	(40,674)	62,927
Provision (benefit) for income taxes	(11,451)	18,506
Net income (loss)	$ (29,223)	$ 44,421
Basic net income (loss) per share	$ (0.11)	$ 0.16
Diluted net income (loss) per share	$ (0.11)	$ 0.15
Weighted average common shares outstanding basic	262,825	269,660
Weighted average common shares outstanding diluted	262,825	293,603

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)

	Three Months Ended	
	Restated March 29, 2008	March 31, 2007
Cash and Cash Equivalents at Beginning of Period	$ 1,062,920	$ 934,342
Cash Flows from Operating Activities:		
Net income (loss)	(29,223)	44,421
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	32,982	31,920
Stock-based compensation	21,590	27,682
Equity in loss from investments, net	333	637
Gain on investments, net	(224)	(7,498)
Gain on sale and leaseback of land and buildings	(535)	(11,127)
Write-down of investment securities	5,401	----
Write-off of acquired in-process technology	600	----
Tax benefit of call options	----	1,906
Deferred income taxes	----	191
Proceeds from the sale of receivables, net	15,660	41,434
Provisions (recoveries) for losses (gains) on trade accounts receivable and sales returns	(142)	1,283
Other non-cash items	1,075	3,216
Changes in operating assets and liabilities, net of effect of acquired businesses:		
Receivables	(20,431)	18,156
Installment contract receivables	42,600	(87,504)
Inventories	1,281	(651)
Prepaid expenses and other	(3,546)	(9,832)
Other assets	(4,344)	(4,346)
Accounts payable and accrued liabilities	(80,931)	(37,729)
Deferred revenue	19,622	6,661
Other long-term liabilities	(20,849)	143
Net cash provided by (used for) operating activities	(19,081)	18,963
Cash Flows from Investing Activities:		
Proceeds from sale of short-term investments	----	197
Proceeds from the sale of long-term investments	3,250	4,787
Proceeds from the sale of property, plant and equipment	----	46,500
Purchases of property, plant and equipment	(24,595)	(20,394)
Purchases of software licenses	(375)	----
Investment in venture capital partnerships and equity investments	----	(1,499)

Cash paid in business combinations and asset acquisitions, net of cash acquired, and acquisition of intangibles	(5,560)	(1,547)
Net cash provided by (used for) investing activities	(27,280)	28,044
Cash Flows from Financing Activities:		
Principal payments on term loan	----	(28,000)
Tax benefit from employee stock transactions	95	8,642
Proceeds from issuance of common stock	25,485	111,616
Stock received for payment of employee taxes on vesting of restricted stock	(2,207)	(6,223)
Purchases of treasury stock	(216,236)	(121,455)
Net cash used for financing activities	(192,863)	(35,420)
Effect of exchange rate changes on cash and cash equivalents	1,849	825
Increase (decrease) in cash and cash equivalents	(237,375)	12,412
Cash and Cash Equivalents at End of Period	$ 825,545	$ 946,754

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

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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/A have been prepared by Cadence Design Systems, Inc., or Cadence, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, Cadence believes that the disclosures contained in this Quarterly Report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, for a Quarterly Report on Form 10-Q/A and are adequate to make the information presented not misleading. These Condensed Consolidated Financial Statements are meant to be, and should be, read in conjunction with the Consolidated Financial Statements and the notes thereto included in Cadence s Annual Report on Form 10-K for the fiscal year ended December 29, 2007.

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

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

In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standard, or SFAS, No. 157, Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position, or FSP, FAS No. 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Cadence adopted SFAS No. 157 for fiscal 2008, except as it applies to those non-financial assets and non-financial liabilities as described in FSP FAS No. 157-2, and it did not have a material impact on its consolidated financial position, results of operations or cash flows. See Note 4 for information and related disclosures regarding Cadence s fair value measurements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. Under SFAS No. 159, companies may elect to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Cadence adopted SFAS No. 159 for fiscal 2008. However Cadence did not elect to apply the fair value option to any financial instruments or other items upon adoption of SFAS No. 159 or during the three months ended March 29, 2008. Therefore, the adoption of SFAS No. 159 did not impact Cadence s consolidated financial position, results of operations or cash flows.

NOTE 2. RESTATEMENT

Subsequent to the filing of Cadence s Quarterly Report on Form 10-Q for the quarter ended March 29, 2008, initially filed with the SEC on April 25, 2008, Cadence concluded that, based on a review of one arrangement in which revenue was recognized during this period, Cadence would restate its Condensed Consolidated Financial Statements for the three months ended March 29, 2008, as discussed in more detail below.

(A) During the three months ended March 29, 2008, Cadence executed a term license arrangement with a customer and, during the three months ended September 27, 2008, Cadence executed a subscription license arrangement with the same customer. Cadence recognized Product revenue of $24.8 million during the three months ended March 29, 2008 in connection with the term license arrangement because it was determined at the time that all revenue recognition criteria required by Statement of Position, or SOP, 97-2, Software Revenue Recognition, and related software revenue recognition guidance had been met upon delivery of the software, which occurred during the three months ended March 29, 2008.

As part of its regular quarterly review process for the three months ended September 27, 2008, Cadence identified certain factors that, when evaluated together, indicated that the software arrangements executed with this customer both in the three months ended March 29, 2008 and the three months ended September 27, 2008 were negotiated in contemplation of one another. Accordingly, based on Technical Practice Aid, or TPA, 5100.39, Software Revenue Recognition for Multiple-Element Arrangements, Cadence determined that the term license arrangement executed during the three months ended March 29, 2008 and the subscription license arrangement executed during the three months ended September 27, 2008 collectively represented a multiple element arrangement. Because the subscription arrangement provides the customer with the right to use unspecified additional software products that become commercially available during the term of the arrangement, Cadence determined that the revenue relating to this multiple element arrangement should be recognized during the term of the arrangement, beginning in the fourth quarter of 2008. Accordingly, because no revenue should have been recognized during the three months ended March 29, 2008 in connection with this multiple element arrangement, total revenue during this period was reduced by $24.8 million. As a result of this reduction of revenue, Cadence also reduced Receivables, net by $24.8 million.

(B) Because Cadence is restating its Quarterly Report on Form 10-Q for the quarter ended March 29, 2008, Cadence has also recorded two other revenue adjustments that were previously disclosed in Cadence s Quarterly Report on Form 10-Q for the quarter ended June 28, 2008, initially filed with the SEC on July 29, 2008. Cadence determined that Product revenue for two contracts totaling $8.4 million recognized during the three months ended June 28, 2008 should have been recognized during the three months ended March 29, 2008. As a result of this increase in revenue, Cadence also increased Receivables, net by $5.5 million and decreased Current portion of deferred revenue by $2.9 million as of March 29, 2008.

(C) These amounts represent the tax effects of the restatement adjustments noted above, which affect Benefit for income taxes by $6.0 million and Other long-term liabilities by the same amount.

(D) This amount represents the Net loss impact of the restatement adjustments noted above.

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The following table outlines the effects of the restatement adjustments on Cadence s Condensed Consolidated Statement of Operations for the three months ended March 29, 2008:

	Three Months Ended March 29, 2008			
	As Previously Reported	Restatement Adjustments		As Restated
	(In thousands, except per share amounts)			
Revenue:				
Product	$ 156,193	$ (16,439)	(A),(B)	$ 139,754
Services	32,196	----		32,196
Maintenance	98,800	----		98,800
Total revenue	287,189	(16,439)		270,750
Costs and Expenses:				
Cost of product	12,001	----		12,001
Cost of services	25,193	----		25,193
Cost of maintenance	14,540	----		14,540
Marketing and sales	93,034	----		93,034
Research and development	125,356	----		125,356
General and administrative	37,708	----		37,708
Amortization of acquired intangibles	5,760	----		5,760
Write-off of acquired in-process technology	600	----		600
Total costs and expenses	314,192	----		314,192
Loss from operations	(27,003)	(16,439)		(43,442)
Interest expense	(2,995)	----		(2,995)
Other income, net	5,763	----		5,763
Loss before benefit for income taxes	(24,235)	(16,439)		(40,674)
Benefit for income taxes	(5,488)	(5,963)	(C)	(11,451)
Net loss	$ (18,747)	$ (10,476)		$ (29,223)
Basic net loss per share	$ (0.07)			$ (0.11)
Diluted net loss per share	$ (0.07)			$ (0.11)
Weighted average common shares outstanding basic	262,825			262,825
Weighted average common shares outstanding diluted	262,825			262,825

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The following table outlines the effects of the restatement adjustments on Cadence s Condensed Consolidated Balance Sheet as of March 29, 2008:

	As of March 29, 2008			
	As Previously Reported	Restatement Adjustments		As Restated
	(In thousands)			
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 825,545	$ ----		$ 825,545
Short-term investments	11,157	----		11,157
Receivables, net of allowances of $2,752 and $2,895, respectively	346,321	(19,347)	(A),(B)	326,974
Inventories	29,771	----		29,771
Prepaid expenses and other	97,940	----		97,940
Total current assets	1,310,734	(19,347)		1,291,387
Property, plant and equipment, net of accumulated depreciation of $633,059 and $624,680, respectively	345,918	----		345,918
Goodwill	1,315,561	----		1,315,561
Acquired intangibles, net	124,196	----		124,196
Installment contract receivables	214,991	----		214,991
Other assets	326,003	----		326,003
Total Assets	$ 3,637,403	$ (19,347)		$ 3,618,056
LIABILITIES AND STOCKHOLDERS EQUITY				
Current Liabilities:				
Convertible notes	$ 230,385	$ ----		$ 230,385
Accounts payable and accrued liabilities	220,906	----		220,906
Current portion of deferred revenue	298,956	(2,908)	(B)	296,048
Total current liabilities	750,247	(2,908)		747,339
Long-Term Liabilities:				
Long-term portion of deferred revenue	135,465	----		135,465
Convertible notes	500,000	----		500,000
Other long-term liabilities	357,986	(5,963)	(C)	352,023
Total long-term liabilities	993,451	(5,963)		987,488
Stockholders Equity:				
Common stock and capital in excess of par value	1,528,671	----		1,528,671
Treasury stock, at cost	(780,999)	----		(780,999)
Retained earnings	1,119,176	(10,476)	(D)	1,108,700

Accumulated other comprehensive income	26,857	----	26,857
Total stockholders equity	1,893,705	(10,476)	1,883,229
Total Liabilities and Stockholders Equity	$ 3,637,403	$ (19,347)	$ 3,618,056

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NOTE 3. STOCK-BASED COMPENSATION

Cadence has equity incentive plans that provide for the grant to employees of stock-based awards, including stock options, restricted stock awards and restricted stock units. Restricted stock awards and restricted stock units are referred to in this Form 10-Q/A as restricted stock. In addition, the 1995 Directors Stock Option Plan, or 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.

Stock-based compensation expense and the related income tax benefit recognized under SFAS No. 123R, Share-Based Payment in the Condensed Consolidated Statements of Operations in connection with stock options, restricted stock and the ESPP for the three months ended March 29, 2008 and March 31, 2007 were as follows:

	Three Months Ended	
	March 29, 2008	March 31, 2007
	(In thousands)	
Stock options	$ 7,519	$ 10,430
Restricted stock and stock bonuses	11,164	15,184
ESPP	2,907	2,068
Total stock-based compensation expense	$ 21,590	$ 27,682
Income tax benefit	$ 6,060	$ 10,011

Stock Options

The exercise price of each stock option granted under Cadence s employee equity incentive plans is equal to or greater than the market 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 model for the three months ended March 29, 2008 and March 31, 2007 were as follows:

	Three Months Ended	
	March 29, 2008	March 31, 2007
Dividend yield	None	None
Expected volatility	45.0%	23.0%
Risk-free interest rate	2.51%	4.54%

Expected life (in years)	4.5	4.4
Weighted average fair value of options granted	$ 4.29	$ 4.75

The computation of the expected volatility assumption used in the Black-Scholes pricing model for new grants is based on implied volatility. 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; thus the expected dividend yield used in the calculation is zero.

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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 of restricted stock granted during the three months ended March 29, 2008 and March 31, 2007 were as follows:

	Three Months Ended	
	March 29, 2008	March 31, 2007
Weighted average fair value of restricted stock granted	$ 10.66	$ 20.26

Generally, restricted stock vests over 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 restricted stock grants are consistent with grants of restricted stock described above, with the exception that the shares vest not upon the mere passage of time, but upon the attainment of certain predetermined performance goals. Each period, Cadence estimates the most likely outcome of such performance goals and recognizes the 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 these performance-based restricted stock grants for the three months ended March 29, 2008 and March 31, 2007 was as follows:

	Three Months Ended	
	March 29, 2008	March 31, 2007
	(In thousands)	
Stock-based compensation expense related to performance-based grants	$ 2,016	$ 1,764

Liability-based Awards

Cadence maintains a performance-based bonus plan under which payments may be made in Cadence s common stock. Each 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 bonus plan is based on the achievement of the performance goals, and the number of shares to be issued under the plan is based on the average stock price for three days preceding the grant date. Stock issued under the performance-based bonus plan vests immediately. During the three months ended March 29, 2008, Cadence agreed to make the period s payment of $2.7 million in cash. Under the terms of this performance-based bonus plan, future payments are to be made in stock. Stock-based compensation expense related to these performance-based bonus plans and the shares issued for the three months ended March 29, 2008 and March 31, 2007 were as follows:

Three Months Ended

	March 29, 2008	March 31, 2007
	(In thousands)	
Stock-based compensation expense related to performance-based bonus plan	$ 1,425	$ 3,932
Shares issued for performance-based bonus plan	----	252

Employee Stock Purchase Plan

Under the ESPP, substantially all employees may purchase Cadence s common stock 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 each applicable purchase period, in an amount up to 12% of their annual base earnings plus bonuses, subject to a limit in any calendar year of $25,000 worth of common stock. The duration of each offering period under the ESPP is six months. New offerings begin on each February 1st and August 1st of each year and the purchase dates under the ESPP are January 31st and July 31st of each year.

Shares of Cadence s common stock issued under the ESPP for the three months ended March 29, 2008 and March 31, 2007 were as follows:

	Three Months Ended March 29, 2008	March 31, 2007
	(In thousands, except per share amounts)	
Cadence shares issued under the ESPP	2,719	1,921
Cash received from the exercise of purchase rights under the ESPP	$ 23,455	$ 22,581
Weighted average purchase price per share	$ 8.63	$ 11.76

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 months ended March 29, 2008 and March 31, 2007 were as follows:

	Three Months Ended March 29, 2008	March 31, 2007
Dividend yield	None	None
Expected volatility	45.0%	23.0%
Risk-free interest rate	2.15%	5.16%
Expected life (in years)	0.5	0.5
Weighted average fair value of purchase rights granted	$ 2.97	$ 4.49

The computation of the expected volatility assumption used in the Black-Scholes pricing model for purchase rights is based on implied volatility. 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; thus the expected dividend yield used in the calculation is zero.

NOTE 4. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

On a quarterly basis, Cadence measures at fair value certain financial assets and liabilities, including cash equivalents, available-for-sale securities, trading securities held in Cadence s Nonqualified Deferred Compensation Plans, or NQDCs, and foreign exchange contracts. SFAS No. 157 specifies a hierarchy of valuation techniques based on whether the inputs to those 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:

Level 1 Quoted prices for identical instruments in active markets;

Level 2 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

Level 3 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. The fair value of these financial assets and liabilities was determined using the following levels of inputs as of March 29, 2008.

	Fair Value Measurements as of March 29, 2008:			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets:				
Cash equivalents Money market mutual funds	$ 706,080	$ 706,080	$ ----	$ ----
Available-for-sale securities	10,887	10,799	----	88
Trading securities held in NQDCs	51,451	51,451	----	----
Foreign currency exchange contracts	82	----	82	----
Total	$ 768,500	$ 768,330	$ 82	$ 88

Marketable Securities

Cadence considers all of its investments in marketable securities as available-for-sale. Available-for-sale securities are stated at fair value, with the unrealized gains and losses presented net of tax and reported as a separate component of Stockholders equity. Realized gains and losses are determined using the specific identification method. Gains are recognized when realized and are recorded in the Condensed Consolidated Statements of Operations as Other income, net. Losses are recognized as realized or when Cadence has determined that an other-than-temporary decline in fair value has occurred.

It is Cadence s policy to review the fair value of these marketable 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.

During the three months ended March 29, 2008, Cadence determined that one of its available-for-sale securities was other-than-temporarily impaired based on the severity and the duration of the impairment and Cadence wrote down the investment by $5.4 million. This impairment is included in Other income, net in the Condensed Consolidated Statement of Operations for the three months ended March 29, 2008.

NOTE 5. GOODWILL AND ACQUIRED INTANGIBLES

Goodwill

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, Cadence conducts an annual impairment analysis of goodwill. The most recent analysis was completed during the third quarter of 2007, at which time Cadence determined that no indicators of impairment existed. For purposes of SFAS No. 142, Cadence operates under one reporting unit. Cadence s annual impairment review process compares the fair value of its reporting unit to its carrying value, including the goodwill related to the reporting unit. To determine the reporting unit s fair value, Cadence utilized the market valuation approach in the most recent evaluation.

The changes in the carrying amount of goodwill for the three months ended March 29, 2008 were as follows:

	(In thousands)
Balance as of December 29, 2007	$ 1,310,211
Goodwill resulting from acquisition during the period	3,074
Foreign currency translation	2,276
Balance as of March 29, 2008	$ 1,315,561

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