CADENCE DESIGN SYSTEMS INC
Form 10-Q
April 27, 2015

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 April 4, 2015

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 000-15867

CADENCE DESIGN SYSTEMS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	00-0000000
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2655 Seely Avenue, Building 5, San Jose, California	95134
(Address of Principal Executive Offices)	(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 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	o
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	o

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 April 4, 2015, approximately 292,673,000 shares of the registrant's common stock, $0.01 par value, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
CADENCE DESIGN SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	As of April 4, 2015	January 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$887,736	$932,161
Short-term investments	92,640	90,445
Receivables, net	133,924	122,492
Inventories	54,450	56,394
2015 notes hedges	429,847	523,930
Prepaid expenses and other	135,047	126,313
Total current assets	1,733,644	1,851,735
Property, plant and equipment, net of accumulated depreciation of $560,774 and $552,551, respectively	225,556	230,112
Goodwill	553,942	553,767
Acquired intangibles, net of accumulated amortization of $169,013 and $154,814, respectively	344,450	360,932
Long-term receivables	3,619	3,644
Other assets	201,354	209,366
Total assets	$3,062,565	$3,209,556
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Convertible notes	$293,667	$342,499
2015 notes embedded conversion derivative	429,847	523,930
Accounts payable and accrued liabilities	178,474	225,375
Current portion of deferred revenue	324,448	301,287
Total current liabilities	1,226,436	1,393,091
Long-term liabilities:		
Long-term portion of deferred revenue	48,418	54,726
Long-term debt	348,705	348,676
Other long-term liabilities	75,816	79,489
Total long-term liabilities	472,939	482,891
Commitments and contingencies (Note 11)		
Stockholders’ equity:		
Common stock and capital in excess of par value	1,869,104	1,851,427
Treasury stock, at cost	(219,578)	(203,792)
Accumulated deficit	(290,149)	(326,408)
Accumulated other comprehensive income	3,813	12,347
Total stockholders’ equity	1,363,190	1,333,574
Total liabilities and stockholders’ equity	$3,062,565	$3,209,556

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	April 4, 2015	March 29, 2014
Revenue:		
Product and maintenance	$383,637	$357,350
Services	27,729	21,200
Total revenue	411,366	378,550
Costs and expenses:		
Cost of product and maintenance	42,059	42,197
Cost of services	18,526	14,902
Marketing and sales	100,268	98,323
Research and development	162,996	146,466
General and administrative	27,642	28,744
Amortization of acquired intangibles	6,231	5,210
Restructuring and other charges	4,359	396
Total costs and expenses	362,081	336,238
Income from operations	49,285	42,312
Interest expense	(11,754)	(7,268)
Other income, net	4,781	3,382
Income before provision for income taxes	42,312	38,426
Provision for income taxes	6,053	5,356
Net income	$36,259	$33,070
Net income per share – basic	$0.13	$0.12
Net income per share – diluted	$0.12	$0.11
Weighted average common shares outstanding – basic	284,523	281,615
Weighted average common shares outstanding – diluted	311,847	301,034

See notes to condensed consolidated financial statements.

CADENCE DESIGN SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended	
	April 4, 2015	March 29, 2014
Net income	$36,259	$33,070
Other comprehensive income (loss), net of tax effects:		
Foreign currency translation adjustments	(8,890)	4,452
Changes in unrealized holding gains or losses on available-for-sale securities, net of reclassification adjustment for realized gains and losses	65	(181)
Changes in defined benefit plan liabilities	291	408
Total other comprehensive income (loss), net of tax effects	(8,534)	4,679
Comprehensive income	$27,725	$37,749

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	April 4, 2015	March 29, 2014
Cash and cash equivalents at beginning of period	$932,161	$536,260
Cash flows from operating activities:		
Net income	36,259	33,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,433	26,017
Amortization of debt discount and fees	5,945	4,882
Stock-based compensation	21,861	18,864
Gain on investments, net	(1,270)	(3,651)
Deferred income taxes	1,864	2,245
Other non-cash items	929	2,344
Changes in operating assets and liabilities, net of effect of acquired businesses:		
Receivables	(12,450)	(108)
Inventories	1,682	(9,373)
Prepaid expenses and other	(10,004)	(9,753)
Other assets	3,627	3,157
Accounts payable and accrued liabilities	(44,754)	(29,680)
Deferred revenue	16,812	(5,508)
Other long-term liabilities	(3,246)	(4,408)
Net cash provided by operating activities	46,688	28,098
Cash flows from investing activities:		
Purchases of available-for-sale securities	(33,161)	(47,005)
Proceeds from the sale of available-for-sale securities	20,551	32,586
Proceeds from the maturity of available-for-sale securities	10,350	13,905
Proceeds from the sale of long-term investments	1,364	—
Purchases of property, plant and equipment	(7,520)	(6,252)
Cash paid in business combinations and asset acquisitions, net of cash acquired	—	(27,422)
Net cash used for investing activities	(8,416)	(34,188)
Cash flows from financing activities:		
Payment of convertible notes	(53,862)	—
Payment of convertible notes embedded conversion derivative liability	(77,139)	—
Proceeds from convertible notes hedges	77,139	—
Payment of acquisition-related contingent consideration	—	(1,835)
Tax effect related to employee stock transactions allocated to equity	6,482	1,827
Proceeds from issuance of common stock	24,609	23,377
Stock received for payment of employee taxes on vesting of restricted stock	(14,114)	(10,981)
Payments for repurchases of common stock	(36,797)	(12,517)
Net cash used for financing activities	(73,682)	(129)
Effect of exchange rate changes on cash and cash equivalents	(9,015)	2,720
Decrease in cash and cash equivalents	(44,425)	(3,499)
Cash and cash equivalents at end of period	$887,736	$532,761
Supplemental cash flow information:		
Cash paid for interest	$125	$112

Cash paid for taxes, net	$10,868	$5,393

See notes to 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 United States 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, 2015. Certain prior period balances have been reclassified to conform to current period presentation.

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 of operations, cash flows and financial position for the periods and dates presented. The results for such periods are not necessarily indicative of the results to be expected for the full fiscal year. Management has evaluated subsequent events through the issuance date of the unaudited condensed consolidated financial statements.

Preparation of the condensed consolidated financial statements in conformity with United States 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. DEBT

Cadence's outstanding debt as of April 4, 2015 and January 3, 2015 was as follows:

	April 4, 2015			January 3, 2015		
	(In thousands)					
	Principal	Unamortized Discount	Carrying Value	Principal	Unamortized Discount	Carrying Value
2015 Notes	$296,137	$(2,470)	$293,667	$349,999	$(7,500)	$342,499
2024 Notes	350,000	(1,295)	348,705	350,000	(1,324)	348,676
Revolving credit facility	—	—	—	—	—	—
Total outstanding debt	$646,137	$(3,765)	$642,372	$699,999	$(8,824)	$691,175

2015 Notes

In June 2010, Cadence issued $350.0 million principal amount of 2.625% Cash Convertible Senior Notes Due 2015, or the 2015 Notes. At maturity, the holders of the 2015 Notes will be entitled to receive the principal amount of the 2015 Notes plus accrued interest. The holders of the 2015 Notes may elect to convert their 2015 Notes to cash through the second trading day immediately preceding the maturity date, as specified in the table below under "Early conversion conditions" and "Conversion immediately preceding maturity." If a holder of the 2015 Notes elects to convert its notes prior to maturity, that note holder will be entitled to receive cash equal to the principal amount of the notes converted plus any additional conversion value as described in the table below under the heading "Conversion feature." As of April 4, 2015, a total of $53.9 million principal value of the 2015 Notes had been tendered for early conversion and settled. The remaining principal amount of the 2015 Notes, which was $296.1 million as of April 4, 2015, will be settled during the second quarter of fiscal 2015.

Cadence entered into hedge transactions, or the 2015 Notes Hedges, in connection with the issuance of the 2015 Notes. The purpose of the 2015 Notes Hedges was to limit Cadence's exposure to the additional cash payments above the principal amount of the 2015 Notes that may be due to the holders. As a result of the 2015 Notes Hedges, Cadence's maximum expected cash exposure upon conversion or maturity of the 2015 Notes is the remaining principal balance of the notes and accrued interest. In June 2010, Cadence also sold warrants in separate transactions, or the 2015 Warrants. As a result of the 2015 Warrants, Cadence experiences dilution to its diluted earnings per share when its average closing stock price exceeds $10.78 for any fiscal quarter. To the extent that Cadence's stock price exceeds $10.78 at expiration of the 2015 Warrants, Cadence will issue shares to net settle the 2015 Warrants.
A summary of key terms of the 2015 Notes is as follows:

	2015 Notes (In thousands, except percentages and per share amounts)
Outstanding principal maturity value – at April 4, 2015	$296,137
Contractual interest rate	2.625%
Contractual maturity date	June 1, 2015
Initial conversion rate	132.5205 shares of common stock per $1,000 principal amount of notes, which is equivalent to a conversion price of approximately $7.55 per share of Cadence common stock.
Conversion feature (in addition to principal amount payable in cash)	Cash to the extent Cadence's stock price exceeds approximately $7.55 per share, calculated based on the applicable conversion rate multiplied by the volume weighted average price of Cadence common stock over a specified period.
Early conversion conditions (or the Early Conversion Conditions)	• Closing stock price greater than $9.81 for at least 20 of the last 30 trading days in a fiscal quarter (convertible only for subsequent quarter); • Specified corporate transactions; or • Note trading price falls below a calculated minimum.
Conversion immediately preceding maturity	From March 1, 2015 until the second trading day immediately preceding the maturity date, holders may elect to convert their 2015 Notes into cash as described above under "Conversion feature."
Redemption at Cadence's option prior to maturity	None.
Fundamental change put right	Upon certain fundamental corporate changes prior to maturity, the 2015 Note holders could require Cadence to repurchase their notes for cash equal to the principal amount of the notes plus accrued interest.
Make-whole premium	

	Upon certain fundamental changes prior to maturity, if Cadence’s stock price were between $6.16 and $40.00 per share at that time, the holders of the notes would be entitled to an increase to the conversion rate. This is referred to as a “make-whole premium.”
Financial covenants	None.

As of April 4, 2015, the if-converted value of the 2015 Notes to the note holders of approximately $726.0 million exceeded the principal amount of $296.1 million. The fair value of the 2015 Notes was $726.5 million as of April 4, 2015 and $873.9 million as of January 3, 2015.

2015 Notes Embedded Conversion Derivative

The conversion feature of the 2015 Notes, or the 2015 Notes Embedded Conversion Derivative, requires bifurcation from the 2015 Notes and is accounted for as a derivative liability. The fair value of the 2015 Notes Embedded Conversion Derivative at the time of issuance of the 2015 Notes was $76.6 million and was recorded as original issuance debt discount for purposes of accounting for the debt component of the 2015 Notes. This discount is amortized as interest expense using the effective interest method over the term of the 2015 Notes. The 2015 Notes Embedded Conversion Derivative is carried on the condensed consolidated balance sheet at its estimated fair value. The fair value was $429.8 million as of April 4, 2015 and $523.9 million as of January 3, 2015. During the three months ended April 4, 2015, Cadence paid $77.1 million of conversion value to note holders that elected to convert their 2015 Notes prior to maturity as described above under “Conversion feature.”

2015 Notes Hedges

The 2015 Notes Hedges expire on June 1, 2015, and must be settled in cash. The aggregate cost of the 2015 Notes Hedges was $76.6 million. The 2015 Notes Hedges are accounted for as a derivative asset and are carried on the condensed consolidated balance sheet at their estimated fair value. The fair value of the 2015 Notes Hedges was $429.8 million as of April 4, 2015 and $523.9 million as of January 3, 2015. The 2015 Notes Embedded Conversion Derivative liability and the 2015 Notes Hedges asset are adjusted to fair value each reporting period and unrealized gains and losses are reflected in the condensed consolidated income statements. The 2015 Notes Embedded Conversion Derivative and the 2015 Notes Hedges are designed to have similar fair values. Accordingly, the changes in the fair values of these instruments offset during the three months ended April 4, 2015 and March 29, 2014 and did not have a net impact on the condensed consolidated income statements for the respective periods. During the three months ended April 4, 2015, Cadence received proceeds of $77.1 million from the 2015 Notes Hedges that fully offset the conversion value associated with the 2015 Notes Embedded Conversion Derivative that was paid by Cadence to note holders that elected to convert their notes prior to maturity.

The classification of the 2015 Notes Embedded Conversion Derivative liability and the 2015 Notes Hedges asset as current on the condensed consolidated balance sheet corresponds with the classification of the 2015 Notes.

2015 Warrants

In June 2010, Cadence sold the 2015 Warrants in separate transactions for the purchase of up to approximately 46.4 million shares of Cadence’s common stock at a strike price of $10.78 per share, for total proceeds of $37.5 million, which was recorded as an increase in stockholders’ equity. The 2015 Warrants expire on various dates from September 2015 through December 2015 and must be settled in net shares of Cadence’s common stock. Upon expiration of the 2015 Warrants, Cadence will issue shares of common stock to the purchasers of the 2015 Warrants that represent the value by which the price of the common stock exceeds the strike price stipulated within the particular warrant agreement.

2015 Notes Interest Expense

The effective interest rate and components of interest expense of the 2015 Notes for the three months ended April 4, 2015 and March 29, 2014 were as follows:

	Three Months Ended	
	April 4, 2015	March 29, 2014
	(In thousands, except percentages)	
Effective interest rate	8.1 %	8.1 %
Contractual interest expense	$1,809	$2,289
Amortization of debt discount	$5,030	$4,232

2024 Notes

On October 9, 2014, Cadence issued $350.0 million aggregate principal amount of 4.375% Senior Notes due October 15, 2024, or the 2024 Notes. Cadence received net proceeds of $342.4 million from issuance of the 2024 Notes, net of a discount of $1.4 million and issuance costs of $6.2 million. Both the discount and issuance costs will be amortized to interest expense over the term of the 2024 Notes using the effective interest method. Interest is payable in cash semi-annually commencing on April 15, 2015. The 2024 Notes are unsecured and rank equal in right of payment to all of our existing and future senior indebtedness.

Cadence may redeem the 2024 Notes, in whole or in part, at a redemption price equal to the greater of (a) 100% of the principal amount of the notes to be redeemed and (b) the sum of the present values of the remaining scheduled payments of principal and interest, plus any accrued and unpaid interest, as more particularly described in the indentures governing the 2024 Notes.

The indentures governing the 2024 Notes include customary representations, warranties and restrictive covenants, including, but not limited to, restrictions on our ability to grant liens on assets, enter into sale and lease-back transactions, or merge, consolidate or sell assets, and also includes customary events of default.

Revolving Credit Facility

Cadence maintains a senior unsecured revolving credit facility with a group of lenders led by Bank of America, N.A., as administrative agent. The credit facility provides for borrowings up to $250.0 million, with the right to request increased capacity up to an additional $150.0 million upon the receipt of lender commitments, for total maximum borrowings of $400.0 million. The credit facility, as amended, expires on September 19, 2019 and has no subsidiary guarantors. Any outstanding loans drawn under the credit facility are due at maturity on September 19, 2019. Outstanding borrowings may be paid at any time prior to maturity.

Interest accrues on borrowings under the credit facility at either LIBOR plus a margin between 1.25% and 2.0% per annum or at the base rate plus a margin between 0.25% and 1.0% per annum. The interest rate applied to borrowings is determined by Cadence's consolidated leverage ratio as specified by the credit facility agreement. Interest is payable quarterly. A commitment fee ranging from 0.20% to 0.35% is assessed on the daily average undrawn portion of revolving commitments.

The credit facility contains customary negative covenants that, among other things, restrict Cadence's ability to incur additional indebtedness, grant liens, make certain investments (including acquisitions), dispose of certain assets and make certain payments, including share repurchases and dividends. In addition, the credit facility contains financial covenants that require Cadence to maintain a leverage ratio not to exceed 2.75 to 1, and a minimum interest coverage ratio of 3 to 1.

As of April 4, 2015 and January 3, 2015, Cadence had no outstanding balance under the revolving credit facility and was in compliance with all financial covenants.

NOTE 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cadence's cash, cash equivalents and short-term investments at fair value as of April 4, 2015 and January 3, 2015 were as follows:

	As of April 4, 2015	January 3, 2015
	(In thousands)	
Cash and cash equivalents	$887,736	$932,161
Short-term investments	92,640	90,445
Cash, cash equivalents and short-term investments	$980,376	$1,022,606

Cash and Cash Equivalents

Cadence considers all highly liquid investments with original maturities of three months or less on the date of purchase to be cash equivalents. The amortized cost of Cadence's cash equivalents approximates fair value. The following table summarizes Cadence's cash and cash equivalents at fair value as of April 4, 2015 and January 3, 2015:

	As of April 4, 2015	January 3, 2015
	(In thousands)	
Cash and interest bearing deposits	$209,310	$203,665
Money market funds	678,426	728,496
Total cash and cash equivalents	$887,736	$932,161

Short-Term Investments

The following tables summarize Cadence's short-term investments as of April 4, 2015 and January 3, 2015:

	As of April 4, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Corporate debt securities	$33,513	$17	$(9)	$33,521
Bank certificates of deposit	18,300	7	—	18,307
United States Treasury securities	26,563	66	—	26,629
United States government agency securities	8,159	2	(1)	8,160
Commercial paper	4,181	18	—	4,199
Marketable debt securities	90,716	110	(10)	90,816
Marketable equity securities	1,817	7	—	1,824
Total short-term investments	$92,533	$117	$(10)	$92,640

	As of January 3, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Corporate debt securities	$34,919	$6	$(31)	$34,894
Bank certificates of deposit	21,900	10	—	21,910
United States Treasury securities	19,375	12	(13)	19,374
United States government agency securities	9,209	3	(4)	9,208
Commercial paper	3,184	4	(2)	3,186
Marketable debt securities	88,587	35	(50)	88,572
Marketable equity securities	1,817	56	—	1,873
Total short-term investments	$90,404	$91	$(50)	$90,445

As of April 4, 2015, no securities held by Cadence had been in an unrealized loss position for more than 11 months.

The amortized cost and estimated fair value of marketable debt securities included in short-term investments as of April 4, 2015, by contractual maturity, are shown in the table below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due in less than one year	$61,860	$61,899
Due in one to three years	28,856	28,917
Total marketable debt securities included in short-term investments	$90,716	$90,816

Realized gains and losses from the sale of marketable debt and equity securities are recorded in other income, net in the condensed consolidated income statements.

NOTE 4. FAIR VALUE

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:

- 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. Cadence recognizes transfers between levels of the hierarchy based on the fair values of the respective financial instruments at the end of the reporting period in which the transfer occurred. There were no transfers between levels of the fair value hierarchy during the three months ended April 4, 2015.

On a quarterly basis, Cadence measures at fair value certain financial assets and liabilities. The fair value of financial assets and liabilities was determined using the following levels of inputs as of April 4, 2015 and January 3, 2015:

	Fair Value Measurements as of April 4, 2015:			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets				
Cash equivalents:				
Money market funds	$678,426	$678,426	$—	$—
Short-term investments:				
Corporate debt securities	33,521	—	33,521	—
Bank certificates of deposit	18,307	—	18,307	—
United States Treasury securities	26,629	26,629	—	—
United States government agency securities	8,160	8,160	—	—
Commercial paper	4,199	—	4,199	—
Marketable equity securities	1,824	1,824	—	—
Trading securities held in Non-Qualified Deferred Compensation, or NQDC, trust	23,365	23,365	—	—
2015 Notes Hedges	429,847	—	429,847	—
Foreign currency exchange contracts	3,081	—	3,081	—
Total Assets	$1,227,359	$738,404	$488,955	$—

	Total	Level 1	Level 2	Level 3
	(In thousands)			
Liabilities				
2015 Notes Embedded Conversion Derivative	429,847	—	429,847	—
Total Liabilities	$429,847	$—	$429,847	$—

	Fair Value Measurements as of January 3, 2015:			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets				
Cash equivalents:				
Money market funds	$728,496	$728,496	$—	$—
Short-term investments:				
Corporate debt securities	34,894	—	34,894	—
Bank certificates of deposit	21,910	—	21,910	—
United States Treasury securities	19,374	19,374	—	—
United States government agency securities	9,208	9,208	—	—
Commercial paper	3,186	—	3,186	—
Marketable equity securities	1,873	1,873	—	—
Trading securities held in NQDC trust	27,034	27,034	—	—
2015 Notes Hedges	523,930	—	523,930	—
Total Assets	$1,369,905	$785,985	$583,920	$—

	Total	Level 1	Level 2	Level 3
	(In thousands)			
Liabilities				
2015 Notes Embedded Conversion Derivative	523,930	—	523,930	—
Foreign currency exchange contracts	3,163	—	3,163	—
Total Liabilities	$527,093	$—	$527,093	$—

NOTE 5. RECEIVABLES, NET

Cadence’s current and long-term receivables balances as of April 4, 2015 and January 3, 2015 were as follows:

	As of	
	April 4, 2015	January 3, 2015
	(In thousands)	
Accounts receivable	$84,358	$79,410
Unbilled accounts receivable	49,566	43,082
Long-term receivables	3,619	3,644
Total receivables	$137,543	$126,136
Less allowance for doubtful accounts	—	—
Total receivables, net	$137,543	$126,136

Cadence’s customers are primarily concentrated within the semiconductor and electronics systems industries. As of April 4, 2015 and January 3, 2015, no one customer accounted for 10% or more of Cadence’s total receivables. As of April 4, 2015 and January 3, 2015, Cadence’s receivables attributable to the ten customers with the largest balances were approximately 42% and 47% of Cadence's total receivables, respectively.

NOTE 6. GOODWILL AND ACQUIRED INTANGIBLES

Goodwill

The changes in the carrying amount of goodwill during the three months ended April 4, 2015 were as follows:

	Gross Carrying Amount
	(In thousands)
Balance as of January 3, 2015	$553,767
Effect of foreign currency translation	175
Balance as of April 4, 2015	$553,942

Acquired Intangibles, Net

Acquired intangibles as of April 4, 2015 were as follows, excluding intangibles that were fully amortized as of January 3, 2015:

	Gross Carrying Amount	Accumulated Amortization	Acquired Intangibles, Net
	(In thousands)		
Existing technology	$328,119	$(94,617)	$233,502
Agreements and relationships	173,625	(69,979)	103,646
Tradenames, trademarks and patents	10,119	(4,417)	5,702
Total acquired intangibles with definite lives	511,863	(169,013)	342,850
In-process technology	1,600	—	1,600
Total acquired intangibles	$513,463	$(169,013)	$344,450

In-process technology as of April 4, 2015 consisted of acquired projects that, if completed, will contribute to Cadence's ability to offer additional software solutions to its customers. As of April 4, 2015, these projects were expected to be complete in six to nine months. During the three months ended April 4, 2015, there were no transfers from in-process technology to existing technology.

Acquired intangibles as of January 3, 2015 were as follows, excluding intangibles that were fully amortized as of December 28, 2013:

	Gross Carrying Amount	Accumulated Amortization	Acquired Intangibles, Net
	(In thousands)		
Existing technology	$328,325	$(84,822)	$243,503
Agreements and relationships	175,202	(65,512)	109,690
Tradenames, trademarks and patents	10,619	(4,480)	6,139
Total acquired intangibles with definite lives	514,146	(154,814)	359,332
In-process technology	1,600	—	1,600
Total acquired intangibles	$515,746	$(154,814)	$360,932

Amortization expense from existing technology and maintenance agreements is included in cost of product and maintenance. Amortization of acquired intangibles for the three months ended April 4, 2015 and March 29, 2014 was as follows:

	Three Months Ended	
	April 4, 2015	March 29, 2014
	(In thousands)	
Cost of product and maintenance	$10,173	$7,576
Amortization of acquired intangibles	6,231	5,210
Total amortization of acquired intangibles	$16,404	$12,786

Estimated amortization expense for intangible assets with definite lives for the following five fiscal years and thereafter is as follows:

	(In thousands)
2015 – remaining period	$47,804
2016	57,292
2017	52,584
2018	48,925
2019	42,939
Thereafter	93,306
Total estimated amortization expense	$342,850

NOTE 7. STOCK-BASED COMPENSATION

Stock-based compensation expense is reflected in Cadence's condensed consolidated income statements for the three months ended April 4, 2015 and March 29, 2014 as follows:

	Three Months Ended	
	April 4, 2015	March 29, 2014
	(In thousands)	
Cost of product and maintenance	$569	$482
Cost of services	832	703
Marketing and sales	5,447	4,596
Research and development	11,377	9,667
General and administrative	3,636	3,416
Total stock-based compensation expense	$21,861	$18,864

Cadence had total unrecognized compensation expense, net of estimated forfeitures, related to stock option and restricted stock grants of $129.8 million as of April 4, 2015, which will be recognized over the remaining vesting period. The remaining weighted-average vesting period of unvested awards is 2.0 years.

NOTE 8. RESTRUCTURING AND OTHER CHARGES

Cadence has initiated various restructuring plans in an effort to better align its resources with its business strategy. These restructuring plans have primarily been comprised of severance payments and termination benefits related to headcount reductions, estimated lease losses related to facilities vacated under the restructuring plans and charges related to assets abandoned as part of the restructuring plans. During the three months ended April 4, 2015, Cadence initiated a restructuring plan, or the 2015 Restructuring Plan, and recorded restructuring and other charges of approximately $4.6 million related to severance payments and termination benefits. As of April 4, 2015, total liabilities related to the 2015 Restructuring Plan were $4.1 million. Cadence expects to make cash payments for severance and related benefits for the 2015 Restructuring Plan through the second quarter of fiscal 2016.

The following table presents activity relating to Cadence's restructuring plans during the three months ended April 4, 2015:

	Severance and Benefits	Excess Facilities	Other	Total
	(In thousands)			
Balance, January 3, 2015	$4,462	$1,267	$481	$6,210
Restructuring and other charges (credits):				
2015 Restructuring Plan	4,612	—	—	4,612
Prior restructuring plans	(337)	84	—	(253)
Cash payments	(3,742)	(207)	—	(3,949)
Effect of foreign currency translation	(13)	(72)	—	(85)
Balance, April 4, 2015	$4,982	$1,072	$481	$6,535

The remaining accrual for Cadence's restructuring plans is recorded in the condensed consolidated balance sheet as follows:

	As of April 4, 2015
	(In thousands)
Accounts payable and accrued liabilities	$6,008
Other long-term liabilities	527
Total liabilities	$6,535

NOTE 9. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income during the period by the weighted average number of shares of common stock outstanding during that period, less unvested restricted stock awards. Diluted net income per share is impacted by equity instruments considered to be potential common shares, if dilutive, computed using the treasury stock method of accounting.

The calculations for basic and diluted net income per share for the three months ended April 4, 2015 and March 29, 2014 are as follows:

	Three Months Ended	
	April 4, 2015	March 29, 2014
	(In thousands, except per share amounts)	
Net income	$36,259	$33,070
Weighted average common shares used to calculate basic net income per share	284,523	281,615
2015 Warrants	18,910	12,576
Stock-based awards	8,414	6,843
Weighted average common shares used to calculate diluted net income per share	311,847	301,034
Net income per share - basic	$0.13	$0.12
Net income per share - diluted	$0.12	$0.11

The following table presents shares of Cadence's common stock outstanding for the three months ended April 4, 2015 and March 29, 2014 that were excluded from the computation of diluted net income per share because the effect of including these shares in the computation of diluted net income per share would have been anti-dilutive:

	Three Months Ended	
	April 4, 2015	March 29, 2014
	(In thousands)	
2013 Warrants*	—	1,518
Options to purchase shares of common stock	1,113	4,634
Non-vested shares of restricted stock	13	11
Total potential common shares excluded	1,126	6,163

* These warrants expired on various dates from February 2014 through April 2014.

NOTE 10. STOCK REPURCHASE PROGRAMS

In February 2008, Cadence's Board of Directors authorized Cadence to repurchase shares of its common stock in the open market with a value of up to $500.0 million in the aggregate. In August 2008, Cadence's Board of Directors authorized Cadence to repurchase shares of its common stock in the open market with a value of up to an additional $500.0 million in the aggregate. As of April 4, 2015, $677.5 million remained under these authorizations.

In July 2014, Cadence's Board of Directors approved a two-year plan to repurchase shares of Cadence common stock of up to an aggregate of $300.0 million under the 2008 authorizations. In April 2015, Cadence's Board of Directors replaced the aggregate $300.0 million stock repurchase plan with a new two-year plan to repurchase shares of Cadence common stock of up to an aggregate of $450.0 million under the 2008 authorizations, beginning in the second quarter of fiscal 2015.

The shares repurchased under Cadence's 2008 authorizations and the total cost of repurchased shares, including commissions, during the three months ended April 4, 2015 and March 29, 2014 were as follows:

	Three Months Ended	
	April 4, 2015	March 29, 2014
	(In thousands)	
Shares repurchased	2,001	827
Total cost of repurchased shares	$36,797	$12,517

NOTE 11. CONTINGENCIES

Legal Proceedings

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, indemnification obligations, 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 on Cadence's judgments using 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.

Other Contingencies

Cadence provides its customers with a warranty on sales of hardware products, generally for a 90-day period. Cadence did not incur any significant costs related to warranty obligations during the three months ended April 4, 2015 or March 29, 2014.

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. Cadence did not incur any significant losses from indemnification claims during the three months ended April 4, 2015 or March 29, 2014.

NOTE 12. OTHER COMPREHENSIVE INCOME

Cadence’s other comprehensive income is comprised of foreign currency translation gains and losses, changes in defined benefit plan liabilities, and changes in unrealized holding gains and losses on available-for-sale securities net of reclassifications for realized gains and losses, as presented in Cadence’s condensed consolidated statements of comprehensive income.

Accumulated other comprehensive income was comprised of the following as of April 4, 2015, and January 3, 2015:

	As of April 4, 2015	January 3, 2015
	(In thousands)	
Foreign currency translation gain	$6,817	$15,707
Changes in defined benefit plan liabilities	(3,110)	(3,401)
Unrealized holding gains on available-for-sale securities	106	41
Total accumulated other comprehensive income	$3,813	$12,347

For the three months ended April 4, 2015 and March 29, 2014 there were no significant amounts reclassified from accumulated other comprehensive income to net income.

NOTE 13. SEGMENT REPORTING

Segment reporting is based on the “management approach,” following the method that management organizes the company’s reportable segments for which separate financial information is made available to, and evaluated regularly by, the chief operating decision maker in allocating resources and in assessing performance. Cadence’s chief operating decision maker is its President and Chief Executive Officer, or CEO, who reviews Cadence’s consolidated results as one operating 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 upon 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 for the three months ended April 4, 2015 and March 29, 2014:

	Three Months Ended	
	April 4, 2015	March 29, 2014
	(In thousands)	
Americas:		
United States	$187,207	$163,121
Other Americas	5,414	5,784
Total Americas	192,621	168,905
Asia	98,782	87,223
Europe, Middle East and Africa	78,570	77,532
Japan	41,393	44,890
Total	$411,366	$378,550

The following table presents a summary of long-lived assets by geography as of April 4, 2015 and January 3, 2015:

	As of	
	April 4, 2015	January 3, 2015
	(In thousands)	
Americas:		
United States	$195,358	$200,760
Other Americas	470	578
Total Americas	195,828	201,338
Asia	21,284	22,145
Europe, Middle East and Africa	7,859	5,951
Japan	585	678
Total	$225,556	$230,112

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, 2015. This Quarterly Report contains statements that are not historical in nature, are predictive, or that depend upon or refer to future events or conditions or contain forward-looking statements. Statements including, but not limited to, 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," "forecasts," "intends," "may," "plans," "projects," "should," "will" and "would," and words of similar import and th 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 system design enablement, or SDE, solutions that our customers use to design whole electronics systems and increasingly small and complex integrated circuits, or ICs, and electronic devices. Our solutions are designed to help our customers reduce the time to bring an electronics system, IC or electronic device to market and to reduce their design, development and manufacturing costs. Our SDE product offerings include electronic design automation, or EDA, software, emulation and prototyping hardware, and two categories of intellectual property, or IP, commonly referred to as verification IP, or VIP, and design IP. We provide maintenance for our software, emulation hardware, and IP product offerings. We also provide engineering services related to methodology, education, hosted design solutions and design services for advanced ICs and development of custom IP. These services help our customers manage and accelerate their electronics product development processes.

Our customers include electronics systems and semiconductor companies, internet service providers and other technology companies that deliver a wide range of electronics products in a number of market segments, such as mobile and consumer devices, communications, cloud and data center infrastructure, personal computers, automotive systems, medical systems, and other devices. The renewal of many of our customer contracts and our customers' decisions to make new purchases from us are dependent upon our customers' commencement of new design projects. As a result, our business is significantly influenced by our customers' business outlook and investment in new designs and products.

Our future performance depends on our ability to innovate, commercialize newly developed solutions and enhance and maintain our current products. We must keep pace with our customers' technical developments, satisfy industry standards and meet our customers' increasingly demanding performance, productivity, quality and predictability requirements. We expect to continue to invest in research and development and customer and partner relationships.

We combine our products and technologies into categories related to major design activities:

- Functional Verification, including Emulation Hardware;
- Digital IC Design and Signoff;
- Custom IC Design;
- System Interconnect and Analysis; and
- IP.

The products and technologies included in these categories are combined with ready-to-use packages of technologies assembled from our broad portfolio of IP and other associated components that provide comprehensive solutions for low power, mixed signal and designs at smaller geometries referred to as advanced process nodes, as well as popular designs based on design IP owned and licensed by other companies. These solutions are marketed to users who specialize in areas such as system design and verification, functional verification, logic design, digital implementation, custom IC design and verification, printed circuit board, or PCB, IC package and system-in-package design and analysis.

For additional information about our products, see the discussion in Item 1, “Business,” under the heading “Products and Product Strategy,” in our Annual Report on Form 10-K for the fiscal year ended January 3, 2015.
We have identified certain items that management uses as performance indicators to manage our business, including revenue, certain elements of operating expenses and cash flow from operations, and we describe these items further below under the headings “Results of Operations” and “Liquidity and Capital Resources.”

Critical Accounting Estimates

In preparing our condensed consolidated financial statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, operating income and net income, as well as on the value of certain assets and liabilities on our condensed consolidated balance sheets. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. At least quarterly, we evaluate our assumptions, judgments and estimates, and make changes as deemed necessary. Historically, our assumptions, judgments and estimates relative to our critical accounting estimates have not differed materially from actual results. For further information about our critical accounting estimates, see the discussion in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Estimates” in our Annual Report on Form 10-K for the fiscal year ended January 3, 2015.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board, or FASB, issued a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under United States generally accepted accounting principles. The original effective date would require us to apply the new standard in the first quarter of fiscal 2017; however, in April 2015, the FASB agreed to propose a one-year deferral of the effective date. If the proposed deferral is approved, the new standard will become effective for us in the first quarter of fiscal 2018 and permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.
In April 2015, the FASB issued a new standard requiring debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The new standard will become effective for us in the first quarter of fiscal 2016 and requires retrospective application. Adoption of this standard will not have a material impact on our financial position.
We periodically review new accounting standards. Although some of the accounting standards that have been issued may be applicable to us, we have not identified any other new accounting standards that would have a significant impact on our consolidated financial statements.

Results of Operations

Financial results for the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, reflect increases in:

- our product and maintenance revenue, primarily because of increased business levels;
- employee-related costs, primarily consisting of costs related to hiring additional employees, increased compensation for existing employees and incremental costs related to employees added from our fiscal 2014 acquisitions;
- stock-based compensation;
- restructuring charges due to restructuring activities initiated during the three months ended April 4, 2015; and
- amortization of acquired intangibles resulting from our fiscal 2014 acquisitions.

Revenue

We primarily generate revenue from licensing our software and IP, selling or leasing our emulation hardware technology, providing maintenance for our software, emulation hardware and IP, providing engineering services and earning royalties generated from the use of our IP. The timing of our revenue is significantly affected by the mix of software, emulation hardware and IP products in the bookings executed in any given period and whether the revenue for such bookings is recognized in a recurring manner over multiple periods or up front, upon completion of delivery.

We seek to achieve a consistent revenue mix such that approximately 90% of our revenue is recurring in nature, and the remainder of the resulting revenue is recognized up front, upon completion of delivery. Recurring revenue includes revenue from our license arrangements where revenue is recognized over multiple periods, services, royalties from certain IP arrangements, maintenance on perpetual software licenses and emulation hardware, and our operating leases of emulation hardware. Upfront revenue is primarily generated by our sales of emulation hardware and perpetual software licenses. Our ability to achieve this mix in any single fiscal period may be impacted primarily by hardware sales.

For an additional description of the impact of emulation hardware sales on the timing of revenue recognition, see the discussion in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Critical Accounting Estimates – Revenue Recognition" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2015.

Revenue by Period

The following table shows our revenue for the three months ended April 4, 2015 and March 29, 2014 and the change in revenue between periods:

	Three Months Ended		Change		
	April 4, 2015	March 29, 2014	Amount	Percentage	
	(In millions, except percentages)				
Product and maintenance	$383.7	$357.4	$26.3	7	%
Services	27.7	21.2	6.5	31	%
Total revenue	$411.4	$378.6	$32.8	9	%

Product and maintenance revenue increased during the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, primarily because of increased business levels and incremental revenue recognized from our fiscal 2014 acquisitions. Services revenue also increased during the three months ended April 4, 2015 due to increased demand for our customized IP offerings. Services revenue may fluctuate from period to period based on demand for, and our resources to fulfill, our services and customized IP offerings.

No one customer accounted for 10% or more of total revenue during the three months ended April 4, 2015 or March 29, 2014.

Revenue by Product Group

The following table shows the percentage of revenue contributed by each of our five product groups for the past five consecutive quarters:

	Three Months Ended									
	March 29, 2014		June 28, 2014		September 27, 2014		January 3, 2015		April 4, 2015	
Functional Verification, including Emulation Hardware	23	%	21	%	23	%	21	%	23	%
Digital IC Design and Signoff	30	%	30	%	29	%	28	%	28	%
Custom IC Design	27	%	28	%	27	%	28	%	27	%
System Interconnect and Analysis	10	%	11	%	10	%	11	%	11	%
IP	10	%	10	%	11	%	12	%	11	%
Total	100	%	100	%	100	%	100	%	100	%

As described in Note 2 in the notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 3, 2015, certain of our licensing arrangements allow customers the ability to remix among software products. Additionally, we have arrangements with customers that include a combination of our products, with the actual product selection and number of licensed users to be determined at a later date. For these arrangements, we estimate the allocation of the revenue to product groups based upon the expected usage of our products. The actual usage of our products by these customers may differ and, if that proves to be the case, the revenue allocation in the table above would differ.

Revenue by Geography

	Three Months Ended		Change	
	April 4, 2015	March 29, 2014	Amount	Percentage
	(In millions, except percentages)			
United States	$187.2	$163.1	$24.1	15 %
Other Americas	5.4	5.8	(0.4)	(7)%
Asia	98.8	87.2	11.6	13 %
Europe, Middle East and Africa	78.6	77.5	1.1	1 %
Japan	41.4	45.0	(3.6)	(8)%
Total revenue	$411.4	$378.6	$32.8	9 %

Most of our revenue is transacted in the United States dollar. However, certain revenue transactions are denominated in foreign currencies, primarily the Japanese yen. We recognize reduced revenue from those contracts in periods when the Japanese yen weakens in value against the United States dollar and additional revenue from those contracts in periods when the Japanese yen strengthens against the United States dollar. For an additional description of how changes in foreign exchange rates affect our condensed consolidated financial statements, see the discussion under Item 3, "Quantitative and Qualitative Disclosures About Market Risk – Foreign Currency Risk."

Revenue for Asia increased during the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, primarily due to increases in revenue from our software business. For the primary factors contributing to our increase in revenue in other geographies, excluding Japan, see the general description under "Revenue by Period," above.

Revenue for Japan decreased during the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, primarily due to continued depreciation of the Japanese yen as well as difficult business conditions facing our Japanese customers.

For the primary factors contributing to our increase in revenue in other geographies, see the general description under "Revenue by Period," above.

Revenue by Geography as a Percent of Total Revenue

	Three Months Ended	
	April 4, 2015	March 29, 2014
United States	46 %	43 %
Other Americas	1 %	2 %
Asia	24 %	23 %
Europe, Middle East and Africa	19 %	20 %
Japan	10 %	12 %
Total	100 %	100 %

Cost of Revenue

	Three Months Ended		Change	
	April 4, 2015	March 29, 2014	Amount	Percentage
	(In millions, except percentages)			
Cost of product and maintenance	$42.1	$42.2	$(0.1)	— %
Cost of services	18.5	14.9	3.6	24 %

Cost of Product and Maintenance

Cost of product and maintenance includes costs associated with the sale and lease of our emulation hardware and licensing of our software and IP products, certain employee salary, benefits and other employee-related costs, cost of our customer support services, amortization of technology-related and maintenance-related acquired intangibles, as well as the costs of technical documentation and royalties payable to third-party vendors. Costs associated with our emulation hardware products include materials, assembly, applicable reserves and overhead. These additional hardware manufacturing costs make our cost of emulation hardware product higher, as a percentage of revenue, than our cost of software and IP products.

A summary of cost of product and maintenance is as follows:

	Three Months Ended		Change	
	April 4, 2015	March 29, 2014	Amount	Percentage
	(In millions, except percentages)			
Product and maintenance-related costs	$31.9	$34.6	$(2.7)	(8)%
Amortization of acquired intangibles	10.2	7.6	2.6	34%
Total cost of product and maintenance	$42.1	$42.2	$(0.1)	—%

Cost of product and maintenance depends primarily upon our emulation hardware product sales and gross margins in any given period. Employee salary, benefits and other employee-related costs, and the timing and extent to which we acquire intangible assets, acquire or license third-parties' intellectual property or technology and sell our products that include such acquired or licensed intellectual property or technology also impact cost of product and maintenance.

The changes in product and maintenance-related costs for the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, were due to the following:

	Change
	(In millions)
Emulation hardware costs	$(4.5)
Other items	1.8
	$(2.7)

Emulation hardware costs decreased during the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, due to a lower volume of emulation hardware products sold. Gross margins on our emulation hardware products may fluctuate based on customer pricing strategies, product competition and product life cycle.

Amortization of acquired intangibles included in cost of product and maintenance increased during the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, primarily due to the increase in amortization of intangible assets associated with our fiscal 2014 acquisitions. We expect amortization of acquired intangibles to increase for the remainder of fiscal 2015, as compared to the same period in fiscal 2014, primarily due to amortization of intangible assets recorded in connection with our fiscal 2014 acquisitions. For an additional description of our expected amortization of intangible assets, see Note 6 in the notes to condensed consolidated financial statements.

Cost of Services

Cost of services primarily includes employee salary, benefits and other employee-related costs to perform work on revenue-generating projects, costs to maintain the infrastructure necessary to manage a services organization, and provisions for contract losses, if any. Cost of services will fluctuate from period to period based on our utilization of design services engineers on revenue-generating projects or on internal development projects.

Cost of services increased $3.6 million during the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, primarily due to an overall increase in the resources required to meet the demand for our service offerings.

Operating Expenses

Our operating expenses include marketing and sales, research and development and general and administrative expenses. Factors that cause our operating expenses to fluctuate include changes in the number of employees due to hiring and acquisitions, foreign exchange rates, stock-based compensation and the impact of our variable compensation programs that are driven by overall operating results.

Our employee salary and other compensation-related costs included in marketing and sales and research and development increased during the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, primarily due to our investment in research and development and sales activities, and incremental costs related to employees added from our fiscal 2014 acquisitions.

Stock-based compensation included in operating expenses increased by approximately $3.0 million during the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, primarily because of higher grant-date fair values of stock awards.

Many of our operating expenses are transacted in various foreign currencies. We recognize lower expenses in periods when the United States dollar strengthens in value against other currencies and we recognize higher expenses when the United States dollar weakens against other currencies. During the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, we experienced a favorable impact on expenses as a result of the strengthening value of the United States dollar against other currencies, including the European Union euro and the Japanese yen. For an additional description of how changes in foreign exchange rates affect our condensed consolidated financial statements, see the discussion in Item 3, “Quantitative and Qualitative Disclosures About Market Risk – Foreign Currency Risk.”

Our operating expenses for the three months ended April 4, 2015 and March 29, 2014 were as follows:

	Three Months Ended		Change	
	April 4, 2015	March 29, 2014	Amount	Percentage
	(In millions, except percentages)			
Marketing and sales	$100.3	$98.3	$2.0	2 %
Research and development	163.0	146.5	16.5	11 %
General and administrative	27.6	28.7	(1.1)	(4)%
Total operating expenses	$290.9	$273.5	$17.4	6 %

Our operating expenses, as a percentage of total revenue, for the three months ended April 4, 2015 and March 29, 2014 were as follows:

	Three Months Ended	
	April 4, 2015	March 29, 2014
Marketing and sales	24 %	26 %
Research and development	40 %	39 %
General and administrative	7 %	8 %
Total operating expenses	71 %	73 %

Marketing and Sales

The changes in marketing and sales expense for the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, were due to the following:

	Change
	(In millions)
Salary, benefits and other employee-related costs	$1.1
Other items	0.9
	$2.0

Research and Development

The changes in research and development expense for the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, were due to the following:

	Change
	(In millions)
Materials and other pre-production costs	$5.2
Facilities and other infrastructure costs	4.2
Salary, benefits and other employee-related costs	2.2
Stock-based compensation	1.7
Professional services	1.4
Software license and maintenance costs	1.4
Other items	0.4
	$16.5

General and Administrative

The changes in general and administrative expense for the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, were due to the following:

	Change
	(In millions)
Professional services	$(1.4)
Other items	0.3
	$(1.1)

Amortization of Acquired Intangibles

	Three Months Ended		Change	
	April 4, 2015	March 29, 2014	Amount	Percentage
	(In millions, except percentages)			
Amortization of acquired intangibles	$6.2	$5.2	$1.0	19 %

The increase in amortization of acquired intangibles during the three months ended April 4, 2015, as compared to the three months ended March 29, 2014, resulted from increased amortization of intangible assets related to our fiscal 2014 acquisitions, which was partially offset by certain acquired intangibles becoming fully amortized.

We expect amortization of acquired intangibles to increase during the remainder of fiscal 2015, as compared to the same period in fiscal 2014, due to the amortization of intangible assets recorded in connection with our fiscal 2014 acquisitions. For an additional description of our expected amortization of intangible assets, see Note 6 in the notes to condensed consolidated financial statements.

Restructuring and other charges

We have initiated various restructuring plans to better align our resources with our business strategy, including a restructuring plan we initiated during the three months ended April 4, 2015, or the 2015 Restructuring Plan. For an additional description of the 2015 Restructuring Plan, see Note 8 in the notes to condensed consolidated financial statements.

We recorded restructuring and other charges during the three months ended April 4, 2015 of $4.6 million related to the 2015 Restructuring Plan, which consisted of severance and related benefits.

Interest Expense

	Three Months Ended	
	April 4, 2015	March 29, 2014
	(In millions)	
Contractual interest expense:		
2015 Notes	$1.8	$2.3
2024 Notes	3.8	—
Revolving credit facility	0.1	—
Amortization of debt discount:		
2015 Notes	5.0	4.2
Amortization of deferred financing costs:		
2015 Notes	0.7	0.6
2024 Notes	0.1	—
Other	0.3	0.2
Total interest expense	$11.8	$7.3

Income Taxes

The following table presents the provision for income taxes and the effective tax rate for the three months ended April 4, 2015 and March 29, 2014:

	Three Months Ended	
	April 4, 2015	March 29, 2014
	(In millions, except percentages)	
Provision for income taxes	$6.1	$5.4
Effective tax rate	14.3 %	13.9 %

Our provision for income taxes for the three months ended April 4, 2015 primarily resulted from federal, state and foreign income taxes on our anticipated fiscal 2015 income. Our foreign earnings are generally subject to lower statutory tax rates than our United States earnings. In addition, our provision for income taxes for the three months ended April 4, 2015 does not include the potential tax benefit of the United States federal research tax credit, which expired in December 2014. We estimate our annual effective tax rate for fiscal 2015 to be approximately 13%. Our estimate excludes tax effects of certain stock compensation, potential acquisitions, and other items that we cannot anticipate with certainty, including the previously expired United States federal research tax credit.

Our provision for income taxes for the three months ended March 29, 2014 primarily resulted from federal, state and foreign income taxes on our then anticipated fiscal 2014 income. In addition, our provision for income taxes for the three months ended March 29, 2014 did not include the potential tax benefit of the United States federal research tax credit, which had expired in December 2013.

Our future effective tax rates may be materially impacted by tax amounts associated with our foreign earnings at rates different from the United States federal statutory rate, research credits, the tax impact of stock-based compensation, accounting for uncertain tax positions, business combinations, closure of statute of limitations or settlement of tax audits, changes in valuation allowance and changes in tax law. A significant amount of our foreign earnings is generated by our subsidiaries organized in Ireland and Hungary. Our future effective tax rates may be adversely affected if our earnings were to be lower in countries where we have lower statutory tax rates or if we were to repatriate certain foreign earnings on which United States taxes have not been previously accrued.

For further discussion regarding our income taxes, see Note 6 in the notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 3, 2015.

Liquidity and Capital Resources

	As of April 4, 2015	January 3, 2015	Change
	(In millions)		