

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

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended October 31, 2011

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 0-19807

SYNOPSYS®

SYNOPSYS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

56-1546236
(I.R.S. Employer
Identification No.)

700 East Middlefield Road, Mountain View, California 94043
(Address of principal executive offices, including zip code)

(650) 584-5000

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$0.01 par value

NASDAQ Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ 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 ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$2.5 billion. Aggregate market value excludes an aggregate of approximately 55.2 million shares of common stock held by the registrant's officers and directors and by each person known by the registrant to own 5% or more of the outstanding common stock on such date. Exclusion of shares held by any of these persons should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

On December 3, 2011, 144.2 million shares of the registrant's Common Stock, \$0.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to the registrant's 2011 Annual Meeting of Stockholders, scheduled to be held on April 3, 2012, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Except as expressly incorporated by reference, the registrant's Proxy Statement shall not be deemed to be part of this report.

SYNOPSYS, INC.
ANNUAL REPORT ON FORM 10-K
Year ended October 31, 2011

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Cautionary Note Regarding Forward-Looking Statements

In addition to current and historical information, this Annual Report on Form 10-K (this Form 10-K or Annual Report) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements can, in some cases, be identified by the use of terms such as “may,” “will,” “could,” “would,” “should,” “anticipate,” “expect,” “intend,” “believe,” “estimate,” “project” or “continue,” the negatives of such terms, or other comparable terminology. This Form 10-K includes, among others, forward-looking statements regarding our expectations about:

- our business, product and platform strategies;
- prior and future acquisitions, including our pending acquisition of Magma Design Automation, Inc.;
- the impact of macroeconomic conditions on our business and our customers’ businesses;
- customer license renewals;
- the completion of development of our unfinished products, or further development or integration of our existing products;
- our ability to successfully compete in the electronic design automation industry;
- the continuation of current industry trends towards vendor consolidation;
- our license mix;
- customer interest in more highly integrated tools and design flows;
- our ability to protect our intellectual property rights;
- our cash, cash equivalents and short-term investments and cash generated from operations; and
- our future liquidity requirements.

These statements involve certain known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward- looking statements. Such risks and uncertainties include, among others, those listed in Part I, Item 1A, *Risk Factors* of this Form 10-K. The information included herein is given as of the filing date of this Form 10-K with the Securities and Exchange Commission (SEC) and future events or circumstances could differ significantly from these forward-looking statements. Accordingly, we caution readers not to place undue reliance on these statements. Unless required by law, we undertake no obligation to update publicly any forward-looking statements. Readers are urged to carefully review and consider the various disclosures made in this report and in other documents we file from time to time with the SEC that attempt to advise interested parties of the risks and factors that may affect our business.

PART I

Item 1. *Business*

Introduction

Synopsys, Inc. is a world leader in supplying the electronic design automation (EDA) software that engineers use to design, create prototypes for and test integrated circuits (ICs), also known as chips. We also provide software and hardware used to develop the systems that incorporate integrated circuits and the software that runs on those integrated circuits. Our intellectual property (IP) products are pre-designed circuits that engineers use as components of larger chip designs rather than designing those circuits themselves. To complement these product offerings, we provide technical services to support our solutions and we help our customers develop chips and electronic systems.

Corporate Information

We incorporated in 1986 in North Carolina and reincorporated in Delaware in 1987. Our headquarters are located at 700 East Middlefield Road, Mountain View, California 94043, and our telephone number there is (650) 584-5000. We have approximately 70 offices worldwide.

Our annual and quarterly reports on Forms 10-K and 10-Q (including related filings in XBRL format), current reports on Form 8-K, and Proxy Statements relating to our annual meetings of stockholders, and amendments to these reports, as well as filings made by our executive officers and directors, are available on our Internet website (www.synopsys.com) free of charge. We post these reports to our website as soon as practicable after we file them with, or furnish them to, the SEC (www.sec.gov). The contents of our website are not part of this Form 10-K.

Background

Recent years have seen a remarkable proliferation of consumer and wireless electronic products, particularly mobile devices. The growth of the Internet and cloud computing has provided people with new ways to create, store and share information. At the same time, the increasing use of electronics in cars, buildings, appliances and other consumer products is creating a new landscape of “smart” devices.

These developments depend, in large part, on chips. It is common for a single chip to contain many components (processor, communications, memory, custom logic, input/output) combined into a single System-on-Chip (SoC), resulting in highly complex chip designs. The most complex chips today contain more than a billion transistors, the basic building blocks for integrated circuits, each of which may have features that are less than 1/1,000th the diameter of a human hair.

In addition, due to the popularity of mobile devices and other electronic products, there is increasing demand for integrated circuits and systems with greater functionality and performance, reduced size, and less power consumption, all at shorter times-to-market and lower prices. In other words, innovation in chip and system design often hinges on “better,” “sooner,” and “cheaper.”

Synopsys plays an important role in the vibrant electronics market by providing the software tools, hardware and other technologies that designers use to create chips and systems. The designer’s task is to determine how best to locate and connect the IC building blocks, verifying that the resulting design behaves as intended and ensuring that the design can be manufactured efficiently and cost-effectively. This task is a complicated, multi-step process that is both expensive and time-consuming. We offer a wide range of products that help designers at different steps in the overall design process, both for the design of individual integrated circuits and for the design of larger systems. Our products can increase designer productivity and efficiency by automating tasks, keeping track of large amounts of design data, adding intelligence to the design process, facilitating reuse of past designs and reducing errors. Our global service and support engineers also provide expert technical support and design assistance to our customers.

Products and Services

Revenue from our products and services is reported in four groups: Core EDA (which includes the Galaxy™ Design Platform, the Discovery™ Verification Platform and our FPGA (Field Programmable Gate Array) design products), IP and System-Level Solutions, Manufacturing Solutions, and Professional Services.

Core EDA Solutions

The process of designing integrated circuits contains many complex steps: architecture definition, RTL (register transfer level) design, functional/RTL verification, logic design or synthesis, gate-level verification, floorplanning, and place and route, to name just a few. Designers use our Core EDA products to automate the integrated circuit design process and to reduce errors. We offer a large number of Core EDA products intended to address the process comprehensively. Our Core EDA products generally fall into the following suites: the Galaxy Design Platform, which includes tools to design an integrated circuit, the Discovery Verification Platform, which includes tools to verify that an integrated circuit behaves as intended, and the FPGA design products.

Galaxy Design Platform

Our Galaxy Design Platform provides our customers with a single, integrated chip design solution that includes industry-leading individual products and incorporates common libraries and consistent timing, delay calculation and constraints throughout the design process. The platform allows designers the flexibility to integrate internally developed and third-party tools. With this advanced functionality, common foundation and flexibility, our Galaxy Design Platform helps reduce design times, decrease integration costs and minimize the risks inherent in advanced, complex integrated circuit designs. Our products span both digital and analog/mixed-signal designs.

The principal products included in the Galaxy Design Platform are the IC Compiler™ physical design solution, Design Compiler® logic synthesis product, Galaxy Custom Designer® physical design solution for analog/mixed-signal designs, PrimeTime®/PrimeTime SI timing analysis products, StarRC™ product for extraction, and IC Validator for physical verification.

Discovery Verification Platform

Our Discovery Verification Platform is a comprehensive, integrated portfolio of functional, analog/mixed-signal, formal and low-power verification products. The platform includes design-for-verification methodologies and provides a consistent control environment to help significantly improve the speed, breadth and accuracy of our customers' functional and mixed-signal verification efforts. The Discovery Verification Platform's components support industry standards and are tightly coupled together through a direct kernel integration for highest throughput mixed-signal simulation.

The principal products included in the Discovery Verification Platform are the VCS® comprehensive RTL verification solution, CustomSim™ FastSPICE circuit simulation and analysis product, HSPICE® circuit simulator, CustomExplorer™ Ultra mixed-signal regression and analysis environment and Formality® formal verification sign-off solution.

FPGA Design Products

FPGAs are complex chips that can be customized or programmed to perform a specific function after they are manufactured. For FPGA design, we offer Synplify® Pro and Premier implementation and Identify® debug software tools.

Manufacturing Solutions

Our Manufacturing Solutions products and technologies enable semiconductor manufacturers to more quickly develop new fabrication processes that produce production-level yields. These products

are used in the early research and development phase and the production phase. In the production phase, manufacturers use these products to convert IC design layouts into the masks used to manufacture the devices.

Our Manufacturing Solutions include Technology-CAD (TCAD) device and process simulation products, Proteus OPC optical proximity correction (OPC) products, CATS® mask data preparation product, and Yield Explorer and Odyssey Yield Management solutions.

IP and System-Level Solutions

IP Products

As more functionality converges into a single device, the number of third-party provided IP blocks incorporated into chip designs is rapidly increasing. Synopsys is a leading provider of high-quality, silicon-proven IP solutions for SoCs. The broad DesignWare® IP portfolio includes:

- high quality solutions for widely used interfaces such as USB, PCI Express®, DDR, Ethernet, SATA and HDMI,
- analog IP for high-definition video, analog-to-digital data conversion, and audio,
- SoC infrastructure IP including datapath IP, AMBA interconnect fabric and peripherals, and verification IP,
- logic libraries and embedded memories, including SRAMs and non-volatile memory, and
- configurable processor cores, including video and audio IP solutions.

System-Level Solutions

Optimizing the system-level design earlier in the development cycle, including both hardware and software components, is increasingly important for customers to meet their performance, time-to-market, and development cost goals. Synopsys has the industry's broadest portfolio of tools, models and services for the system-level design of SoCs.

Synopsys' Platform Architect™ enables early and rapid exploration of SoC architectural trade-offs. To speed the creation, implementation and verification of differentiated IP blocks, Synopsys offers SPW™ and System Studio™ for algorithm design, Processor Designer™ for custom processor design, and Symphony Model™ and C Compiler for high-level synthesis.

Escalating software content and complexity in today's electronic devices are driving the adoption of new tools and methods to accelerate software development and ease hardware-software integration and system validation. Our system-level portfolio includes prototyping technologies that improve the productivity of both hardware and software development teams. Synopsys' Virtualizer™ tool and broad portfolio of transaction-level models enable the creation of virtual prototypes, fully functional software models of complete systems that enable engineers to start software development up to twelve months earlier than traditional methods. Synopsys' HAPS® FPGA-based prototyping systems integrate high performance hardware and software tools with real-world interfaces to enable faster hardware-software integration and full system validation.

Professional Services and Training

Synopsys provides consulting and design services that address all phases of the SoC development process. These services assist Synopsys customers with new tool and methodology adoption, chip architecture and specification development, functional and low power design and verification, and physical implementation and signoff. We also provide a broad range of expert training and workshops on our latest tools and methodologies.

Customer Service and Technical Support

A high level of customer service and support is critical to the adoption and successful use of our products. We provide technical support for our products through both field-based and corporate-based application engineering teams. Customers who purchase Technology Subscription Licenses (TSLs) receive software maintenance services bundled with their license fee. Customers who purchase term licenses and perpetual licenses may purchase these services separately. See *Product Sales and Licensing Agreements* below.

Software maintenance services include minor product enhancements, bug fixes and access to our technical support center for primary support. Software maintenance also includes access to the SolvNet® portal, our web-based support solution that gives customers access to Synopsys' complete design knowledge database. Updated daily, the SolvNet portal includes documentation, design tips and answers to user questions. Customers can also engage, for additional charges, our worldwide network of applications consultants for additional support needs.

In addition, Synopsys also offers training workshops designed to increase customer design proficiency and productivity with our products. Workshops cover Synopsys products and methodologies used in our design and verification flows, as well as specialized modules addressing system design, logic design, physical design, simulation and test. We offer regularly scheduled public and private courses in a variety of locations worldwide, as well as Virtual Classroom on-demand and live online training.

Product Warranties

We generally warrant our products to be free from defects in media and to substantially conform to material specifications for a period of 90 days for our software products and for up to six months for our hardware products. In certain cases, we also provide our customers with limited indemnification with respect to claims that their use of our software products infringe on United States patents, copyrights, trademarks or trade secrets. We have not experienced material warranty or indemnity claims to date.

Support for Industry Standards

We actively create and support standards that help our customers increase productivity, facilitate efficient design flows, improve interoperability of tools from different vendors, and ensure connectivity, functionality and interoperability of IP building blocks. Standards in the electronic design industry can be established by formal accredited organizations, from industry consortia, by company licensing made available to all, from de facto usage, or through open source licensing.

Synopsys' products support more than 60 standards, including the most commonly used hardware description languages: SystemVerilog, Verilog, VHDL, and SystemC. Our products utilize numerous industry standard data formats, application programming interfaces, and databases for the exchange of design data among our tools, other EDA vendors' products, and applications that customers develop internally. We also comply with a wide range of industry standards within our IP product family to ensure usability and interconnectivity.

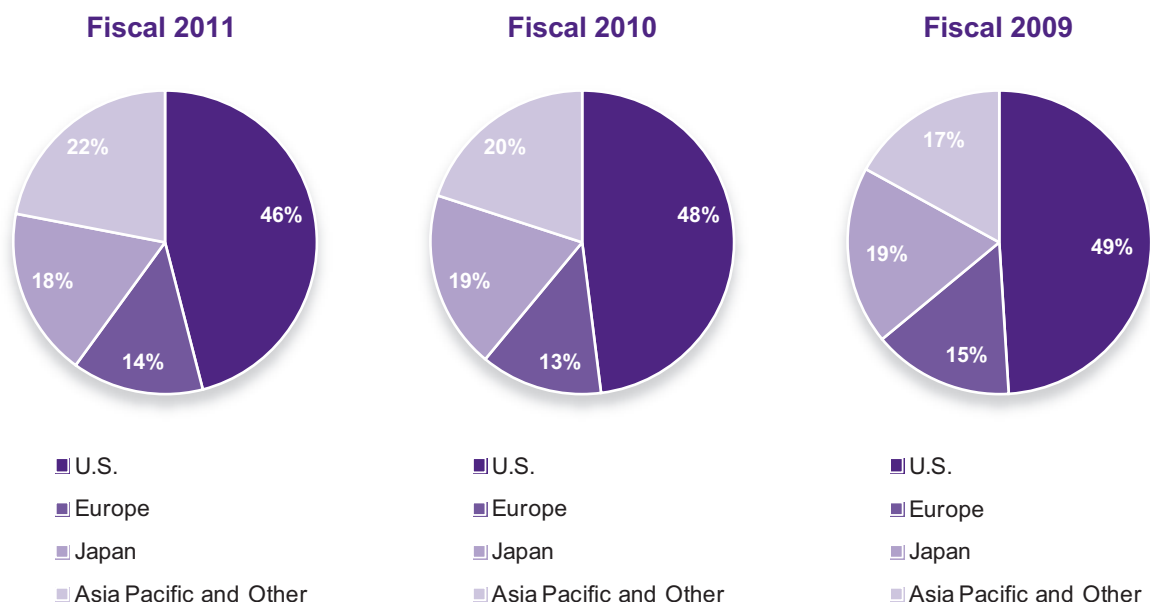
Sales, Distribution and Backlog

We market our products and services primarily through direct sales in the United States and principal foreign markets. We typically distribute our software products and documentation to customers electronically, but provide physical media (i.e., CD-ROMs) when requested by the customer.

We maintain sales/support centers throughout the United States. Outside the United States, we maintain sales, support or service offices in Canada, multiple countries in Europe, Israel, Japan, China, Korea, Taiwan and other countries in Asia. Our foreign headquarters for financial and tax purposes is located in Dublin, Ireland. Our offices are further described under Part I, Item 2, *Properties*.

In fiscal 2011, 2010 and 2009, an aggregate of 54%, 52% and 51%, respectively, of Synopsys' total revenue was derived from sales outside of the United States. Geographic revenue, which is based on the customer site location, is shown below as a percentage of total revenue for the last three fiscal years:

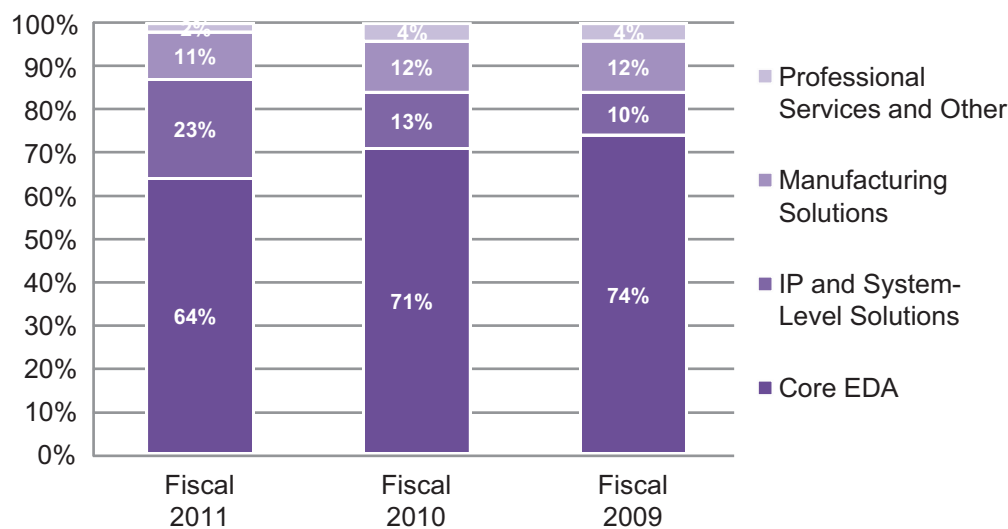
Revenue by Region



Additional information relating to domestic and foreign operations, including revenue and long-lived assets by geographic area, is contained in Note 12 of *Notes to Consolidated Financial Statements* in Part II, Item 8, *Financial Statements and Supplementary Data* and is included herein.

Synopsys' backlog was approximately \$2.5 billion on October 31, 2011, representing a 4% increase from backlog of \$2.4 billion on October 31, 2010 and primarily resulted from the timing of large contract renewals. Backlog represents committed orders that are expected to be recognized as revenue over the following three years. Backlog may not be a reliable predictor of our future sales as business conditions may change and technologies may evolve, and customers may seek to renegotiate their arrangements or default on their payment obligations. For this and other reasons, we may not be able to recognize expected revenue from backlog when anticipated.

Revenue attributable to each of our four platforms established for management reporting purposes is shown below as a percentage of total revenue for the last three fiscal years:



Revenue derived from Intel Corporation and its subsidiaries in the aggregate accounted for 10.6%, 10.9%, and 10.8% of our total revenue in fiscal 2011, 2010 and 2009, respectively.

Research and Development

Our future performance depends in large part on our ability to further enhance and integrate our design and verification platforms and to expand our manufacturing, IP and system-level product offerings. Research and development on existing and new products is primarily conducted within each product group. We also use targeted acquisitions to augment our own research and development efforts.

Our research and development expenses were \$491.9 million, \$449.2 million and \$419.9 million in fiscal 2011, 2010 and 2009, respectively. Our capitalized software development costs were approximately \$3.0 million, \$2.9 million and \$3.0 million in fiscal 2011, 2010 and 2009, respectively.

Competition

The EDA industry is highly competitive. We compete against other EDA vendors and against our customers' own design tools and internal design capabilities. In general, we compete principally on technology leadership, product quality and features (including ease-of-use), license terms, post-contract customer support, interoperability with our own and other vendors' products, price and payment terms.

Our competitors include EDA vendors that offer varying ranges of products and services, such as Cadence Design Systems, Inc., Mentor Graphics Corporation and Magma Design Automation, Inc. We also compete with other EDA vendors, including frequent new entrants to the marketplace, that offer products focused on one or more discrete phases of the IC design process, as well as with customers' internally developed design tools and capabilities. In the IP area, we compete primarily with our customers' internally developed IP. No one factor drives an EDA customer's buying decision, and we compete on all fronts to capture a higher portion of our customers' budgets.

Product Sales and Licensing Agreements

We typically license our software to customers under non-exclusive license agreements that transfer title to the media only and restrict use of our software to specified purposes within specified geographical areas. The majority of our licenses are network licenses that allow a number of individual users to access

the software on a defined network, including, in some cases, regional or global networks. License fees depend on the type of license, product mix and number of copies of each product licensed.

In many cases, we provide our customers the right to “re-mix” a portion of the software they initially licensed for other specified Synopsys products. For example, a customer may use our front-end design products for a portion of the license term and then exchange such products for back-end place and route software for the remainder of the term in order to complete the customer’s IC design. This practice helps assure the customer’s access to the complete design flow needed to design its product. The ability to offer this right to customers often gives us an advantage over competitors who offer a narrower range of products, because customers can obtain more of their design flow from a single vendor. At the same time, because in such cases the customer need not obtain a new license and pay an additional license fee for the use of the additional products, the use of these arrangements could result in reduced revenue compared to licensing the individual products separately without re-mix rights.

We currently offer our software products under various license types: renewable TSLs, term licenses and perpetual licenses. For a full discussion of these licenses, see Part II, Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates and Results of Operations—Revenue Background*.

We typically license our DesignWare Core intellectual property products under nonexclusive license agreements that provide usage rights for specific applications. Fees under these licenses are typically charged on a per design basis plus, in some cases, royalties.

Finally, our Global Technical Services team typically provides design consulting services to our customers under consulting agreements with statements of work specific to each project.

Proprietary Rights

Synopsys primarily relies upon a combination of copyright, patent, trademark and trade secret laws and license and nondisclosure agreements to establish and protect its proprietary rights. We have a diversified portfolio of more than 1,400 patents issued. Our issued patents have expiration dates through 2031. Our patents primarily relate to our products and the technology used in connection with our products. Our source code is protected both as a trade secret and as an unpublished copyrighted work. However, third parties may develop similar technology independently. In addition, effective copyright and trade secret protection may be unavailable or limited in some foreign countries. We currently hold United States and foreign patents on some of the technologies included in our products and will continue to pursue additional patents in the future. We are not significantly dependent upon any single patent, copyright, trademark or license with respect to our proprietary rights.

In many cases, under our customer agreements and other license agreements, we offer to indemnify our customers if the licensed products infringe on a third party’s intellectual property rights. As a result, we are from time to time subject to claims that our products infringe on these third party rights.

Employees

As of October 31, 2011, Synopsys had 6,803 employees, of which 3,003 were based in the United States.

Acquisitions in Fiscal 2011

For information about acquisitions we completed during fiscal 2011, see Note 3 of *Notes to Consolidated Financial Statements* which information is included herein.

Executive Officers of the Registrant

The executive officers of Synopsys and their ages as of December 15, 2011 were:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Aart J. de Geus	57	Chief Executive Officer and Chairman of the Board of Directors
Chi-Foon Chan	62	President and Chief Operating Officer
Brian M. Beattie	58	Chief Financial Officer
Joseph W. Logan	52	Senior Vice President, Worldwide Sales
Brian E. Cabrera	46	Vice President, General Counsel and Corporate Secretary

Aart J. de Geus co-founded Synopsys and has served as Chairman of our Board of Directors since February 1998 and Chief Executive Officer since January 1994. Since the inception of Synopsys in December 1986, he has held a variety of positions at Synopsys, including President, Senior Vice President of Engineering and Senior Vice President of Marketing. Dr. de Geus has served as a member of Synopsys's Board of Directors since 1986, and served as Chairman of the Board from 1986 to 1992 and again from 1998 until present. Dr. de Geus has also served on the board of directors of Applied Materials, Inc. since July 2007. Dr. de Geus holds an M.S.E.E. from the Swiss Federal Institute of Technology in Lausanne, Switzerland and a Ph.D. in Electrical Engineering from Southern Methodist University.

Chi-Foon Chan has served as our Chief Operating Officer since April 1997 and as our President and a member of our Board since February 1998. Dr. Chan joined Synopsys in May 1990 and has held various senior management positions, including Executive Vice President, Office of the President from September 1996 to February 1998 and Senior Vice President, Design Tools Group from February 1994 to April 1997. Dr. Chan has also held senior management and engineering positions at NEC Electronics and Intel Corporation. Dr. Chan holds a B.S. in Electrical Engineering from Rutgers University, and an M.S. and a Ph.D. in Computer Engineering from Case Western Reserve University.

Brian M. Beattie has served as our Chief Financial Officer since January 2006. From October 1999 to January 2006, he was Executive Vice President of Finance and Administration and Chief Financial Officer of SupportSoft, Inc. From May 1998 to May 1999, he served as Vice President of Finance, Mergers and Acquisitions of Nortel Networks Corporation. From July 1996 to April 1998, Mr. Beattie served as Group Vice President of Meridian Solutions of Nortel Networks Corporation. From February 1993 to June 1996, Mr. Beattie served as Vice President of Finance, Enterprise Networks, for Nortel Networks Corporation. Mr. Beattie has served on the board of directors of Openwave Systems Inc. since December 2010. Mr. Beattie holds a Bachelor of Commerce and an M.B.A. from Concordia University in Montreal.

Joseph W. Logan has served as our Senior Vice President of Worldwide Sales since September 2006. Previously, he was head of sales for Synopsys' North America East region from September 2001 to September 2006. Prior to Synopsys, Mr. Logan was head of North American Sales and Support at Avant! Corporation. Mr. Logan holds a B.S.E.E. from the University of Massachusetts, Amherst.

Brian E. Cabrera has served as our Vice President, General Counsel and Corporate Secretary since June 2006. From August 1999 to June 2006, he held various positions with Callidus Software, most recently as Senior Vice President, General Counsel and Secretary and prior to 2004 as General Counsel and Vice President of Operations and Human Resources. Prior to Callidus, Mr. Cabrera held senior legal positions at PeopleSoft, Netscape Communications, and Silicon Graphics. Mr. Cabrera holds a Bachelor of Arts in Political Science and Philosophy and a Masters in Public Administration from the University of Southern California, as well as a Juris Doctorate from the University of Southern California Law School.

There are no family relationships among any Synopsys executive officers or directors.

Item 1A. Risk Factors

A description of the risk factors associated with our business is set forth below. Investors should carefully consider these risks and uncertainties before investing in our common stock.

The continued uncertainty in the global economy, and its potential impact on the semiconductor and electronics industries in particular, may negatively affect our business, operating results and financial condition.

As a result of the recent global recession, the global economy experienced significant uncertainty, stock market volatility, tightened credit markets, concerns about both deflation and inflation, reduced demand for products, lower consumer confidence, reduced capital spending, liquidity concerns and business insolvencies. Further declines, and uncertainty about future economic conditions, could negatively impact our customers' businesses, reducing demand for our products and adversely affecting our business.

The recent global recession adversely affected the semiconductor industry. Semiconductor companies generally remain cautious and focused on their costs, including their research and development budgets which capture spending on EDA products and services. These factors could among other things limit our ability to maintain or increase our sales or recognize revenue from committed contracts and in turn adversely affect our business, operating results and financial condition.

Under our business model, we generally expect more than 90% of our total revenue to be recurring revenue, as a substantial majority of our customers pay for licenses over a three-year period. However, the turmoil and uncertainty caused by recent economic conditions caused some of our customers to postpone their decision-making, decrease their spending and/or delay their payments to us. Future periods of decreased committed average annual revenue, customer bankruptcies, or consolidation among our customers, could adversely affect our year-over-year revenue growth.

The recent global recession also adversely affected the banking and financial industry. If the global economy continues to experience uncertainty, our ability to obtain credit on favorable terms could be jeopardized. Furthermore, we rely on several large financial institutions to act as counterparties under our foreign currency forward contracts, provide credit and banking transactions and deposit services worldwide. Should any of our banking partners declare bankruptcy or otherwise default on their obligations, it could adversely affect our financial results and our business.

We cannot predict if or when global economic confidence will be restored. Accordingly, our future business and financial results are subject to considerable uncertainty, and our stock price is at risk of volatile change. If economic conditions fail to significantly improve for any extended period of time or deteriorate in the future, or, in particular, if semiconductor industry revenues do not continue to grow, our future revenues and financial results could be adversely affected. Conversely, in the event of future improvements in economic conditions for our customers, the positive impact on our revenues and financial results may be deferred due to our business model.

The growth of our business depends on the semiconductor and electronics industries.

The growth of the EDA industry as a whole, and our business in particular, is dependent on the semiconductor and electronics industries. The semiconductor industry is currently anticipated to have modest growth in 2012. A substantial portion of our business and revenue depends upon the commencement of new design projects by semiconductor manufacturers and their customers. The increasing complexity of designs of SoCs and ICs, and customers' concerns about managing costs, have previously led and in the future could lead to a decrease in design starts and design activity in general, with some customers focusing more on one discrete phase of the design process. Demand for our products and services could decrease and our financial condition and results of operations could

be adversely affected if the semiconductor and electronics industries do not continue to grow, or grow at a slower rate. Additionally, as the EDA industry matures, consolidation has increased competition for a greater share of our customers' EDA spending. This increased competition may cause our revenue growth rate to decline and exert downward pressure on our operating margins, which may have an adverse effect on our business and financial condition.

We may not be able to realize the potential financial or strategic benefits of the acquisitions we complete, or find suitable target businesses and technology to acquire, which could hurt our ability to grow our business, develop new products or sell our products.

Acquisitions are an important part of our growth strategy. We have completed a significant number of acquisitions in recent years, including the acquisitions of CoWare, Inc., VaST Systems Technology Corporation, and Virage Logic Corporation. On November 30, 2011, we entered into a definitive agreement pursuant to which we, through our wholly owned subsidiary, have agreed to acquire 100% of the outstanding common stock of Magma Design Automation, Inc. (Magma) in exchange for cash. Our pending acquisition of Magma carries certain risks, including our ability to obtain governmental approvals of the acquisition in a timely manner or at all, the risk that such approvals are not obtained and we must pay a break-up fee, risks related to class action lawsuits filed by purported Magma stockholders that could be costly, time-consuming and affect our ability to close the transaction, and the risk that Magma stockholders will not approve the acquisition.

We expect to make additional acquisitions in the future, but we may not find suitable acquisition targets or we may not be able to consummate desired acquisitions due to unfavorable credit markets or other risks, which could harm our operating results. Acquisitions are difficult, time consuming, and pose a number of risks, including:

- Potential negative impact on our earnings per share;
- Failure of acquired products to achieve projected sales;
- Problems in integrating the acquired products with our products;
- Difficulties entering into new market segments in which we are not experienced;
- Potential downward pressure on operating margins due to lower operating margins of acquired businesses, increased headcount costs and other expenses associated with adding and supporting new products;
- Difficulties in retaining and integrating key employees;
- Failure to realize expected synergies or cost savings;
- Dilution of our current stockholders through the issuance of common stock, a substantial reduction of our cash resources and/or the incurrence of debt;
- Assumption of unknown liabilities, including tax and litigation, and the related expenses and diversion of resources;
- Disruption of ongoing business operations, including diversion of management's attention;
- Potential negative impact on our relationships with customers, distributors and business partners; and
- Negative impact on our earnings resulting from the application of ASC 805, *Business Combinations*.

If we do not manage these risks, the acquisitions that we complete may have an adverse effect on our business and financial condition. For instance, if, after the closing of our acquisition of Magma, we are unable to successfully integrate Magma products and technology, we may not be able to achieve the anticipated revenue growth from this transaction. The integration process may involve significant management time and create uncertainty for employees and customers, and delays in the process

could have a material adverse effect on our revenues, expenses, operating results and financial condition. Additionally, if we determine we cannot use or sell the acquired products or technology, we will be required to write down the associated intangible assets, which would negatively impact our operating results.

Consolidation among our customers, as well as within the industries in which we operate, may negatively impact our operating results.

A number of business combinations, including mergers, asset acquisitions and strategic partnerships, among our customers and in the semiconductor and electronics industries have occurred recently, and more could occur in the future. Consolidation among our customers could lead to fewer customers or the loss of customers, increased customer bargaining power, or reduced customer spending on software and services. Moreover, business combinations within the industries in which we compete may result in stronger competition from companies that are better able to compete as sole source vendors to customers. The loss of customers or reduced customer spending could adversely affect our business and financial condition.

In addition, we and our competitors from time to time acquire business and technologies to complement and expand our respective product offerings. If any of our competitors consolidate or acquire businesses and technologies which we do not offer, they may be able to offer a larger technology portfolio, a larger support and service capability, or lower prices, which could negatively impact our business and operating results.

Changes in accounting principles or standards, or in the way they are applied, could result in unfavorable accounting charges or effects and unexpected financial reporting fluctuations, and could adversely affect our reported operating results.

We prepare our consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP). These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles and guidance. A change in existing principles or guidance can have a significant effect on our reported results and may retroactively affect previously reported results. Additionally, proposed accounting standards could have a significant impact on our operational processes, revenues and expenses, and could cause unexpected financial reporting fluctuations.

For example, the Financial Accounting Standards Board (FASB) is currently working together with the International Accounting Standards Board (IASB) to converge certain accounting principles and facilitate more comparable financial reporting between companies who are required to follow GAAP and those who are required to follow International Financial Reporting Standards (IFRS). These efforts may result in different accounting principles under GAAP, which may have a material impact on the way in which we report financial results in areas including, but not limited to, revenue recognition, lease accounting, and financial statement presentation. We expect the SEC to make a determination in the near future regarding the incorporation of IFRS into the financial reporting system for U.S. companies. A change in accounting principles from GAAP to IFRS may have a material impact on our financial statements and may retroactively adversely affect previously reported transactions.

Our operating results may fluctuate in the future, which may adversely affect our stock price.

Our operating results are subject to quarterly and annual fluctuations, which may adversely affect our stock price. Our historical results should not be viewed as indicative of our future performance due to these periodic fluctuations. Many factors may cause our revenue or earnings to fluctuate, including:

- Changes in demand for our products due to fluctuations in demand for our customers' products and due to constraints in our customers' budgets for research and development and EDA products and services;

- Product competition in the EDA industry, which can change rapidly due to industry or customer consolidation and technological innovation;
- Our ability to innovate and introduce new products and services or effectively integrate products and technologies that we acquire;
- Failures or delays in completing sales due to our lengthy sales cycle;
- Cancellations or changes to levels of license orders or the mix between upfront and time-based license revenue;
- Our ability to implement effective cost control measures;
- Delay of one or more orders for a particular period, particularly orders generating upfront revenue;
- Our dependence on a relatively small number of large customers for a large portion of our revenue;
- Changes in or challenges to our revenue recognition model;
- Amendments or renewals of customer contracts which provide discounts or require the deferral of revenue to later periods;
- Expenses related to our acquisition and integration of businesses and technology;
- Delays, increased costs or quality issues resulting from our reliance on third parties to manufacture our hardware products; and
- General economic and political conditions that affect the semiconductor and electronics industries.

These factors, or any other factors or risks discussed herein, could negatively impact our revenue or earnings and cause our stock price to decline.

We operate in highly competitive industries, and if we do not continue to meet our customers' demand for innovative technology at lower costs, our business and financial condition will be harmed.

We compete against EDA vendors that offer a variety of products and services, such as Cadence Design Systems, Inc., Mentor Graphics Corporation and Magma. We also compete with other EDA vendors, including frequent new entrants to the marketplace, that offer products focused on one or more discrete phases of the IC design process, as well as vendors of IP products and system-level solutions. Moreover, our customers internally develop design tools and capabilities that compete with our products.

The industries in which we operate are highly competitive and the demand for our products and services is dynamic and depends on a number of factors, including demand for our customers' products, design starts and our customers' budgetary constraints. Technology in these industries evolves rapidly and is characterized by frequent product introductions and improvements and changes in industry standards and customer requirements. Semiconductor device functionality requirements continually increase while feature widths decrease, substantially increasing the complexity, cost and risk of chip design and manufacturing. At the same time, our customers and potential customers continue to demand an overall lower total cost of design, which can lead to the consolidation of their purchases with one vendor. In order to succeed in this environment, we must successfully meet our customers' technology requirements and increase the value of our products, while also striving to reduce their overall costs and our own operating costs.

We compete principally on the basis of technology, product quality and features (including ease-of-use), license or usage terms, post-contract customer support, interoperability among products, and price and payment terms. Specifically, we believe the following competitive factors affect our success:

- Our ability to anticipate and lead critical development cycles, innovate rapidly and efficiently, improve our existing products, and successfully develop or acquire new products;
- Our ability to offer products that provide both a high level of integration into a comprehensive platform and a high level of individual product performance;
- Our ability to enhance the value of our offering through more favorable terms such as expanded license usage, future purchase rights, price discounts and other unique rights, such as multiple tool copies, post-contract customer support, and the ability to purchase pools of technology; and
- Our ability to compete on the basis of payment terms.

If we fail to successfully manage these competitive factors, fail to successfully balance the conflicting demands for innovative technology and lower overall costs, or fail to address new competitive forces, our business and financial condition will be adversely affected.

If we fail to protect our proprietary technology our business will be harmed.

Our success depends in part upon protecting our proprietary technology. Our efforts to protect our technology may be costly and unsuccessful. We rely on agreements with customers, employees and others and on intellectual property laws worldwide to protect our proprietary technology. These agreements may be breached, and we may not have adequate remedies for any breach. Additionally, despite our measures to prevent piracy, other parties may attempt to illegally copy or use our products, which could result in lost revenue. Some foreign countries do not currently provide effective legal protection for intellectual property and our ability to prevent the unauthorized use of our products in those countries is therefore limited. Our trade secrets may also otherwise become known or be independently developed by competitors.

We may need to commence litigation or other legal proceedings in order to:

- Assert claims of infringement of our intellectual property;
- Defend our products from piracy;
- Protect our trade secrets or know-how; or
- Determine the enforceability, scope and validity of the propriety rights of others.

If we do not obtain or maintain appropriate patent, copyright or trade secret protection, for any reason, or cannot fully defend our intellectual property rights in some jurisdictions, our business and operating results would be harmed. In addition, intellectual property litigation is lengthy, expensive and uncertain and legal fees related to such litigation will increase our operating expenses and may reduce our net income.

Unfavorable tax law changes, an unfavorable government review of our tax returns or changes in our geographical earnings mix or forecasts of foreign source income could adversely affect our effective tax rate and our operating results.

Our operations are subject to income and transaction taxes in the United States and in multiple foreign jurisdictions. A change in the tax law in the jurisdictions in which we do business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, could result in a material increase in our tax expense. Currently, a substantial portion of our revenue is generated from customers located outside the United States, and a substantial portion of our assets,

including employees, are located outside the United States. United States income taxes and foreign withholding taxes have not been provided on undistributed earnings for certain non-United States subsidiaries to the extent such earnings are considered to be indefinitely reinvested in the operations of those subsidiaries. A number of proposals for broad reform of the corporate tax system in the United States are under evaluation by various legislative and administrative bodies, but it is not possible to determine accurately the overall impact of such proposals on our effective tax rate at this time.

Our tax filings are subject to review or audit by the Internal Revenue Service (IRS) and state, local and foreign taxing authorities. We exercise judgment in determining our worldwide provision for income taxes and, in the ordinary course of our business, there may be transactions and calculations where the ultimate tax determination is uncertain. The IRS examinations of our federal tax returns for the years 2000 through 2001 and 2002 through 2004 resulted in significant proposed adjustments which were subsequently settled without a material financial statement impact. In addition, we are currently being audited in jurisdictions outside the United States. Although we believe our tax estimates are reasonable, we can provide no assurance that any final determination in an audit will not be materially different than the treatment reflected in our historical income tax provisions and accruals. An assessment of additional taxes as a result of an audit could adversely affect our income tax provision and net income in the period or periods for which that determination is made.

We have operations both in the United States and in multiple foreign jurisdictions with a wide range of statutory tax rates. Therefore, any changes in our geographical earnings mix in various tax jurisdictions, including those resulting from transfer pricing adjustments, could materially increase our effective tax rate. Furthermore, we maintain deferred tax assets related to federal foreign tax credits and certain state tax credits. Our ability to use these credits is dependent upon having sufficient future foreign source income in the United States, as well as sufficient taxable income in certain states. Changes in our forecasts of future income could result in an adjustment to the deferred tax asset and a related charge to earnings which could materially affect our financial results.

We may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively affect our operating results.

We devote substantial resources to research and development. New competitors, technological advances by existing competitors, our acquisitions, our entry into new markets, or other competitive factors may require us to invest significantly greater resources than we anticipate. If we are required to invest significantly greater resources than anticipated without a corresponding increase in revenue, our operating results could decline. Additionally, our periodic research and development expenses may be independent of our level of revenue which could negatively impact our financial results.

The global nature of our operations exposes us to increased risks and compliance obligations which may adversely affect our business.

We derive more than half of our revenue from sales outside the United States, and we expect our orders and revenue to continue to depend on sales to customers outside the United States. In addition, we have expanded our non-U.S. operations significantly in the past several years. This strategy requires us to recruit and retain qualified technical and managerial employees, manage multiple, remote locations performing complex software development projects and ensure intellectual property protection outside of the United States. Our international operations and sales subject us to a number of increased risks, including:

- International economic and political conditions, such as political tensions between countries in which we do business;
- Difficulties in adapting to cultural differences in the conduct of business;
- Ineffective legal protection of intellectual property rights;
- Financial risks such as longer payment cycles and difficulty in collecting accounts receivable;

- Inadequate local infrastructure that could result in business disruptions;
- Additional taxes and penalties; and
- Other factors beyond our control such as natural disasters, terrorism, civil unrest, war and infectious diseases.

If any of the foreign economies in which we do business deteriorate or if we fail to effectively manage our global operations, our business and results of operations will be harmed.

In addition, our global operations are subject to numerous U.S. and foreign laws and regulations, including those related to anti-corruption, tax, corporate governance, imports and exports, financial and other disclosures, privacy and labor relations. These laws and regulations are complex and may have differing or conflicting legal standards, making compliance difficult and costly. If we violate these laws and regulations we could be subject to fines, penalties or criminal sanctions, and may be prohibited from conducting business in one or more countries. Although we have implemented policies and procedures to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors or agents will not violate these laws and regulations. Any violation individually or in the aggregate could have a material adverse effect on our operations and financial condition.

Our financial statements are also affected by fluctuations in foreign currency exchange rates. A weakening U.S. dollar relative to other currencies increases expenses of our foreign subsidiaries when they are translated into U.S. dollars in our consolidated statement of operations. Likewise, a strengthening U.S. dollar relative to other currencies, especially the Japanese yen, reduces revenue of our foreign subsidiaries upon translation and consolidation. Exchange rates are subject to significant and rapid fluctuations, and therefore we cannot predict the prospective impact of exchange rate fluctuations. Although we engage in foreign currency hedging activity, we may be unable to hedge all of our foreign currency risk, which could have a negative impact on our results of operations.

Liquidity requirements in our U.S. operations may require us to raise cash in uncertain capital markets, which could negatively affect our financial condition.

As of October 31, 2011, approximately 77% of our worldwide cash, cash equivalents and short term investments balance was held in subsidiary accounts outside the United States. In addition, typically about half of our operating cash flow is received by our overseas subsidiaries. Should our cash spending needs in the United States rise and exceed our existing U.S. balances, revolving credit facility and future U.S. cash flows, we may be required to incur debt at higher than anticipated interest rates or access other funding sources, which could negatively affect our results of operations, capital structure and/or the market price of our common stock. For example, we expect to partially fund our acquisition of Magma using debt, which would require us to draw on our revolving credit facility or to incur additional debt separate from our credit facility.

From time to time we are subject to claims that our products infringe on third party intellectual property rights.

We are from time to time subject to claims alleging our infringement of third party intellectual property rights, including patent rights. For example, in December 2011, a patent infringement lawsuit was filed against us by Dynetix Design Solutions, Inc., which seeks, among other things, compensatory damages and a permanent injunction. Further information regarding this lawsuit is contained in Part I, Item 3, *Legal Proceedings*. In addition, under our customer agreements and other license agreements, we agree in many cases to indemnify our customers if our products infringe a third party's intellectual property rights. We have recently defended some of our customers against claims that their use of one of our products infringes on a patent held by a Japanese electronics company. Although we were successful in that case, there can be no assurances that we will prevail in defending against any current or future claims of infringement. In addition, these types of claims can result in costly and time-

consuming litigation, require us to enter into royalty arrangements, subject us to damages or injunctions restricting our sale of products, invalidate a patent or family of patents, require us to refund license fees to our customers or to forgo future payments or require us to redesign certain of our products, any one of which could harm our business and operating results.

Product errors or defects could expose us to liability and harm our reputation and we could lose market share.

Software products frequently contain errors or defects, especially when first introduced, when new versions are released or when integrated with technologies developed by acquired companies. Product errors could affect the performance or interoperability of our products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance or perception of our products. In addition, allegations of IC manufacturability issues resulting from use of our IP products could, even if untrue, adversely affect our reputation and our customers' willingness to license IP products from us. Any such errors or delays in releasing new products or new versions of products or allegations of unsatisfactory performance could cause us to lose customers, increase our service costs, subject us to liability for damages and divert our resources from other tasks, any one of which could materially and adversely affect our business and operating results.

Customer payment defaults or related issues could harm our operating results.

The majority of our revenue backlog consists of customer payment obligations not yet due that are attributable to software we have already delivered. A significant portion of the revenue we recognize in any period comes from backlog and is dependent upon our receipt of cash from customers. We will not achieve expected revenue and cash flow if customers default, declare bankruptcy, or otherwise fail to pay amounts owed. Moreover, existing customers may seek to renegotiate pre-existing contractual commitments due to adverse changes in their own businesses. Our customers' financial condition, and in turn their ability or willingness to fulfill their contractual and financial obligations, could be adversely affected by current economic conditions. If payment defaults by our customers significantly increase or we experience significant reductions in existing contractual commitments, our operating results would be harmed.

We may be subject to litigation proceedings that could harm our business.

We may be subject to legal claims or regulatory matters involving stockholder, consumer, competition, and other issues on a global basis. Litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or, in cases for which injunctive relief is sought, an injunction prohibiting us from manufacturing or selling one or more products. If we were to receive an unfavorable ruling on a matter, our business and results of operations could be materially harmed.

In connection with our definitive agreement to acquire Magma, purported Magma stockholders filed shareholder class action lawsuits in December 2011 against Magma, Magma's directors and Synopsys. Further information regarding these lawsuits is contained in Part I, Item 3, *Legal Proceedings*.

If we fail to timely recruit and retain senior management and key employees our business may be harmed.

We depend in large part upon the services of key members of our senior management team to drive our future success. If we were to lose the services of any member of our senior management team, our business could be adversely affected.

To be successful, we must also attract and retain key technical, sales and managerial employees, including those who join Synopsys in connection with acquisitions. There are a limited number of qualified EDA and IC design engineers, and competition for these individuals is intense and has

increased. Our employees are often recruited aggressively by our competitors and our customers. Any failure to recruit and retain key technical, sales and managerial employees could harm our business, results of operations and financial condition. Additionally, efforts to recruit and retain qualified employees could be costly and negatively impact our operating expenses.

We issue stock options and restricted stock units and maintain employee stock purchase plans as a key component of our overall compensation. We face pressure to limit the use of such equity-based compensation due to its dilutive effect on stockholders. In addition, we are required under GAAP to recognize compensation expense in our results from operations for employee share-based equity compensation under our equity grants and our employee stock purchase plan, which has increased the pressure to limit equity-based compensation. These factors may make it more difficult for us to grant attractive equity-based packages in the future, which could adversely impact and limit our ability to attract and retain key employees.

Our business is subject to evolving corporate governance and public disclosure regulations that have increased both our compliance costs and the risk of noncompliance, which could have an adverse effect on our stock price.

We are subject to changing rules and regulations promulgated by a number of governmental and self-regulated organizations, including the SEC, the NASDAQ Stock Market, and the FASB. These rules and regulations continue to evolve in scope and complexity and many new requirements have been created in response to laws enacted by Congress, making compliance more difficult and uncertain. For example, Congress recently passed the Dodd-Frank Wall Street Reform and Consumer Protection Act. Our efforts to comply with the Dodd-Frank Act and other new regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

There are inherent limitations on the effectiveness of our controls.

Regardless of how well designed and operated it is, a control system can provide only reasonable assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Failure of our control systems to prevent error or fraud could have a material adverse impact on our business.

Our investment portfolio may be impaired by deterioration of the capital markets.

Our cash equivalent and short-term investment portfolio as of October 31, 2011 consists of investment grade municipal bonds, tax-exempt money market mutual funds, taxable money market mutual funds and bank deposits. Our investment portfolio carries both interest rate risk and credit risk. Fixed rate debt securities may have their market value adversely impacted due to a credit downgrade or a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall or a credit downgrade occurs. As a result of current adverse financial market conditions, including the recent downgrade by Standard and Poor's (S&P) of the U.S. long-term sovereign credit rating, capital pressures on certain banks, especially in Europe, and the continuing low interest rate environment, some of our financial instruments may become impaired. Our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. In addition, we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in the issuer's credit quality or changes in interest rates.

Security breaches could compromise sensitive information belonging to us or our customers and could harm our business and reputation.

We store sensitive data, including intellectual property, our proprietary business information and that of our customers, and confidential employee information, in our data centers and on our networks. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions that could result in unauthorized disclosure or loss of sensitive information. Any such security breach could cause us to be non-compliant with applicable laws or regulations, subject us to legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence in our products and services, any of which could adversely affect our business.

Catastrophic events may disrupt our business and harm our operating results.

Due to the global nature of our business, our operating results may be negatively impacted by catastrophic events throughout the world. We rely on a global network of infrastructure applications, enterprise applications and technology systems for our development, marketing, operational, support and sales activities. A disruption or failure of these systems in the event of a major earthquake, fire, telecommunications failure, cybersecurity attack, terrorist attack, or other catastrophic event could cause system interruptions, delays in our product development and loss of critical data and could prevent us from fulfilling our customers' orders. Moreover, our corporate headquarters, a significant portion of our research and development activities, our data centers, and certain other critical business operations are located in California, near major earthquake faults. A catastrophic event that results in the destruction or disruption of our data centers or our critical business or information technology systems would severely affect our ability to conduct normal business operations and, as a result, our operating results would be adversely affected.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our principal offices are located in four adjacent buildings in Mountain View, California, which together provide approximately 400,000 square feet of available space. This space is leased through February 2015. We also lease approximately 294,000 square feet of additional space in four separate buildings in Sunnyvale, California, with lease expiration dates ranging from October 2012 to September 2019. We own one building in Sunnyvale, California with approximately 120,000 square feet of available space. These buildings in Mountain View and Sunnyvale are used for research and development, sales and support, marketing, and administrative activities.

In addition, in October 2011, we agreed to lease two office buildings to be constructed in Mountain View, California. Once construction is complete, the buildings together will provide approximately 341,000 square feet, though Synopsys and the lessor may agree to enlarge the buildings up to a total size of approximately 440,000 square feet. The lease of such premises begins upon the later of March 1, 2015 or six months after construction is substantially completed. We may terminate the lease prior to such time if certain conditions occur.

We currently lease 21 other offices throughout the United States, primarily for sales and support activities.

International Facilities

We lease additional space for sales, service and research and development activities in approximately 30 countries throughout the world, including 45,000 square feet in Dublin, Ireland for our international headquarters, as well as significant sites in Yerevan, Armenia, Bangalore, India and Shanghai, China.

We believe that our existing facilities, including both owned and leased properties, are in good condition and suitable for the current conduct of our business.

Item 3. *Legal Proceedings*

We are subject to routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate outcome of any litigation is uncertain and unfavorable outcomes could have a negative impact on our results of operations and financial condition. Regardless of outcome, litigation can have an adverse impact on Synopsys because of the defense costs, diversion of management resources and other factors.

In connection with our definitive agreement to acquire Magma, on December 5, 2011, December 9, 2011, and December 13, 2011, purported Magma stockholders filed shareholder class action lawsuits against Magma, Magma's directors and Synopsys in the Superior Court of California, County of Santa Clara. The lawsuits allege, among other things, that Magma and its directors breached their fiduciary duties to Magma's stockholders in negotiating and entering into the definitive agreement and by agreeing to sell Magma at an unfair price, pursuant to an unfair process and pursuant to unreasonable terms, and that Synopsys aided and abetted these alleged breaches of fiduciary duties. The lawsuits seek, among other things, to enjoin consummation of the acquisition and monetary damages.

On December 5, 2011, plaintiff Dynetix Design Solutions, Inc. filed a patent infringement lawsuit against Synopsys in federal district court in the Northern District of California. The lawsuit alleges, among other things, that our VCS functional verification tool, and more specifically our VCS multicore technology, infringes Dynetix's United States Patent No. 6,466,898, and that such infringement is willful. The lawsuit seeks, among other things, compensatory damages and a permanent injunction.

Item 4. *(Removed and Reserved)*

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Common Stock Market Price

Our common stock trades on the NASDAQ Global Select Market under the symbol "SNPS." The following table sets forth for the periods indicated the high and low sale prices of our common stock, as reported by the NASDAQ Global Select Market.

		Quarter Ended			
		<u>January 31,</u>	<u>April 30,</u>	<u>July 31,</u>	<u>October 31,</u>
2011:					
High		\$27.60	\$29.35	\$27.90	\$27.49
Low		\$24.46	\$25.85	\$23.51	\$21.37
2010:					
High		\$23.74	\$23.45	\$22.99	\$25.71
Low		\$20.39	\$20.71	\$20.27	\$21.42

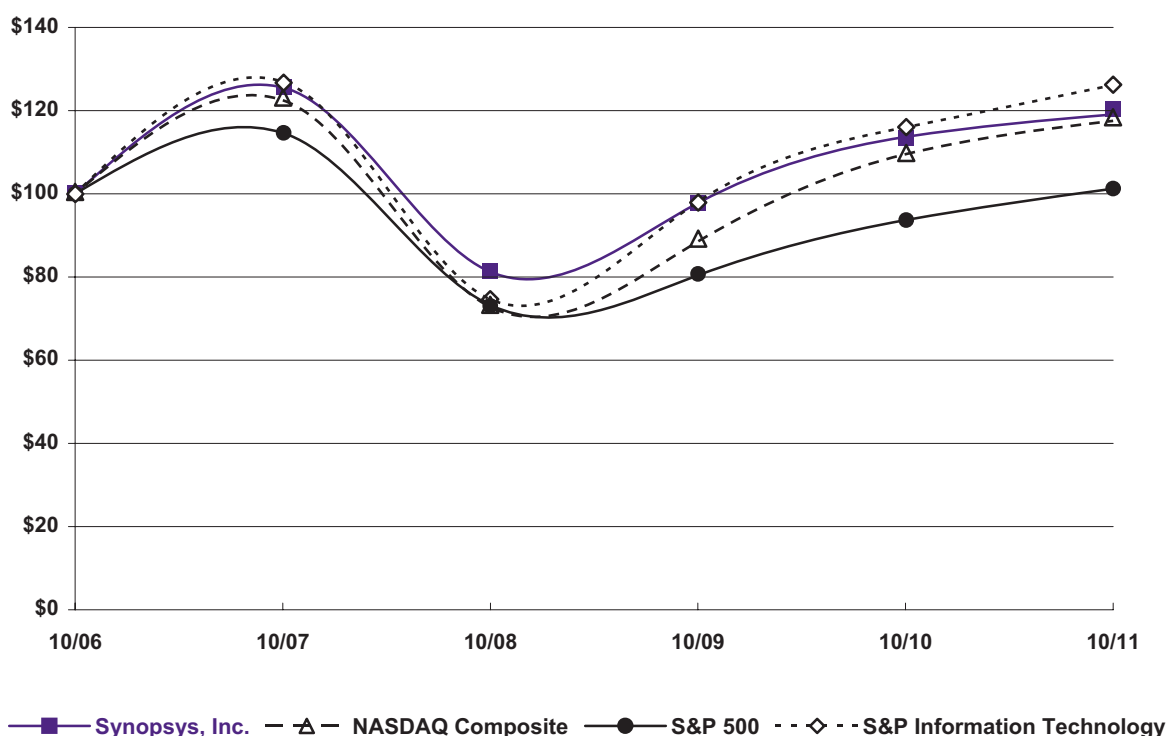
As of October 31, 2011, we had 411 stockholders of record. To date, we have paid no cash dividends on our capital stock and have no current intention to do so. Our credit facility contains financial covenants requiring us to maintain certain specified levels of cash and cash equivalents. Such provisions could have the effect of preventing us from paying dividends in the future. See Note 5 of *Notes to Consolidated Financial Statements* for further information regarding our credit facility.

Performance graph

The following graph compares the 5-year total return to stockholders of our common stock relative to the cumulative total returns of the S&P 500 Index, the S&P Information Technology Index and the NASDAQ Composite Index. The graph assumes that \$100 was invested on October 31, 2006 in Synopsys common stock and in each of the indexes and that all dividends were reinvested. No cash dividends were declared on our common stock during such time. The comparisons in the table are required by the SEC and are not intended to forecast or be indicative of possible future performance of our common stock.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Synopsys, Inc., The NASDAQ Composite Index,
The S&P 500 Index And The S&P Information Technology Index



*\$100 invested on 10/31/06 in stock or index, including reinvestment of dividends.
Fiscal year ending October 31.

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The information presented above in the stock performance graph shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, except to the extent that we subsequently specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act or Exchange Act.

Stock Repurchase Program

Our Board of Directors previously approved a stock repurchase program pursuant to which we were authorized to purchase up to \$500.0 million of our common stock, and has periodically replenished the stock repurchase program to such amount. Our Board most recently replenished the stock repurchase program up to \$500.0 million on May 25, 2011. Funds are available until expended or until the program is suspended by our Chief Financial Officer or Board of Directors. As of October 31, 2011, \$312.4 million remained available for future repurchases under the program.

On September 30, 2011, we entered into an accelerated share repurchase agreement (ASR) to repurchase an aggregate of \$75.0 million of our common stock. Pursuant to the ASR, we made a prepayment of \$75.0 million and received an initial share delivery of 1,710,376 shares of common stock. The initial share delivery was valued at \$41.7 million and was recorded as treasury stock in the Consolidated Balance Sheet. The remaining balance of \$33.3 million was recorded as an equity forward contract, which is included in "Capital in excess of par value" in the Consolidated Balance Sheet as of October 31, 2011. Under the terms of the ASR, the specific number of shares that we ultimately repurchase will be based on the volume weighted average share price of our common stock during the repurchase period, less a discount.

The table below sets forth information regarding our repurchases of our common stock during the three months ended October 31, 2011.

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced programs</u>	<u>Maximum dollar value of shares that may yet be purchased under the programs (1)</u>
Month #1				
July 31, 2011 through September 3, 2011	-	-	-	\$412,563,351
Month #2				
September 4, 2011 through October 1, 2011 . .	994,700	\$25.3197	994,700	\$387,377,801
Month #3				
October 2, 2011 through October 29, 2011	<u>1,710,376</u>	<u>\$24.3600</u>	<u>1,710,376</u>	<u>\$345,713,042</u>
Total	<u>2,705,076</u>	<u>\$24.7129</u>	<u>2,705,076</u>	<u>\$345,713,042</u>

(1) Does not include \$33.3 million equity forward contract related to the above referenced ASR. As of October 31, 2011, \$312.4 million remained available for future repurchases under the program.

See Note 8 of *Notes to Consolidated Financial Statements* for further information regarding our stock repurchase program.

Item 6. Selected Financial Data

	Fiscal Year Ended October 31,(1)(2)				
	2011	2010	2009	2008	2007
	(in thousands, except per share data)				
Revenue	\$1,535,643	\$1,380,661	\$1,360,045	\$1,336,951	\$1,212,469
Income before provisions for income taxes(3)	219,113	198,658	233,070	218,956	165,799
(Benefit) provision for income taxes(4)	(2,251)	(38,405)	65,389	28,978	35,308
Net income	221,364	237,063	167,681	189,978	130,491
Net income per share:					
Basic	1.51	1.60	1.17	1.33	0.91
Diluted	1.47	1.56	1.15	1.29	0.87
Working capital	329,245	325,987	649,207	413,307	296,463
Total assets	3,367,334	3,286,541	2,938,854	2,742,478	2,617,337
Stockholders' equity(5)	2,101,300	2,100,182	1,844,166	1,528,371	1,436,393

- (1) We have a fiscal year that ends on the Saturday nearest October 31. Fiscal 2011, 2010, 2009, and 2008 were 52-week years. Fiscal 2007 was a 53-week fiscal year.
- (2) Includes results of operations from business combinations from the date of acquisition for which information is included herein. See Note 3 of *Notes to Consolidated Financial Statements*.
- (3) Includes \$12.5 million litigation settlement received from Magma Design Automation, Inc. during fiscal 2007.
- (4) Includes \$32.8 million, \$94.3 million and \$17.3 million tax benefit from an IRS settlement received in fiscal 2011, fiscal 2010 and fiscal 2008, respectively. See Note 10 of *Notes to Consolidated Financial Statements*.
- (5) Includes an adjustment to the beginning balance of fiscal 2007 retained earnings as a result of the adoption of Staff Accounting Bulletin No. 108 (SAB 108) and an adjustment to the beginning balance of fiscal 2008 retained earnings as a result of the accounting guidance for uncertainty in income taxes.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**Overview**

The following summary of our financial condition and results of operations is qualified in its entirety by the more complete discussion contained in this Item 7 and by the risk factors set forth in Item 1A of this Annual Report. Please also see the cautionary language at the beginning of Part 1 of this Annual Report regarding forward-looking statements.

Business Summary

Synopsys is a world leader in providing technology solutions used to develop electronics and electronic systems. We supply the electronic design automation (EDA) software that engineers use to design, create prototypes for and test integrated circuits, also known as chips. We also supply software and hardware used to develop the systems that incorporate integrated circuits and the software that runs on those integrated circuits. Our intellectual property (IP) products are pre-designed circuits that engineers use as components of larger chip designs rather than redesigning those circuits themselves. To complement these product offerings, we provide technical services to support our solutions and we help our customers develop chips and electronic systems.

Our customers are generally large semiconductor and electronics manufacturers. Our solutions help them overcome the challenge of developing increasingly advanced electronics products while

reducing their design and manufacturing costs. While our products are an important part of our customers' development process, our customers' research and development budget and spending decisions may be impacted by their business outlook and their willingness to invest in new and increasingly complex chip designs.

Despite recent global economic uncertainty, we have maintained profitability and positive cash flow on an annual basis in recent years. We achieved these results not only because of our solid execution, leading technology and strong customer relationships, but also because of our recurring revenue business model. Under this model, a substantial majority of our customers pay for their licenses over time and we typically recognize this recurring revenue over the life of the contract, which averages approximately three years. Recurring revenue generally represents more than 90% of our total revenue. The revenue we recognize in a particular period generally results from selling efforts in prior periods rather than the current period. We typically enter each quarter with greater than 90% of our revenue for that particular quarter already committed from our customers, providing for stability and predictability of results. Due to our business model, decreases as well as increases in customer spending do not immediately affect our revenues in a significant way.

The semiconductor industry has experienced modest growth to date in 2011 and continued modest growth is currently anticipated for 2012. Our semiconductor customers remain cautious and focused on their costs due to the cyclical nature of the industry, the increasing complexity of product development and macroeconomic factors. The continued instability of global markets may intensify an already challenging environment for our customers to plan investment in research and development.

Nevertheless, our business outlook is positive based on growth forecasts for the semiconductor industry and our strong financials, diligent expense management, and acquisition strategy. Through our recent acquisitions, we have enhanced our technology and expanded our product portfolio and our total addressable market, especially in IP and system-level solutions, which we believe will help drive revenue growth. We expect to explore both organic and inorganic growth opportunities, including acquiring companies or technology that can contribute to the strategic, operational and financial performance of our business. We will continue to monitor worldwide economic growth rates, the considerable volatility of current global markets and other macroeconomic factors and may make adjustments to our business in the event that the semiconductor industry is unable to maintain current spending levels for our solutions. We believe that the combination of our solid financials, leading technology and strong customer relationships will help us successfully execute our strategies.

Fiscal Year End

Our fiscal year ends on the Saturday nearest October 31. Fiscal 2011 ended on October 29, 2011, fiscal 2010 ended on October 30, 2010 and fiscal 2009 ended on October 31, 2009. For presentation purposes in this Form 10-K, we refer to October 31 as the end of a fiscal year. Fiscal 2011, fiscal 2010 and fiscal 2009 were 52-week fiscal years. Fiscal 2012 will be a 53-week fiscal year, which will impact our revenue, expenses and operating results.

Fiscal 2011 Financial Performance Summary

- We continued to derive more than 90% of our revenue from time-based licenses, maintenance and services.
- Our total revenue of \$1,535.6 million increased by \$154.9 million, or 11%, from \$1,380.7 million in fiscal 2010. The increase was attributable to our overall growth, including sales of products associated with our prior-year acquisitions, which resulted in increased time-based license revenue, upfront license revenue and professional services revenue.
- Our cost of revenue and operating expenses increased compared to fiscal 2010 primarily due to increases in employee-related costs driven by increased headcount and other direct costs from our prior-year acquisitions.

- Our income before provision for income taxes of \$219.1 million increased by \$20.4 million, or 10%, from \$198.7 million in fiscal 2010 primarily due to overall growth.
- In fiscal 2011, we had lower tax benefits than we had in fiscal 2010, which was the primary cause of our year-over-year total net income decline from \$237.1 million in fiscal 2010 to \$221.4 million in fiscal 2011.
- Our net cash flow from operating activities of \$440.3 million increased by \$99.3 million, or 29%, from \$341.0 million in fiscal 2010. This increase was primarily from increased customer collections due to our volume of contracts and the timing of billings to customers.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial results under the heading “Results of Operations” below are based on our audited results of operations, which we have prepared in accordance with GAAP. In preparing these financial statements, we make assumptions, judgments and estimates that can affect the reported amounts of assets, liabilities, revenues and expenses and net income. On an on-going basis, we evaluate our estimates based on historical experience and various other assumptions we believe are reasonable under the circumstances. Our actual results may differ from these estimates. For further information on our significant accounting policies, see Note 2 of *Notes to Consolidated Financial Statements*.

The accounting policies that most frequently require us to make assumptions, judgments and estimates, and therefore are critical to understanding our results of operations, are:

- Revenue recognition;
- Valuation of stock compensation;
- Valuation of intangible assets; and
- Income taxes.

Revenue Recognition

Software license revenue consists of fees associated with the licensing of our software. Maintenance and service revenue consists of maintenance fees associated with perpetual and term licenses and professional services fees. Hardware revenue consists of Field Programmable Gate Array (FPGA) board-based products.

With respect to software licenses, we utilize three license types:

- *Technology Subscription Licenses (TSLs)*. TSLs are time-based licenses for a finite term, and generally provide the customer limited rights to receive, or to exchange certain quantities of licensed software for, unspecified future technology. We bundle and do not charge separately for post-contract customer support (maintenance) for the term of the license.
- *Term licenses*. Term licenses are also for a finite term, but do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually for the balance of the term. The annual maintenance fee is typically calculated as a percentage of the net license fee.
- *Perpetual licenses*. Perpetual licenses continue as long as the customer renews maintenance plus an additional 20 years. Perpetual licenses do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually.

For the three software license types, we recognize revenue as follows:

- *TSLs.* We typically recognize revenue from TSL fees (which include bundled maintenance) ratably over the term of the license period, or as customer installments become due and payable, whichever is later. Revenue attributable to TSLs is reported as “time-based license revenue” in the consolidated statements of operations.
- *Term licenses.* We recognize revenue from term licenses in full upon shipment of the software if payment terms require the customer to pay at least 75% of the license fee and 100% of the maintenance fee within one year from shipment and all other revenue recognition criteria are met. Revenue attributable to these term licenses is reported as “upfront license revenue” in the consolidated statements of operations. For term licenses in which less than 75% of the license fee and 100% of the maintenance fee is payable within one year from shipment, we recognize revenue as customer payments become due and payable. Such revenue is reported as “time-based license revenue” in the consolidated statements of operations.
- *Perpetual licenses.* We recognize revenue from perpetual licenses in full upon shipment of the software if payment terms require the customer to pay at least 75% of the license fee and 100% of the maintenance fee within one year from shipment and all other revenue recognition criteria are met. Revenue attributable to these perpetual licenses is reported as “upfront license revenue” in the consolidated statements of operations. For perpetual licenses in which less than 75% of the license fee and 100% of the maintenance fee is payable within one year from shipment, we recognize revenue as customer installments become due and payable. Such revenue is reported as “time-based license revenue” in the consolidated statements of operations.

We also enter into arrangements in which portions of revenue are contingent upon the occurrence of uncertain future events, for example, royalty arrangements. We refer to this revenue as “contingent revenue.” Contingent revenue is recognized if and when the applicable event occurs. Such revenue is reported as “time-based revenue” in the consolidated statements of operations. Historically, these arrangements have not been material to our total revenue.

We recognize revenue from hardware sales in full upon shipment if all other revenue recognition criteria are met. Revenue attributable to these hardware sales is reported as “upfront license revenue” in the consolidated statements of operations. Hardware sales have not been material to our total revenue.

We infrequently enter into multiple-element arrangements that contain both software and non-software deliverables such as hardware. On a prospective basis beginning in the first quarter of fiscal 2011, we applied recently issued accounting guidance for revenue arrangements with multiple deliverables for these contracts. The adoption of the guidance did not have a material effect on our consolidated financial statements, is not expected to have a material effect on subsequent periods and did not affect the accounting for contracts which do not contain non-software deliverables. The recent accounting guidance addresses whether to treat individual deliverables or groups of deliverables in a multiple-element arrangement as separate units of accounting and how to allocate the arrangement consideration to the separate units of accounting. The guidance also requires that arrangement consideration be allocated to software deliverables (as a group) and to non-software deliverables (individually) based on relative standalone selling prices and provides guidance for estimating standalone selling prices for purposes of allocating arrangement consideration.

We have determined that the software and non-software deliverables in our contracts are separate units of accounting. Prior to the first quarter of fiscal 2011, all deliverables in our contracts were considered one unit of accounting unless we had vendor-specific objective evidence (VSOE) of fair value for all undelivered elements. We now allocate arrangement consideration to separate units of

accounting based on estimated standalone selling prices (ESP) because we do not have objective evidence of standalone selling prices. We estimate the standalone selling prices of our separate units of accounting considering both market conditions and our own specific conditions. For hardware deliverables, we determine ESP using gross margin because we have consistent pricing practices and gross margins for these products. Determining the ESP for software deliverables requires significant judgment. We determine ESP for software deliverables after considering customer geographies, market demand and competition at the time of contract negotiation, gross margin objectives, existing portfolio pricing practices, contractually stated prices and prices for similar historical transactions.

Under the recent accounting guidance we recognize revenue for our separate units of accounting when all revenue recognition criteria are met. Revenue allocated to hardware units of accounting is recognized upon delivery when all other revenue recognition criteria are met. Revenue allocated to software units of accounting is recognized according to the methods described above depending on the software license type (TSL, term license or perpetual license).

We recognize revenue from maintenance fees ratably over the maintenance period to the extent cash has been received or fees become due and payable, and recognize revenue from professional services and training fees as such services are performed and accepted by the customer. Revenue attributable to maintenance, professional services and training is reported as “maintenance and service revenue” in the consolidated statements of operations.

We also enter into arrangements to deliver software products, either alone or together with other products or services that require significant modification, or customization of the software. We account for such arrangements using the percentage of completion method as we have the ability to make reasonably dependable estimates that relate to the extent of progress toward completion, contract revenues and costs. We measure the progress towards completion using the labor hours incurred to complete the project. Revenue attributable to these arrangements is reported as maintenance and service revenue in the consolidated statements of operations.

We determine the fair value of each element in multiple element software arrangements that contain only software and software related deliverables based on VSOE. We limit our assessment of VSOE of fair value for each element to the price charged when such element is sold separately. We have analyzed all of the elements included in our multiple-element software arrangements and have determined that we have sufficient VSOE to allocate revenue to the maintenance components of our perpetual and term license products and to professional services. Accordingly, assuming all other revenue recognition criteria are met, we recognize license revenue from perpetual and term licenses upon delivery using the residual method, recognize revenue from maintenance ratably over the maintenance term, and recognize revenue from professional services as services are performed and accepted by the customer. We recognize revenue from TSLs ratably over the term of the license, assuming all other revenue recognition criteria are met, since there is not sufficient VSOE to allocate the TSL fee between license and maintenance services.

We make significant judgments related to revenue recognition. Specifically, in connection with each transaction involving our products, we must evaluate whether: (1) persuasive evidence of an arrangement exists, (2) delivery of software or services has occurred, (3) the fee for such software or services is fixed or determinable, and (4) collectability of the full license or service fee is probable. All four of these criteria must be met in order for us to recognize revenue with respect to a particular arrangement. We apply these revenue recognition criteria as follows:

- *Persuasive Evidence of an Arrangement Exists.* Prior to recognizing revenue on an arrangement, our customary policy is to have a written contract, signed by both the customer and by us or a purchase order from those customers that have previously negotiated a standard end-user license arrangement or purchase agreement.

- *Delivery Has Occurred.* We deliver our products to our customers electronically or physically. For electronic deliveries, delivery occurs when we provide access to our customers to take immediate possession of the software through downloading it to the customer's hardware. For physical deliveries, the standard transfer terms are typically FOB shipping point. We generally ship our products or license keys promptly after acceptance of customer orders. However, a number of factors can affect the timing of product shipments and, as a result, timing of revenue recognition, including the delivery dates requested by customers and our operational capacity to fulfill product orders at the end of a fiscal quarter.
- *The Fee is Fixed or Determinable.* Our determination that an arrangement fee is fixed or determinable depends principally on the arrangement's payment terms. Our standard payment terms for perpetual and term licenses require 75% or more of the license fee and 100% of the maintenance fee to be paid within one year. If the arrangement includes these terms, we regard the fee as fixed or determinable, and recognize all license revenue under the arrangement in full upon delivery (assuming all other revenue recognition criteria are met). If the arrangement does not include these terms, we do not consider the fee to be fixed or determinable and generally recognize revenue when customer installments are due and payable. In the case of a TSL, because of the right to exchange products or receive unspecified future technology and because VSOE for maintenance services does not exist for a TSL, we recognize revenue ratably over the term of the license, but not in advance of when customers' installments become due and payable.
- *Collectability is Probable.* We judge collectability of the arrangement fees on a customer-by-customer basis pursuant to our credit review policy. We typically sell to customers with whom we have a history of successful collection. For a new customer, or when an existing customer substantially expands its commitments, we evaluate the customer's financial position and ability to pay and typically assign a credit limit based on that review. We increase the credit limit only after we have established a successful collection history with the customer. If we determine at any time that collectability is not probable under a particular arrangement based upon our credit review process or the customer's payment history, we recognize revenue under that arrangement as customer payments are actually received.

Valuation of Stock Compensation

Stock compensation expense is measured on the grant date based on the fair value of the award and is recognized as expense over the vesting period in accordance with ASC 718, *Stock Compensation*. We use the Black-Scholes option-pricing model to determine the fair value of stock options and employee stock purchase plan awards. The Black-Scholes option-pricing model incorporates various subjective assumptions including expected volatility, expected term and risk-free interest rates. We estimate the expected volatility by a combination of implied volatility for publicly traded options of our stock with a term of six months or longer and the historical stock price volatility over the estimated expected term of our stock awards. We determine the expected term of our stock awards based on historical experience. In addition, judgment is required in estimating the forfeiture rate on stock awards. We calculate the expected forfeiture rate based on average historical trends. These input factors are subjective and are determined using management's judgment. If a difference arises between the assumptions used in determining stock compensation cost and the actual factors which become known over time, we may change the input factors used in determining future stock compensation costs. Any such changes could materially impact our results of operations in the period in which the changes are made and in periods thereafter.

Valuation of Intangible Assets

We evaluate our intangible assets for indications of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets consist of

purchased technology, contract rights intangibles, customer-relationships, trademarks and trade names, covenants not to compete, capitalized software development and other intangibles. Factors that could trigger an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business or significant negative industry or economic trends. If this evaluation indicates that the value of the intangible asset may be impaired, we make an assessment of the recoverability of the net carrying value of the asset over its remaining useful life. If this assessment indicates that the intangible asset is not recoverable, based on the estimated undiscounted future cash flows of the technology over the remaining useful life, we reduce the net carrying value of the related intangible asset to fair value. Any such impairment charge could be significant and could have a material adverse effect on our reported financial results. We did not record any impairment charges on our intangible assets during fiscal 2011, 2010 or 2009.

Income Taxes

Our tax provisions are calculated using estimates in accordance with ASC 740, *Income Taxes*. Our estimates and assumptions may differ from the actual results as reflected in our income tax returns and we record the required adjustments when they are identified or resolved.

We recognize deferred tax assets and liabilities for the temporary differences between the book and tax bases of assets and liabilities using enacted tax rates in effect for the year in which we expect the differences to reverse, and for tax loss and credit carryovers. We record a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. In evaluating our ability to utilize our deferred tax assets, we consider all available positive and negative evidence, including our past operating results, our forecast of future taxable income on a jurisdiction by jurisdiction basis, as well as feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses. We believe that the net deferred tax assets of approximately \$338.8 million that are recorded on our balance sheet as of October 31, 2011 will ultimately be realized. However, if we determine in the future that it is more likely than not we will not be able to realize a portion or the full amount of deferred tax assets, we would record an adjustment to the deferred tax asset valuation allowance as a charge to earnings in the period such determination is made.

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

The calculation of tax liabilities involves the inherent uncertainty associated with the application of complex tax laws. We are also subject to examination by various taxing authorities. We believe we have adequately provided in our financial statements for potential additional taxes. If we ultimately determine that these amounts are not owed, we would reverse the liability and recognize the tax benefit in the period in which we determine that the liability is no longer necessary. If an ultimate tax assessment exceeds our estimate of tax liabilities, we would record an additional charge to earnings.

Results of Operations

Revenue Background

We generate our revenue from the sale of software licenses, maintenance and professional services and to a small extent, hardware products. Under current accounting rules and policies, we recognize revenue from orders we receive for software licenses, services and hardware products at varying times. In most instances, we recognize revenue on a TSL software license order over the

license term and on a term or perpetual software license order in the quarter in which the license is delivered. Substantially all of our current time-based licenses are TSLs with an average license term of approximately three years. Revenue on contracts requiring significant modification or development is accounted for using the percentage of completion method over the period of the development. Revenue on hardware product orders is generally recognized in full at the time the product is shipped. Contingent revenue is recognized if and when the applicable event occurs.

Revenue on maintenance orders is recognized ratably over the maintenance period (normally one year). Revenue on professional services orders is generally recognized after services are performed and accepted by the customer.

Our revenue in any fiscal quarter is equal to the sum of our time-based license, upfront license, maintenance and professional services and hardware revenue for the period. We derive time-based license revenue in any quarter largely from TSL orders received and delivered in prior quarters and to a smaller extent due to contracts in which revenue is recognized as customer installments become due and payable and from contingent revenue arrangements. We derive upfront license revenue directly from term and perpetual license and hardware product orders mostly booked and shipped during the quarter. We derive maintenance revenue in any quarter largely from maintenance orders received in prior quarters since our maintenance orders generally yield revenue ratably over a term of one year. We also derive professional services revenue primarily from orders received in prior quarters, since we recognize revenue from professional services as those services are delivered and accepted, not when they are booked. Our license revenue is sensitive to the mix of TSLs and perpetual or term licenses delivered during a reporting period. A TSL order typically yields lower current quarter revenue but contributes to revenue in future periods. For example, a \$120,000 order for a three-year TSL delivered on the last day of a quarter typically generates no revenue in that quarter, but \$10,000 in each of the twelve succeeding quarters. Conversely, perpetual and term licenses with greater than 75% of the license fee due within one year from shipment typically generate current quarter revenue but no future revenue (e.g., a \$120,000 order for a perpetual license generates \$120,000 in revenue in the quarter the product is delivered, but no future revenue). Additionally, revenue in a particular quarter may also be impacted by perpetual and term licenses in which less than 75% of the license fees and 100% of the maintenance fees are payable within one year from shipment as the related revenue will be recognized as revenue in the period when customer payments become due and payable.

Our customer arrangements are complex, involving hundreds of products and various license rights, and our customers bargain with us over many aspects of these arrangements. For example, they often demand a broader portfolio of solutions, support and services and seek more favorable terms such as expanded license usage, future purchase rights and other unique rights at an overall lower total cost. No single factor typically drives our customers' buying decisions, and we compete on all fronts to serve customers in a highly competitive EDA market. Customers generally negotiate the total value of the arrangement rather than just unit pricing or volumes.

Total Revenue

Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
2011	2010	2009	2010 to 2011		2009 to 2010	
(dollars in millions)						
\$1,535.6	\$1,380.7	\$1,360.0	\$154.9	11%	\$20.7	2%

Our revenues are subject to fluctuations, primarily due to customer requirements, including payment terms, the timing and value of contract renewals and the sale of products associated with prior-year acquisitions.

The sequential increase in total revenue from fiscal 2009 through fiscal 2011 was due to our overall growth, which was benefited by acquisitions, and the related increase in time-based revenue,

upfront revenue and professional services revenue primarily driven by the timing and value of contract renewals, sales of products and professional services contracts including contracts assumed from our prior-year acquisitions.

Time-Based License Revenue

	Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollars in millions)						
	\$1,260.3	\$1,158.4	\$1,150.5	\$101.9	9%	\$7.9	1%
Percentage of total revenue	82%	84%	85%				

The increase in time-based license revenue for fiscal 2011 compared to fiscal 2010 was primarily attributable to increases in TSL license revenue from arrangements booked in prior periods, higher contingent revenue from royalties and product sales from prior-year acquisitions.

The increase in time-based license revenue for fiscal 2010 compared to fiscal 2009 was primarily due to the increase in contingent revenue from royalties received and recognized in fiscal 2010.

Upfront License Revenue

	Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
	2011	2010	2009	2010 to 2011		2009 to 2010	
				(dollars in millions)			
	\$90.5	\$68.6	\$57.5	\$21.9	32%	\$11.1	19%
Percentage of total revenue	6%	5%	4%				

Changes in upfront license revenue are generally attributable to normal fluctuations in customer requirements which can drive the amount of upfront orders and revenue in any particular period.

The increase in upfront license revenue for fiscal 2011 compared to fiscal 2010 was primarily attributable to the increase in sales of our hardware products, perpetual licenses and products associated with prior-year acquisitions.

The increase in upfront license revenue for fiscal 2010 compared to fiscal 2009 was primarily attributable to higher customer demand in hardware and IP perpetual license requirements.

Maintenance and Service Revenue

	Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollars in millions)						
Maintenance revenue	\$ 77.6	\$ 78.1	\$ 85.3	\$ (0.5)	(1)%	\$(7.2)	(8)%
Professional service and other revenue	107.2	75.5	66.7	31.7	42%	8.8	13%
Total	<u>\$184.8</u>	<u>\$153.6</u>	<u>\$152.0</u>	<u>\$31.2</u>	20%	<u>\$ 1.6</u>	1%
Percentage of total revenue	12%	11%	11%				

Changes in maintenance revenue are generally attributable to the timing of renewals and the type of contracts renewed on maintenance contracts. Maintenance revenue was relatively flat for fiscal 2011 compared to fiscal 2010 and decreased in fiscal 2010 compared to fiscal 2009.

Professional services and other revenue increased substantially in fiscal 2011 compared to fiscal 2010, primarily due to professional services contracts assumed from prior acquisitions.

Professional services and other revenue increased in fiscal 2010 compared to fiscal 2009, primarily due to an increase in recognition of professional services from customer contracts acquired through acquisition offset by a decrease in consulting contracts completed in fiscal 2010.

Cost of Revenue and Operating Expenses

	Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollars in millions)						
Cost of revenue	\$ 340.5	\$ 281.1	\$ 273.7	\$ 59.4	21%	\$ 7.4	3%
Operating expenses	982.4	915.5	878.1	66.9	7%	37.4	4%
Total	<u>\$1,322.9</u>	<u>\$1,196.6</u>	<u>\$1,151.8</u>	<u>\$126.3</u>	11%	<u>\$44.8</u>	4%
Total expenses as a percentage of total revenue	86%	87%	85%				

Our expenses are generally impacted by changes in employee related costs including salaries, benefits, stock compensation and variable compensation, changes in amortization and changes in selling and marketing expenses. The increase in our expenses compared to prior fiscal years was primarily due to an increase in employee related costs driven by increased headcount from our acquisitions and due to an increase in commission expense driven by higher shipments. Furthermore, beginning in fiscal 2010, acquisition-related costs such as severance, contract terminations, professional service fees and other directly related costs are expensed in the period in which they are incurred as required by revised accounting standards. Prior to fiscal 2010, such costs were recorded as purchase consideration.

We allocate certain human resource programs, information technology and facility expenses among our functional income statement categories based on headcount within each functional area. Annually, or upon a significant change in headcount (such as a workforce reduction, realignment or acquisition) or other factors, management reviews the allocation methodology and expenses included in the allocation pool. Consequently, fluctuations in these drivers impact the amounts allocated to each functional area.

Foreign currency fluctuations, net of hedging, did not have a significant impact on expenses during fiscal 2011 as compared to fiscal 2010 or fiscal 2010 as compared to fiscal 2009. See Note 5 of *Notes to Consolidated Financial Statements* for details on our foreign exchange hedging programs.

Cost of Revenue

	Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollars in millions)						
Cost of license revenue	\$205.5	\$180.2	\$175.6	\$25.3	14%	\$ 4.6	3%
Cost of maintenance and service revenue	80.2	64.8	65.4	15.4	24%	(0.6)	(1)%
Amortization of intangible assets	54.8	36.1	32.7	18.7	52%	3.4	10%
Total	<u>\$340.5</u>	<u>\$281.1</u>	<u>\$273.7</u>	<u>\$59.4</u>	21%	<u>\$ 7.4</u>	3%
Percentage of total revenue	22%	20%	20%				

We divide cost of revenue into three categories: cost of license revenue, cost of maintenance and service revenue, and amortization of intangible assets. We segregate expenses directly associated with consulting and training services from cost of license revenue associated with internal functions

providing license delivery and post-customer contract support services. We then allocate these group costs between cost of license revenue and cost of maintenance and service revenue based on license and maintenance and service revenue reported.

Cost of license revenue. Cost of license revenue includes costs related to products sold and software licensed, allocated operating costs related to product support and distribution costs, royalties paid to third party vendors, and the amortization of capitalized research and development costs associated with software products which have reached technological feasibility.

Cost of maintenance and service revenue. Cost of maintenance and service revenue includes operating costs related to maintaining the infrastructure necessary to provide our professional consulting services, and costs associated with the delivery of services, such as production and customization services, hotline and on-site support, and documentation of maintenance updates.

Amortization of intangible assets. Intangible assets are amortized to cost of revenue and operating expenses, and include the contract rights associated with certain contracts and core/developed technology, trademarks, trade names, customer relationships, covenants not to compete and other intangibles related to acquisitions.

Cost of revenue as a percentage of total revenue increased in fiscal 2011 compared to fiscal 2010 primarily due to the increase in professional service revenue. The increase in cost of revenue in fiscal 2011 compared to fiscal 2010 was primarily due to an increase in \$16.9 million in personnel-related costs as a result of headcount increases from our prior-year acquisitions, an increase of \$18.9 million in costs to provide maintenance and professional services, an increase of \$2.3 million in hardware and license costs, and an increase of \$18.7 million for amortization of intangible assets due to our prior-year acquisitions.

Cost of revenue as a percentage of total revenue was 20% for fiscal years 2010 and 2009. The increase in cost of revenue in fiscal 2010 compared to fiscal 2009 was primarily due to an increase of \$3.4 million in intangibles amortization primarily as a result of our recent acquisitions, an increase of \$1.1 million in travel related costs, an increase of \$1.1 million in other direct costs and an increase of \$1.6 million in functionally allocated expenses as previously described.

Operating Expenses

Research and Development

	Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollars in millions)						
Percentage of total revenue	\$491.9	\$449.2	\$419.9	\$42.7	10%	\$29.3	7%
	32%	33%	31%				

The increase in research and development expense in fiscal 2011 compared to fiscal 2010 was primarily due to an increase of \$31.8 million in personnel-related costs and an increase of \$11.9 million in functionally allocated expenses as a result of headcount increases from our prior-year acquisitions.

The increase in research and development expense in fiscal 2010 compared to fiscal 2009 was primarily due to an increase of \$7.9 million in personnel related costs as a result of headcount increases primarily from our acquisitions, \$7.8 million in acquisition-related costs, an increase of \$2.4 million in stock compensation expense, an increase of \$3.9 million in other research and development expenses, and an increase of \$8.6 million in functionally allocated expenses as previously described. This increase was partially offset by a decrease of \$1.4 million in depreciation expense.

Sales and Marketing

	Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollars in millions)						
	\$363.1	\$339.8	\$324.1	\$23.3	7%	\$15.7	5%
Percentage of total revenue	24%	25%	24%				

Changes in commissions and other variable compensation are generally attributable to the volume of contracts and timing of shipments based on contract requirements.

The increase in sales and marketing expense for fiscal 2011 compared with fiscal 2010 was primarily attributable to an increase of \$10.6 million in commissions and other variable compensation, an increase of \$9.6 million in other employee-related costs due to an increase in headcount from prior-year acquisitions, and an increase of \$2.7 million in travel-related costs.

The increase in sales and marketing expense for fiscal 2010 compared with fiscal 2009 was primarily attributable to an increase of \$18.9 million in commissions, other variable compensation and employee related costs, an increase of \$3.4 million in acquisition-related costs and an increase of \$1.1 million in travel related costs. The increase in commissions and other variable compensation was primarily driven by higher shipments during fiscal 2010 as compared to fiscal 2009. The increase was partially offset by a decrease of \$8.0 million of other sales and marketing expense, including consulting, marketing and communications.

General and Administrative

	Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
	2011	2010	2009	2010 to 2011		2009 to 2010	
				(dollars in millions)			
	\$112.8	\$114.9	\$119.1	\$(2.1)	(2)%	\$(4.2)	(4)%
Percentage of total revenue	7%	8%	9%				

The decrease in general and administrative expense for fiscal 2011 compared with fiscal 2010 was primarily due to a decrease of \$13.8 million resulting from higher allocation of expenses to other functional areas because of increased headcount. This decrease was partially offset by an increase of \$3.3 million in personnel-related costs, \$6.1 million in facility expenses and \$2.9 million in other general and administrative expenses primarily as a result of our prior-year acquisitions.

The decrease in general and administrative expense for fiscal 2010 compared with fiscal 2009 was primarily due to a reduction of \$3.4 million in bad debt expense based on our review of customer receivables, a decrease of \$7.9 million resulting from higher allocation of expenses to other functional areas as previously described, and a decrease in expense due to a \$4.5 million restructuring charge related to a facility closure recorded in fiscal 2009. These decreases were offset by an increase of \$9.3 million in acquisition-related costs and an increase of \$3.0 million in facilities expense primarily due to our acquisitions.

Change in Fair Value of Deferred Compensation

The income or loss arising from the change in fair value of the non-qualified deferred compensation plan obligation is recorded in cost of sales and each functional operating expense, with the offsetting change in the fair value of the related assets recorded in other income (expense), net. These assets are classified as trading securities. The overall net impact to our consolidated statements of operations from the income or loss of our deferred compensation plan obligation and asset is immaterial for all periods presented.

Acquired In-Process Research and Development

In-process research and development (IPR&D) costs relate to in-process technologies acquired in acquisitions. The value assigned to IPR&D is determined by considering the importance of each project to our overall development plan, estimating costs to develop the IPR&D into commercially viable products, estimating the resulting net cash flows from such projects when completed and discounting the net cash flows back to their present value. The utilized discount rate is our weighted average cost of capital, taking into account the inherent uncertainties in future revenue estimates and the profitability of such technology, the successful development of the IPR&D, its useful life and the uncertainty of technological advances, all of which are unknown at the time of determination.

Effective for fiscal 2010, upon adoption of accounting guidance, ASC 805, *Business Combinations*, acquired IPR&D were capitalized at fair value as an intangible asset with an indefinite life and is assessed for impairment in subsequent periods. Upon completion of development, the underlying intangible asset is amortized over its estimated useful life and recorded in cost of revenue. Prior to the adoption, IPR&D was expensed upon acquisition if it had no alternative future use. IPR&D expense was \$2.2 million for fiscal 2009. IPR&D projects acquired in fiscal 2010 are anticipated to be completed over a period of one to three years from the date of the acquisition. IPR&D projects of \$14.1 million were completed during fiscal 2011. See Note 3 and Note 4 of *Notes to Consolidated Financial Statements*.

Amortization of Intangible Assets

Amortization of intangible assets includes the amortization of the contract rights associated with certain executory contracts and the amortization of core/developed technology, trademarks, trade names, customer relationships, covenants not to compete, and other intangibles related to acquisitions completed in current and prior years. Amortization expense is included in the consolidated statements of operations as follows:

	Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
	2011	2010	2009	2010 to 2011		2009 to 2010	
				(dollars in millions)			
Included in cost of revenue	\$54.8	\$36.1	\$32.7	\$18.7	52%	\$ 3.4	10%
Included in operating expenses	14.6	11.6	12.8	3.0	26%	(1.2)	(9)%
Total	<u>\$69.4</u>	<u>\$47.7</u>	<u>\$45.5</u>	<u>\$21.7</u>	45%	<u>\$ 2.2</u>	5%
Percentage of total revenue	5%	3%	3%				

Amortization of capitalized software development costs is not presented in the above table as it is included in cost of license revenue in the consolidated statements of operations.

The increase in amortization of intangible assets for fiscal 2011 as compared to fiscal 2010 was primarily due to a full year's amortization of intangible assets acquired from our prior-year acquisitions offset by certain other intangible assets acquired in prior years becoming fully amortized.

The increase in amortization of intangible assets for fiscal 2010 as compared to fiscal 2009 was primarily due to addition of intangible assets from our acquisitions in fiscal 2010 offset by certain other intangible assets acquired in prior years becoming fully amortized.

See Note 4 of *Notes to Consolidated Financial Statements* for a schedule of future amortization amounts which information is included herein.

Impairment of Intangible Assets. We did not record any impairment charges to the intangible assets during fiscal 2011, 2010, or 2009.

Other Income (Expense), Net

	Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollars in millions)						
Interest income	\$ 2.1	\$ 5.4	\$10.8	\$(3.3)	(61)%	\$ (5.4)	(50)%
(Loss) gain on investments	\$(0.0)	\$ 3.8	(6.4)	(3.8)	(100)%	10.2	(159)%
Gain (loss) on assets related to executive deferred compensation plan	2.4	8.8	10.0	(6.4)	(73)%	(1.2)	(12)%
Foreign currency exchange gain (loss)	1.7	(1.5)	7.1	3.2	(213)%	(8.6)	(121)%
Other, net	0.1	(2.0)	3.3	2.1	(105)%	(5.3)	(161)%
Total	\$ 6.3	\$14.5	\$24.8	\$(8.2)	(57)%	\$(10.3)	(42)%

The net decrease in other income (expense) in fiscal 2011 as compared to fiscal 2010 was primarily due to a decrease in gain on assets related to our deferred compensation plan, a decrease in gains on sale of investments and lower interest rates. This decrease was partially offset by foreign exchange fluctuations.

The net decrease in other income (expense) in fiscal 2010 as compared to fiscal 2009 was primarily due to foreign exchange fluctuations, and lower interest rates. This decrease was partially offset by an increase from gains on sales of investments.

Income Taxes

Our effective tax rates for fiscal 2011 and 2010 include one-time tax benefits of settlements with the IRS of \$32.8 million (for fiscal years 2006 through 2009) in fiscal 2011 and \$94.3 million (for fiscal years 2002 through 2004) in fiscal 2010. The effect of this change was partly offset by the benefit of the extension of the federal research credit in fiscal 2011, which resulted in an additional tax credit for ten months of fiscal 2010 as well as a full year credit for fiscal 2011, compared to only two months in fiscal 2010. Without the impact of the IRS settlements, the effective tax rate for fiscal 2011 and 2010 would have been 13.9% and 28.2%, respectively. For further discussion of the provision for income taxes and the IRS settlement, see Note 10 of the *Notes to Condensed Consolidated Financial Statements*.

Liquidity and Capital Resources

Our sources of cash, cash equivalents and short-term investments are funds generated from our business operations and funds that may be drawn down under our credit facility.

As of October 31, 2011, we held an aggregate of \$230.0 million in cash, cash equivalents and short-term investments in the United States and an aggregate of \$774.1 million in our foreign subsidiaries. Funds held in our foreign subsidiaries are generated from revenue outside North America. At present, such foreign funds are considered to be indefinitely reinvested in foreign countries to the extent of indefinitely reinvested foreign earnings. However, in the event funds from foreign operations are needed to fund cash needs in the United States and if U.S. taxes have not already been previously accrued, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

The following sections discuss changes in our balance sheet and cash flows, and other commitments on our liquidity and capital resources during fiscal 2011.

Cash and cash equivalents and short-term investments

	Year Ended October 31,		\$ Change	% Change
	2011	2010		
	(dollars in millions)			
Cash and cash equivalents	\$ 855.1	\$775.4	\$ 79.7	10%
Short-term investments	149.0	163.2	(14.2)	(9)%
Total	<u>\$1,004.1</u>	<u>\$938.6</u>	<u>\$ 65.5</u>	7%

We generated strong cash flows from operating activities during fiscal 2011. Our cash generated from operating activities was \$440.3 million in fiscal 2011.

Other cash activities were (1) share repurchases of \$401.8 million and an equity forward contract purchased of \$33.3 million partially offset by proceeds from issuances of common stock of \$162.2 million, (2) purchases of property and equipment of \$57.3 million, (3) payments for acquisitions, net of cash acquired, of \$41.0 million, and (4) net proceeds from sales and purchases of short-term investments of \$9.6 million.

Cash flows

	Year Ended October 31,			\$ Change	% Change	\$ Change	% Change
	2011	2010	2009				
	(dollars in millions)			2010 to 2011		2009 to 2010	
Cash provided by operating activities	\$ 440.3	\$ 341.0	\$ 239.2	\$ 99.3	29%	\$ 101.8	43%
Cash used in investing activities	(88.8)	(238.7)	(191.9)	149.9	(63)%	(46.8)	(24)%
Cash (used in) provided by financing activities	(277.6)	(43.1)	69.5	(234.5)	544%	(112.6)	(162)%

Cash provided by operating activities

We expect cash from our operating activities to fluctuate in future periods as a result of a number of factors, including the timing of our billings and collections, our operating results, the timing and amount of tax and other liability payments. Cash provided by our operations is dependent primarily upon the payment terms of our license agreements. We generally receive cash from upfront license revenue much sooner than from time-based license revenue. In contrast, payment terms for TSLs are generally extended and the license fee is typically paid either quarterly or annually over the term of the license.

Fiscal 2010 to fiscal 2011. Cash from operating activities increased due to fluctuations in operating assets and liabilities primarily resulting from increased accounts receivable collections due to timing of billings, offset partly by higher payments due to disbursements to vendors, higher variable compensation costs and higher personnel related costs due to increased headcount, as well as increased tax payments.

Fiscal 2009 to fiscal 2010. Cash from operating activities increased primarily as a result of increased cash received from customers due to timing of billings, lower bonuses, commissions, vendor payments and lower income tax payments due to an IRS settlement compared to fiscal 2009. See Note 10 of *Notes to Consolidated Financial Statements*.

Cash used in investing activities

Fiscal 2010 to fiscal 2011. The decrease in cash used primarily relates to lower cash payments for acquisitions in 2011 offset by lower net proceeds from sales and maturities of short-term investments and higher property and equipment purchases. See Note 3 of *Notes to Consolidated Financial Statements*.

Fiscal 2009 to fiscal 2010. The increase in cash used primarily relates to the increase in acquisition activities during fiscal 2010 offset by the increase in net proceeds from sale and maturities of short-term investments. See Note 3 of *Notes to Consolidated Financial Statements*.

Cash (used in) provided by financing activities

Fiscal 2010 to fiscal 2011. The increase in cash used relates to common stock repurchases under our stock repurchase program and accelerated stock repurchase (ASR) program, including cash paid for an equity forward contract as part of the ASR program, partially offset by higher proceeds from issuances of common stock.

Fiscal 2009 to fiscal 2010. The increase in cash used primarily related to the common stock repurchases resumed in fiscal 2010 offset by an increase in the number of options exercised by employees compared to fiscal 2009.

Accounts Receivable, net

Year Ended October 31,		\$ Change	% Change
2011	2010		
(dollars in millions)			
\$203.1	\$181.1	\$22.0	12%

Our accounts receivable and days sales outstanding (DSO) are primarily driven by our billing and collections activities. Our DSO was 47 days at October 31, 2011 and 44 days at October 31, 2010. DSO remained relatively flat primarily due to the high quality of our accounts receivable portfolio.

Working Capital. Working capital is comprised of current assets less current liabilities, as shown on our consolidated balance sheets:

	Year Ended October 31,		\$ Change	% Change
	2011	2010		
	(dollars in millions)			
Current assets	\$1,338.1	\$1,247.8	\$90.3	7%
Current liabilities	1,008.8	921.8	87.0	9%
Working capital	\$ 329.3	\$ 326.0	\$ 3.3	1%

The primary drivers of changes in our working capital were: (1) a \$103.0 million increase in deferred revenue due to timing of our billings and (2) a \$14.9 million decrease in deferred tax asset balances based on normal provision calculation and completion of IRS audits. The decrease in working capital was partially offset by (1) a \$65.5 million increase in cash, cash equivalents and short-term investments, as explained above, (2) a \$22.0 million increase in accounts receivable, net of allowances, as explained above, (3) a \$12.4 million decrease in income taxes payable, net of income taxes receivable, based on normal provision calculation and completion of IRS audits, and (4) a \$21.3 million increase attributable to movements in other current assets, accounts payable and accrued liabilities balances, primarily related to movements in foreign exchange contract fair values, timing of payments of annual maintenance contracts and timing of payments made to vendors in the normal course of business.

Other

Our cash equivalent and short-term investment portfolio as of October 31, 2011, consists of investment grade municipal securities, tax-exempt money market mutual funds and taxable money market mutual funds. We follow an established investment policy and set of guidelines to monitor, manage and limit our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer. As of October 31, 2011, we had no direct holdings in structured investment vehicles, sub-prime mortgage-backed securities or collateralized debt obligations and no exposure to these financial instruments through our indirect holdings in money market mutual funds. During fiscal years 2011, 2010 and 2009 we had no impairment charge associated with our short-term investment portfolio. While we cannot predict future market conditions or market liquidity, we regularly review our investments and associated risk profiles, which we believe will allow us to effectively manage the risks of our investment portfolio.

As a result of the challenging conditions in the financial markets, we proactively manage our cash and cash equivalents and investments balances and closely monitor our capital and stock repurchase expenditures to ensure ample liquidity. Additionally, we believe the overall credit quality of our portfolio is strong, with our global excess cash, and our cash equivalents and fixed income portfolio invested in banks and securities with a weighted-average credit rating exceeding AA. After the recent downgrade of the U.S. long-term sovereign credit rating by Standard & Poor's, our portfolio maintained its weighted average credit rating above AA. The majority of our investments are classified as Level 1 or Level 2 investments, as measured under fair value guidance. See Note 5 and 6 of the *Notes to the Consolidated Financial Statements*.

Other Commitments

Credit Facility. On October 14, 2011, we entered into a five-year, \$350.0 million senior unsecured revolving credit facility providing for loans to us and our foreign subsidiaries. The facility replaces our previous \$300.0 million senior unsecured facility, which was terminated effective October 14, 2011. The amount of the facility may be increased by up to an additional \$150.0 million through the fourth year of the facility. The facility contains financial covenants requiring us to operate within a maximum leverage ratio and specified levels of cash, as well as other non-financial covenants. The facility terminates on October 14, 2016. Borrowings under the facility bear interest at a floating rate based on a margin over our choice of base rates as described in the credit facility. In addition, commitment fees are payable on the facility at rates between 0.150% and 0.300% per year based on a pricing grid tied to a financial covenant. As of October 31, 2011, we had no outstanding borrowings under this credit facility and were in compliance with all covenants.

Pending Acquisition of Magma Design Automation. On November 30, 2011, we entered into a definitive agreement pursuant to which we, through our wholly owned subsidiary, have agreed to acquire 100% of the outstanding common stock of Magma in exchange for cash. The consummation of the acquisition is subject to certain conditions, including approval by Magma's stockholders and regulatory approvals. Subject to the receipt of all required approvals, it is currently anticipated that the closing of the acquisition will occur around the end of the second calendar quarter of 2012. We have agreed to pay \$7.35 per share for each outstanding share of Magma common stock for a total of approximately \$507 million net of cash and debt acquired. In addition, we have agreed to assume certain unvested equity awards of Magma in exchange for equity awards of Synopsys. We expect to fund the acquisition using a combination of cash and debt. We may need to incur additional debt separate from the credit facility described above.

We believe that our current cash, cash equivalents, short-term investments, and cash generated from operations will satisfy our routine business requirements for at least the next twelve months.

Contractual Obligations

The following table summarizes our contractual obligations as of October 31, 2011.

	Total	Fiscal 2012	Fiscal 2013/ Fiscal 2014 (in thousands)	Fiscal 2015/ Fiscal 2016	Thereafter	Other
Short-Term Obligations(1)	\$ 2,850	\$ 575	\$ 1,150	\$ 1,125	\$ —	\$ —
Lease Obligations:						
Capital Lease	4,131	3,331	800	—	—	—
Operating Leases(2)	467,133	45,136	66,390	45,946	309,661	—
Purchase Obligations(3)	46,697	38,014	8,683	—	—	—
Long term accrued income taxes(4)	92,940	—	—	—	—	\$92,940
Total	<u>\$613,751</u>	<u>\$87,056</u>	<u>\$77,023</u>	<u>\$47,071</u>	<u>\$309,661</u>	<u>\$92,940</u>

- (1) This commitment relates to the fees associated with the revolving credit facility as discussed in *Other Commitments* above.
- (2) In October 2011, we agreed to lease two office buildings to be constructed in Mountain View, California. Once construction is complete, the buildings together will provide approximately 341,000 square feet. The buildings may be enlarged up to a total size of approximately 440,000 square feet by mutual agreement of Synopsys and the lessor. The lease of such premises begins upon the later of March 1, 2015 or six months after construction is substantially completed and expires approximately 15 years thereafter and can be extended for an additional 19 years after such initial expiration. We may terminate the lease by exercising a separate option to purchase the property (i) at any time prior to January 13, 2012 or (ii) if the lessor fails to obtain financing. We may also terminate the lease if, under certain circumstances, the lessor fails to commence construction by June 1, 2013 or substantially complete construction of the buildings by March 1, 2015. Additional information is provided in Note 7 of *Notes to Consolidated Financial Statements*.
- (3) Purchase obligations represent an estimate of all open purchase orders and contractual obligations in the ordinary course of business for which we have not received the goods or services as of October 31, 2011. Although open purchase orders are considered enforceable and legally binding, the terms generally allow us the option to cancel, reschedule and adjust our requirements based on our business needs prior to the delivery of goods or performance of services.
- (4) Long term accrued income taxes represent uncertain tax benefits as of October 31, 2011. Currently, a reasonably reliable estimate of timing of payments in individual years beyond fiscal 2011 cannot be made due to uncertainties in timing of the commencement and settlement of potential tax audits.

In connection with acquisitions completed prior to October 31, 2011, we may be obligated to pay up to an aggregate of \$2.1 million during fiscal 2012 and \$2.2 million during fiscal 2013 if certain performance and milestone goals are achieved. Because these commitments are contingent on certain performance and milestone goals, these amounts are not reflected in the table above.

The expected timing of payments of the obligations discussed above is estimated based on current information. Timing of payment and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations. Amounts disclosed as contingent or milestone based obligations depend on the achievement of the milestones or the occurrence of the contingent events and can vary significantly.

Off-Balance Sheet Arrangements

As of October 31, 2011, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Effect of New Accounting Pronouncements

For a description of the effect of new accounting pronouncements on Synopsys, see Note 13 of *Notes to Consolidated Financial Statements* which information is included herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our short-term investment portfolio. The primary objective of our investment activities is to preserve the principal while at the same time maximizing yields without significantly increasing the risk. To achieve this objective, we maintain our portfolio of cash equivalents and investments in a mix of tax-exempt and taxable instruments that meet high credit quality standards, as specified in our investment policy. None of these investments are held for trading purposes. Our policy also limits the amount of credit exposure to any one issue, issuer and type of instrument.

The following table presents the carrying value and related weighted average total return for our investment portfolio as of October 31, 2011:

	Carrying Value (in thousands)	Weighted Average Total Return
Money market funds (U.S.)	\$ 55,267	0.020%
Cash deposits and money market funds (International)	649,812	0.196%
Short-term investments (U.S.)	148,997	0.109%
Total interest bearing instruments	<u>\$854,076</u>	0.170%

As of October 31, 2011, the stated maturities of our short-term investments are:

	Fair Value (in thousands)
Due in 1 year or less	\$ 89,791
Due in 1–5 years	28,413
Due in 6–10 years	11,409
Due after 10 years	19,384
Total	<u>\$ 148,997</u>

Actual maturities may differ from the stated maturities because borrowers may have the right to call or prepay certain obligations. These investments are classified as available-for-sale and are recorded on the balance sheet at fair market value with unrealized gains or losses, net of tax, reported as a component of accumulated other comprehensive income (loss), or OCI. The cost of securities sold is based on the specific identification method and realized gains and losses are included in other income (expense), net. Realized gains and losses on sales of short-term investments have not been material in any period presented. The following tables present the amounts of our cash equivalents and investments that are subject to interest rate risk by fiscal year of expected maturity and average interest rates:

As of October 31, 2011:

	Year Ended October 31,				
	2012	2013	2014	Total	Fair Value
	(in thousands)				
Cash equivalents (variable rate)	\$705,079	\$ —	\$ —	\$705,079	\$705,079
Average interest rate	0.18%	— %	— %		
Short-term investments (variable rate)	\$ 6,885	\$ —	\$ —	\$ 6,885	\$ 6,885
Average interest rate	0.14%	%	— %		
Short-term investments (fixed rate)	\$111,217	\$23,789	\$7,106	\$142,112	\$142,112
Average interest rate	0.74%	0.81%	0.72%		

As of October 31, 2010:

	Year Ended October 31,				
	2011	2012	2013	Total	Fair Value
			(in thousands)		
Cash equivalents (variable rate)	\$729,720	\$ —	\$ —	\$729,720	\$729,720
Average interest rate	0.27%	— %	— %		
Short-term investments (variable rate)	\$ 20,132	\$ —	\$ —	\$ 20,132	\$ 20,132
Average interest rate	0.28%	%	— %		
Short-term investments (fixed rate)	\$ 69,691	\$61,775	\$11,556	\$143,022	\$143,022
Average interest rate	1.06%	1.05%	1.16%		

Foreign Currency Risk. We operate internationally and are exposed to potentially adverse movements in currency exchange rates. The functional currency of each of our active foreign subsidiaries is the foreign subsidiary's local currency, except for our principal Irish, Hungarian, and Swiss subsidiaries, whose functional currencies are the U.S. dollar. We enter into hedges in the form of foreign currency forward contracts to reduce our exposure to foreign currency rate changes on non-functional currency denominated forecasted transactions and balance sheet positions including: (1) certain assets and liabilities, (2) shipments forecasted to occur within approximately one month, (3) future billings and revenue on previously shipped orders, and (4) certain future intercompany invoices denominated in foreign currencies. The foreign currency contracts are carried at fair value and denominated in various currencies as listed in the tables below. The duration of forward contracts usually ranges from one month to 21 months. A description of our accounting for foreign currency contracts is included in Note 2 and Note 5 of *Notes to Consolidated Financial Statements*.

The success of our hedging activities depends upon the accuracy of our estimates of various balances and transactions denominated in non-functional currencies. To the extent our estimates are correct, gains and losses on our foreign currency contracts will be offset by corresponding losses and gains on the underlying transactions. For example, if the Euro were to depreciate by 10% compared to the U.S. dollar prior to the settlement of the Euro forward contracts listed in the table below providing information as of October 31, 2011, the fair value of the contracts would decrease by approximately \$12.0 million, and we would be required to pay approximately \$12.0 million to the counterparty upon contract maturity. At the same time, the U.S. dollar value of our Euro-based expenses would decline, resulting in a gain and positive cash flow of approximately \$12.0 million that would offset the loss and negative cash flow on the maturing forward contracts.

Net unrealized loss of approximately \$12.8 million and \$6.4 million, net of tax are included in accumulated other comprehensive income (loss) in our consolidated balance sheets as of October 31, 2011 and October 31, 2010, respectively.

If estimates of our balances and transactions prove inaccurate, we will not be completely hedged, and we will record a gain or loss, depending upon the nature and extent of such inaccuracy.

We do not use foreign currency forward contracts for speculative or trading purposes. We enter into foreign exchange forward contracts with financial institutions and have not experienced nonperformance by counterparties. Further, we anticipate performance by all counterparties to such agreements.

The following table provides information about the gross notional values of our foreign currency contracts as of October 31, 2011:

	Gross Notional Amount in U.S. Dollars	Average Contract Rate
	(in thousands)	
Forward Contract Values:		
Japanese yen	\$204,536	78.52
Euro	120,268	0.722
Indian rupee	52,092	47.628
Chinese renminbi	49,743	6.391
Canadian dollar	42,956	0.998
Taiwan dollar	34,895	28.75
British pound sterling	22,994	0.629
Israeli shekel	16,133	3.504
Armenian dram	12,754	355.04
Swiss franc	10,249	0.815
Korean Won	9,672	1,079.92
Swedish krona	7,409	6.52
Hungarian forint	5,536	212.32
Singapore dollar	5,002	1.22
Australian dollar	2,729	0.956
Russian ruble	2,210	28.365
Polish zloty	666	3.173
	<u>\$599,844</u>	

The following table provides information about the gross notional values of our foreign currency contracts as of October 31, 2010:

	Gross Notional Amount in U.S. Dollars	Average Contract Rate
	(in thousands)	
Forward Contract Values:		
Japanese yen	\$351,133	83.33
Euro	116,833	0.732
Indian rupee	39,899	46.25
Canadian dollar	38,666	1.03
Chinese renminbi	36,592	6.61
Taiwan dollar	28,008	30.73
British pound sterling	15,681	0.640
Armenian dram	14,150	351.20
Israeli shekel	13,357	3.63
Swiss franc	8,841	0.969
Swedish krona	7,422	6.65
Korean won	7,252	1,132.39
Hungarian forint	5,441	196.42
Singapore dollar	4,027	1.31
Australian dollar	3,084	1.04
Polish zloty	957	2.82
	<u>\$691,343</u>	

Equity Risk. Our strategic investment portfolio consists of approximately \$4.0 million and \$7.4 million of minority equity investments in privately held companies as of October 31, 2011 and October 31, 2010, respectively. The cost basis of securities sold is based on the specific identification method. The securities of privately held companies are reported at the lower of cost or fair value. During fiscal 2011 and 2010, we wrote down the value of our strategic investment portfolio by \$1.0 million and \$0.3 million, respectively. None of our investments in our strategic investment portfolio are held for trading purposes.

Selected Unaudited Quarterly Financial Data

The table below includes certain unaudited financial information for the last four fiscal quarters. Refer to Note 2 of *Notes to Consolidated Financial Statements* for information on the Company's fiscal year end.

	Quarter Ended			
	January 31,	April 30,	July 31,	October 31,
	(in thousands, except per share data)			
2011:				
Revenue	\$364,644	\$393,670	\$386,795	\$390,534
Gross margin	280,339	307,642	302,063	305,149
Income before provision for income taxes	52,332	57,259	55,967	53,555
Net income	48,226	81,114	52,082	39,942
Net income per share				
Basic	\$ 0.32	\$ 0.55	\$ 0.36	\$ 0.28
Diluted	0.31	0.53	0.35	0.27
2010:				
Revenue	\$330,167	\$338,106	\$336,929	\$375,459
Gross margin	264,586	269,079	270,186	295,716
Income before provision for income taxes	57,342	53,873	47,747	39,696
Net income	132,786	39,549	39,327	25,401
Net income per share				
Basic	\$ 0.90	\$ 0.27	\$ 0.27	\$ 0.17
Diluted	0.88	0.26	0.26	0.17

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Synopsis, Inc.:

We have audited the accompanying consolidated balance sheets of Synopsis, Inc. and subsidiaries (the Company) as of October 29, 2011 and October 30, 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended October 29, 2011. We also have audited Synopsis, Inc.'s internal control over financial reporting as of October 29, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Synopsis, Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under item 9A(b). Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately, and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Synopsis, Inc. and subsidiaries as of October 29, 2011 and October 30, 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended October 29, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, Synopsis, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 29, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As described in note 3, the Company changed its method of accounting for business combinations in fiscal 2010.

/s/ KPMG LLP

Santa Clara, California
December 15, 2011

SYNOPSYS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value amounts)

	October 31,	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 855,077	\$ 775,407
Short-term investments	148,997	163,154
Total cash, cash equivalents and short-term investments	1,004,074	938,561
Accounts receivable, net of allowances of \$2,489 and \$2,727, respectively	203,124	181,102
Deferred income taxes	58,536	73,465
Income taxes receivable	25,545	18,425
Prepaid and other current assets	46,776	36,202
Total current assets	1,338,055	1,247,755
Property and equipment, net	159,517	148,580
Goodwill	1,289,286	1,265,843
Intangible assets, net	196,031	249,656
Long-term deferred income taxes	281,056	268,759
Other long-term assets	103,389	105,948
Total assets	<u>\$3,367,334</u>	<u>\$3,286,541</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 302,176	\$ 312,850
Accrued income taxes	3,079	8,349
Deferred revenue	703,555	600,569
Total current liabilities	1,008,810	921,768
Long term accrued income taxes	92,940	128,603
Other long-term liabilities	108,076	101,885
Long-term deferred revenue	56,208	34,103
Total liabilities	1,266,034	1,186,359
Stockholders' equity:		
Preferred Stock, \$0.01 par value: 2,000 shares authorized; none outstanding	—	—
Common Stock, \$0.01 par value: 400,000 shares authorized; 143,308 and 148,479 shares outstanding, respectively	1,433	1,485
Capital in excess of par value	1,521,327	1,541,383
Retained earnings	957,517	770,674
Treasury stock, at cost: 13,956 and 8,786 shares, respectively	(358,032)	(197,586)
Accumulated other comprehensive income (loss)	(20,945)	(15,774)
Total stockholders' equity	2,101,300	2,100,182
Total liabilities and stockholders' equity	<u>\$3,367,334</u>	<u>\$3,286,541</u>

See accompanying notes to consolidated financial statements.

SYNOPSYS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended October 31,		
	2011	2010	2009
Revenue:			
Time-based license	\$1,260,342	\$1,158,418	\$1,150,473
Upfront license	90,531	68,618	57,551
Maintenance and service	184,770	153,625	152,021
Total revenue	1,535,643	1,380,661	1,360,045
Cost of revenue:			
License	205,390	180,245	175,620
Maintenance and service	80,241	64,746	65,368
Amortization of intangible assets	54,819	36,103	32,662
Total cost of revenue	340,450	281,094	273,650
Gross margin	1,195,193	1,099,567	1,086,395
Operating expenses:			
Research and development	491,871	449,229	419,908
Sales and marketing	363,118	339,759	324,124
General and administrative	112,760	114,887	119,100
In-process research and development	—	—	2,200
Amortization of intangible assets	14,601	11,582	12,812
Total operating expenses	982,350	915,457	878,144
Operating income	212,843	184,110	208,251
Other income (expense), net	6,270	14,548	24,819
Income before provision for income taxes	219,113	198,658	233,070
Provision (benefit) for income taxes	(2,251)	(38,405)	65,389
Net income	\$ 221,364	\$ 237,063	\$ 167,681
Net income per share:			
Basic	\$ 1.51	\$ 1.60	\$ 1.17
Diluted	\$ 1.47	\$ 1.56	\$ 1.15
Shares used in computing per share amounts:			
Basic	146,573	148,013	143,752
Diluted	150,367	151,911	145,857

See accompanying notes to consolidated financial statements.

SYNOPSYS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
(In thousands)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at October 31, 2008	141,786	\$1,418	\$1,471,031	\$434,057	\$(342,856)	\$(35,279)	\$1,528,371
Components of comprehensive income (loss):							
Net income				167,681			167,681
Unrealized gain on investments, net of tax of \$(1,583)						2,399	2,399
Deferred gain on cash flow hedges, net of tax of \$(3,952)						16,726	16,726
Reclassification adjustment on deferred loss of cash flow hedges, net of tax of \$(1,560)						8,840	8,840
Foreign currency translation adjustment						3,483	3,483
Other comprehensive income (loss)							31,448
Total comprehensive income (loss)							199,129
Common stock issued	5,159	51	(15,808)	(26,758)	114,238		71,723
Stock compensation expense			56,912				56,912
Tax adjustments(1)			(11,969)				(11,969)
Balance at October 31, 2009	146,945	\$1,469	\$1,500,166	\$574,980	\$(228,618)	\$ (3,831)	\$1,844,166
Components of comprehensive income (loss):							
Net income				237,063			237,063
Unrealized loss on investments, net of tax of \$1,522						(2,307)	(2,307)
Deferred loss on cash flow hedges, net of tax of \$1,520						(12,527)	(12,527)
Reclassification adjustment on deferred gain of cash flow hedges, net of tax of \$2,923 ..						(3,443)	(3,443)
Foreign currency translation adjustment						6,334	6,334
Other comprehensive income (loss)							(11,943)
Total comprehensive income (loss)							225,120
Purchases of treasury stock	(8,236)	(82)	82		(184,699)		(184,699)
Common stock issued	9,770	98	(28,672)	(41,369)	215,731		145,788
Stock compensation expense			59,979				59,979
Stock awards assumed in acquisition			4,598				4,598
Tax adjustments(1)			5,230				5,230
Balance at October 31, 2010	148,479	\$1,485	\$1,541,383	\$770,674	\$(197,586)	\$(15,774)	\$2,100,182
Components of comprehensive income (loss):							
Net income				221,364			221,364
Unrealized loss on investments, net of tax of \$226						(342)	(342)
Deferred loss on cash flow hedges, net of tax of \$3,049						(8,477)	(8,477)
Reclassification adjustment on deferred loss of cash flow hedges, net of tax of \$(422) ..						1,989	1,989
Foreign currency translation adjustment						1,659	1,659
Other comprehensive income (loss)							(5,171)
Total comprehensive income (loss)							216,193
Purchases of treasury stock	(15,144)	(151)	151		(401,836)		(401,836)
Equity forward contract			(33,335)				(33,335)
Common stock issued	9,973	99	(43,286)	(34,521)	241,390		163,682
Stock compensation expense			56,414				56,414
Balance at October 31, 2011	143,308	\$1,433	\$1,521,327	\$957,517	\$(358,032)	\$(20,945)	\$2,101,300

(1) See Note 10 to the consolidated financial statements.

See accompanying notes to consolidated financial statements.

SYNOPSYS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended October 31,		
	2011	2010	2009
Cash flow from operating activities:			
Net income	\$ 221,364	\$ 237,063	\$ 167,681
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and depreciation	128,550	101,201	101,453
Stock compensation	56,414	59,988	56,934
Allowance for doubtful accounts	1,058	(899)	2,461
Write-down of long-term investments	999	468	7,158
Gain on sale of investments	(936)	(3,995)	(716)
Deferred income taxes	22,278	38,356	25,942
In-process research and development	—	—	2,200
Net changes in operating assets and liabilities, net of acquired assets and liabilities:			
Accounts receivable	(18,974)	(16,202)	22,830
Prepaid and other current assets	(13,445)	4,638	11,416
Other long-term assets	(4,248)	(5,923)	(12,248)
Accounts payable and accrued liabilities	(7,408)	10,566	(28,206)
Income taxes	(58,377)	(94,052)	(21,140)
Deferred revenue	113,041	9,827	(96,606)
Net cash provided by operating activities	440,316	341,036	239,159
Cash flows from investing activities:			
Proceeds from sales and maturities of short-term investments	136,983	547,686	290,709
Purchases of short-term investments	(127,385)	(243,515)	(386,431)
Proceeds from sales of long-term investments	2,828	—	—
Purchases of long-term investments	—	—	(771)
Purchases of property and equipment	(57,345)	(39,223)	(39,199)
Cash paid for acquisitions and intangible assets, net of cash acquired	(41,015)	(500,829)	(53,358)
Capitalization of software development costs	(2,885)	(2,852)	(2,852)
Net cash used in investing activities	(88,819)	(238,733)	(191,902)
Cash flows from financing activities:			
Principal payments on capital leases	(4,628)	(3,692)	(2,212)
Proceeds from credit facilities	—	—	1,279
Payments on credit facilities	—	—	(1,533)
Issuances of common stock	162,180	145,329	71,918
Purchase of equity forward contract	(33,335)	—	—
Purchases of treasury stock	(401,836)	(184,699)	—
Net cash (used in) provided by financing activities	(277,619)	(43,062)	69,452
Effect of exchange rate changes on cash and cash equivalents	5,792	14,553	7,272
Net change in cash and cash equivalents	79,670	73,794	123,981
Cash and cash equivalents, beginning of year	775,407	701,613	577,632
Cash and cash equivalents, end of year	\$ 855,077	\$ 775,407	\$ 701,613
Supplemental Disclosure of Cash Flow Information:			
Cash paid for income taxes during the year:	\$ 36,577	\$ 18,673	\$ 59,904

See accompanying notes to consolidated financial statements.

SYNOPSYS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business

Synopsys, Inc. (Synopsys or the Company) is a world leader in supplying the electronic design automation (EDA) software that engineers use to design, create prototypes for and test integrated circuits, also known as chips. The Company also provides software and hardware used to develop the systems that incorporate integrated circuits and the software that runs on those integrated circuits. The Company's intellectual property (IP) products are pre-designed circuits that engineers use as components of larger chip designs rather than designing those circuits themselves. To complement these product offerings, the Company provides technical services to support our solutions and we help our customers develop chips and electronic systems.

Note 2. Summary of Significant Accounting Policies

Fiscal Year End. The Company's fiscal year ends on the Saturday nearest October 31. The Company's current fiscal year ended on October 29, 2011. Fiscal 2010 and 2009 ended on October 30, 2010 and October 31, 2009, respectively. Fiscal 2011, 2010 and 2009 were 52-week years. For presentation purposes, the consolidated financial statements and notes refer to the calendar month end.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates. To prepare financial statements in conformity with U.S. generally accepted accounting principles, management must make assumptions, judgments and estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign Currency Translation. The functional currency of each of the Company's active foreign subsidiaries is the foreign subsidiary's local currency except for the Company's principal Irish, Hungarian, and Swiss subsidiaries, whose functional currencies are the United States (U.S.) dollar. Assets and liabilities that are not denominated in the functional currency are remeasured into the functional currency with any related gain or loss recorded in earnings. The Company translates assets and liabilities of its non-U.S. dollar functional currency foreign operations into the U.S. dollar reporting currency at exchange rates in effect at the balance sheet date. The Company translates income and expense items of such foreign operations into U.S. dollars reporting currency at average exchange rates for the period. Accumulated translation adjustments are reported in stockholders' equity, as a component of accumulated other comprehensive income (loss).

Foreign Currency Contracts. The Company operates internationally and is exposed to potentially adverse movements in currency exchange rates. The Company enters into hedges in the form of foreign currency forward contracts to reduce its exposure to foreign currency rate changes on non-functional currency denominated forecasted transactions and balance sheet positions. The Company accounts for the foreign currency forward contracts under Accounting Standard Codification (ASC) 815, *Derivatives and Hedging*. The assets or liabilities associated with the forward contracts are recorded at fair value in other current assets or accrued liabilities in the consolidated balance sheet. The accounting for gains and losses resulting from changes in fair value depends on the use of the foreign currency forward contract and whether it is designated and qualifies for hedge accounting. See Note 5.

Fair Values of Financial Instruments. The Company's cash equivalents, short-term investments and foreign currency contracts are carried at fair value. The fair value of the Company's accounts receivable and accounts payable approximates the carrying amount due to their short duration. Long-term marketable equity investments are valued based on quoted market prices. Non-marketable equity

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

securities are carried at cost. The Company performs periodic impairment analysis over these non-marketable equity securities. See Note 6.

Cash Equivalents and Short-Term Investments. The Company classifies investments with original maturities of three months or less when acquired as cash equivalents. All of the Company's short-term investments are classified as available-for-sale and are reported at fair value, with unrealized gains and losses included in stockholders' equity as a component of accumulated other comprehensive income (loss), net of tax. Those unrealized gains or losses deemed other than temporary are reflected in other income (expense), net. The cost of securities sold is based on the specific identification method and realized gains and losses are included in other income (expense), net. See Note 5.

Concentration of Credit Risk. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash equivalents, marketable securities, foreign currency contracts, and accounts receivable from trade customers. The Company maintains cash equivalents primarily in highly rated taxable and tax-exempt money market funds located in the U.S. and in various overseas locations. Marketable securities consist of highly liquid investment grade municipal bonds which, by policy, are subject to duration and credit concentration limits. In addition, the Company minimizes its market risk for changes in interest rates by maintaining the portfolio of cash equivalents and investments in a mix of tax-exempt and taxable instruments that meet high credit quality standards. The Company's foreign currency contracts are diversified among investment grade, global financial institutions. See Note 5.

The Company sells its products worldwide primarily to customers in the global electronics market. The Company performs on-going credit evaluations of its customers' financial condition and does not require collateral. The Company establishes reserves for potential credit losses and such losses have been within management's expectations and have not been material in any year presented.

Allowance for Doubtful Accounts. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains allowances for doubtful accounts to reduce the Company's receivables to their estimated net realizable value. The Company provides a general reserve on all accounts receivable based on a review of accounts and a 15-quarter average of write-offs, net of recoveries. The following table presents the changes in the allowance for doubtful accounts.

<u>Fiscal Year</u>	<u>Balance at Beginning of Period</u>	<u>Provisions</u>	<u>Write-offs(2)</u>	<u>Balance at End of Period</u>
		(in thousands)		
2011	\$2,727	\$1,058	\$(1,296)	\$2,489
2010	\$3,587	\$ (899)	\$ 39	\$2,727
2009(1)	\$2,338	\$4,698	\$(3,449)	\$3,587

(1) Fiscal 2009 includes acquired bad debt reserves of \$2.2 million.

(2) Balances written off, net of recoveries.

Income Taxes. The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining whether it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. An uncertain tax position is considered effectively settled on completion of an examination by a taxing authority if certain other conditions are satisfied.

Property and Equipment. Property and equipment is recorded at cost less accumulated depreciation. Assets, excluding land, are depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized using the straight-line method over the lesser of the remaining term of the lease or the economic useful life of the asset, whichever is shorter. Depreciation expenses were \$51.0 million, \$50.3 million and \$48.3 million in fiscal 2011, 2010 and 2009, respectively. Repair and maintenance costs are expensed as incurred and such costs were \$20.9 million, \$19.0 million and \$19.2 million in fiscal 2011, 2010 and 2009, respectively. A detail of property and equipment is as follows:

A detail of property and equipment is as follows:

	October 31,	
	2011	2010
	(in thousands)	
Computer and other equipment	\$ 283,893	\$ 255,054
Buildings	53,926	55,447
Furniture and fixtures	28,759	27,639
Land	20,414	20,414
Leasehold improvements	85,984	87,405
	<u>472,976</u>	<u>445,959</u>
Less accumulated depreciation and amortization(1)	(313,459)	(297,379)
Total	<u>\$ 159,517</u>	<u>\$ 148,580</u>

- (1) Change in accumulated depreciation and amortization is due to additional year of expense offset partially by retirement of fully amortized fixed assets.

The useful lives of depreciable assets are as follows:

	Useful Life in Years
Computer and other equipment	3-5
Buildings	30
Furniture and fixtures	5
Leasehold improvements (average)	5

Software Development Costs. Capitalization of software development costs begins upon the establishment of technological feasibility, which is generally the completion of a working prototype and ends upon general release of the product. Capitalized software development costs were \$3.0 million, \$2.9 million and \$3.0 million in fiscal 2011, 2010 and 2009, respectively. Amortization of capitalized software development costs is computed based on the straight-line method over the estimated economic life of two years. The Company recorded amortization of \$3.0 million in fiscal 2011, and \$3.0 million and \$2.9 million in fiscal 2010 and fiscal 2009, respectively.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Goodwill. Goodwill represents the excess of the aggregate purchase price over the fair value of the net tangible and identifiable intangible assets acquired by the Company. The carrying amount of goodwill is tested for impairment annually or more frequently if facts and circumstances warrant a review. The Company determined that it is a single reporting unit for the purpose of goodwill impairment tests. For purposes of assessing the impairment of goodwill, the Company estimates the value of the reporting unit using its market capitalization as the best evidence of fair value. This fair value is then compared to the carrying value of the reporting unit. During fiscal 2011, 2010 and 2009, there were no indicators of impairment to goodwill.

Prior to fiscal 2010, the carrying value of goodwill was adjusted for the settlement of tax contingencies or the recognition of tax benefits from acquired companies. Beginning in fiscal 2010, adjustments to these related items have been recognized in income from continuing operations, rather than in goodwill, if such changes occurred after the measurement period.

Intangible Assets. Intangible assets consist of purchased technology, contract rights intangibles, customer relationships, trademarks and trade names, covenants not to compete, capitalized software and other intangibles. Intangible assets are amortized on a straight-line basis over their estimated useful lives which range from one to ten years.

The Company continually monitors events and changes in circumstances that could indicate carrying amounts of the long-lived assets, including property and equipment and intangible assets, may not be recoverable. When such events or changes in circumstances occur, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through the undiscounted future cash flow. If the undiscounted future cash flow is less than the carrying amount of these assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. The Company had no impairments of any long-lived assets in fiscal 2011, 2010 or 2009.

Accounts Payable and Accrued Liabilities. Accounts payable and accrued liabilities consist of:

	October 31,	
	2011	2010
	(in thousands)	
Payroll and related benefits	\$238,691	\$216,079
Other accrued liabilities	53,173	73,230
Accounts payable	6,956	16,331
Acquisition-related costs	3,356	7,210
Total	<u>\$302,176</u>	<u>\$312,850</u>

Other Long-term Liabilities. Other long-term liabilities consist of:

	October 31,	
	2011	2010
	(in thousands)	
Deferred compensation liability(1)	\$ 90,060	\$ 83,330
Other long-term liabilities	18,016	18,555
Total	<u>\$108,076</u>	<u>\$101,885</u>

(1) See Note 9.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Other Comprehensive Income (Loss). Other comprehensive income (loss) includes all changes in equity during a period from non-owner sources, such as accumulated net translation adjustments, unrealized gains on certain foreign currency forward contracts that qualify as cash flow hedges, reclassification adjustments related to cash flow hedges and unrealized gains on investments. Accumulated other comprehensive income (loss), net of tax, consists of the following:

	October 31,	
	2011	2010
	(in thousands)	
Unrealized gain on investments	\$ 215	\$ 557
Deferred gain (loss) on cash flow hedges	(12,842)	(6,354)
Foreign currency translation adjustments	(8,318)	(9,977)
	<u>\$(20,945)</u>	<u>\$(15,774)</u>

Revenue Recognition. Software license revenue consists of fees associated with the licensing of our software. Maintenance and service revenue consists of maintenance fees associated with perpetual and term licenses and professional services fees. Hardware revenue consists of Field Programmable Gate Array (FPGA) board-based products.

With respect to software licenses, the Company utilizes three license types:

- Technology Subscription Licenses (TSLs). TSLs are time-based licenses for a finite term, and generally provide the customer limited rights to receive, or to exchange certain quantities of licensed software for, unspecified future technology. We bundle and do not charge separately for post-contract customer support (maintenance) for the term of the license.
- Term licenses. Term licenses are also for a finite term, but do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually for the balance of the term. The annual maintenance fee is typically calculated as a percentage of the net license fee.
- Perpetual licenses. Perpetual licenses continue as long as the customer renews maintenance plus an additional 20 years. Perpetual licenses do not provide the customer any rights to receive, or to exchange licensed software for, unspecified future technology. Customers purchase maintenance separately for the first year and may renew annually.

For the three software license types, the Company recognizes revenue as follows:

- TSLs. The Company typically recognizes revenue from TSL fees (which include bundled maintenance) ratably over the term of the license period, or as customer installments become due and payable, whichever is later. Revenue attributable to TSLs is reported as “time-based license revenue” in the consolidated statements of operations.
- Term licenses. The Company recognizes revenue from term licenses in full upon shipment of the software if payment terms require the customer to pay at least 75% of the license fee and 100% of the maintenance fee within one year from shipment and all other revenue recognition criteria are met. Revenue attributable to these term licenses is reported as “upfront license revenue” in the consolidated statements of operations. For term licenses in which less than 75% of the license fee and 100% of the maintenance fee is payable within one year from shipment, we recognize revenue as customer payments become due and payable. Such revenue is reported as “time-based license revenue” in the consolidated statements of operations.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

- Perpetual licenses. The Company recognizes revenue from perpetual licenses in full upon shipment of the software if payment terms require the customer to pay at least 75% of the license fee and 100% of the maintenance fee within one year from shipment and all other revenue recognition criteria are met. Revenue attributable to these perpetual licenses is reported as “upfront license revenue” in the consolidated statements of operations. For perpetual licenses in which less than 75% of the license fee and 100% of the maintenance fee is payable within one year from shipment, we recognize revenue as customer installments become due and payable. Such revenue is reported as “time-based license revenue” in the consolidated statements of operations.

The Company also enters into arrangements in which portions of revenue are contingent upon the occurrence of uncertain future events, for example, royalty arrangements. The Company refers to this revenue as “contingent revenue.” Contingent revenue is recognized if and when the applicable event occurs. Such revenue is reported as “time-based revenue” in the consolidated statements of operations. Historically, these arrangements have not been material to our total revenue.

The Company recognizes revenue from hardware sales in full upon shipment if all other revenue recognition criteria are met. Revenue attributable to these hardware sales is reported as “upfront license revenue” in the consolidated statements of operations. Hardware sales have not been material to our total revenue.

The Company infrequently enters into multiple-element arrangements that contain both software and non-software deliverables such as hardware. On a prospective basis beginning in the first quarter of fiscal 2011, the Company applied recently issued accounting guidance for revenue arrangements with multiple deliverables for these contracts. The adoption of the guidance did not have a material effect on the consolidated financial statements, is not expected to have a material effect on subsequent periods and did not affect the accounting for contracts which do not contain non-software deliverables. The recent accounting guidance addresses whether to treat individual deliverables or groups of deliverables in a multiple-element arrangement as separate units of accounting and how to allocate the arrangement consideration to the separate units of accounting. The guidance also requires that arrangement consideration be allocated to software deliverables (as a group) and to non-software deliverables (individually) based on relative standalone selling prices and provides guidance for estimating standalone selling prices for purposes of allocating arrangement consideration.

The Company has determined that the software and non-software deliverables in our contracts are separate units of accounting. Prior to the first quarter of fiscal 2011, all deliverables in the Company's contracts were considered one unit of accounting unless the Company had vendor-specific objective evidence (VSOE) of fair value for all undelivered elements. The Company now allocates arrangement consideration to separate units of accounting based on estimated standalone selling prices (ESP) because the Company does not have objective evidence of standalone selling prices. The Company estimates the standalone selling prices of its separate units of accounting considering both market conditions and its own specific conditions. For hardware deliverables, the Company determines ESP using gross margin because the Company has consistent pricing practices and gross margins for these products. Determining the ESP for software deliverables requires significant judgment. The Company determines ESP for software deliverables after considering customer geographies, market demand and competition at the time of contract negotiation, gross margin objectives, existing portfolio pricing practices, contractually stated prices, and prices for similar historical transactions.

Under the recent accounting guidance the Company recognizes revenue for its separate units of accounting when all revenue recognition criteria are met. Revenue allocated to hardware units of accounting is recognized upon delivery when all other revenue recognition criteria are met. Revenue

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

allocated to software units of accounting is recognized according to the methods described above depending on the software license type (TSL, term license or perpetual license).

The Company recognizes revenue from maintenance fees ratably over the maintenance period to the extent cash has been received or fees become due and payable, and recognize revenue from professional services and training fees as such services are performed and accepted by the customer. Revenue attributable to maintenance, professional services and training is reported as “maintenance and service revenue” in the consolidated statements of operations.

The Company also enters into arrangements to deliver software products, either alone or together with other products or services that require significant modification, or customization of the software. The Company accounts for such arrangements using the percentage of completion method as the Company has the ability to make reasonably dependable estimates that relate to the extent of progress toward completion, contract revenues and costs. The Company measures the progress towards completion using the labor hours incurred to complete the project. Revenue attributable to these arrangements is reported as maintenance and service revenue in the consolidated statements of operations.

The Company determines the fair value of each element in multiple element software arrangements based on VSOE. The Company limits its assessment of VSOE of fair value for each element to the price charged when such element is sold separately. The Company has analyzed all of the elements included in our multiple-element software arrangements and has determined that the Company has sufficient VSOE to allocate revenue to the maintenance components of the Company's perpetual and term license products and to professional services. Accordingly, assuming all other revenue recognition criteria are met, the Company recognizes license revenue from perpetual and term licenses upon delivery using the residual method, recognizes revenue from maintenance ratably over the maintenance term, and recognizes revenue from professional services as services are performed and accepted by the customer. The Company recognizes revenue from TSLs ratably over the term of the license, assuming all other revenue recognition criteria are met, since there is not sufficient VSOE to allocate the TSL fee between license and maintenance services.

The Company makes significant judgments related to revenue recognition. Specifically, in connection with each transaction involving its products, the Company must evaluate whether: (1) persuasive evidence of an arrangement exists, (2) delivery of software or services has occurred, (3) the fee for such software or services is fixed or determinable, and (4) collectability of the full license or service fee is probable. All four of these criteria must be met in order for the Company to recognize revenue with respect to a particular arrangement. The Company applies these revenue recognition criteria as follows:

- *Persuasive Evidence of an Arrangement Exists.* Prior to recognizing revenue on an arrangement, the Company's customary policy is to have a written contract, signed by both the customer and the Company or a purchase order from those customers that have previously negotiated a standard end-user license arrangement or purchase agreement.
- *Delivery Has Occurred.* The Company delivers its products to its customers electronically or physically. For electronic deliveries, delivery occurs when the Company provides access to its customers to take immediate possession of the software through downloading it to the customer's hardware. For physical deliveries, the standard transfer terms are typically FOB shipping point. The Company generally ships its products or license keys promptly after acceptance of customer orders. However, a number of factors can affect the timing of product shipments and, as a result, timing of revenue recognition, including the delivery dates requested by customers and the Company's operational capacity to fulfill product orders at the end of a fiscal quarter.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

- *The Fee is Fixed or Determinable.* The Company's determination that an arrangement fee is fixed or determinable depends principally on the arrangement's payment terms. Its standard payment terms for perpetual and term licenses require 75% or more of the license fee and 100% of the maintenance fee to be paid within one year. If the arrangement includes these terms, the Company regards the fee as fixed or determinable, and recognizes all license revenue under the arrangement in full upon delivery (assuming all other revenue recognition criteria are met). If the arrangement does not include these terms, the Company does not consider the fee to be fixed or determinable and generally recognize revenue when customer installments are due and payable. In the case of a TSL, because of the right to exchange products or receive unspecified future technology and because VSOE for maintenance services does not exist for a TSL, the Company recognizes revenue ratably over the term of the license, but not in advance of when customers' installments become due and payable.
- *Collectability is Probable.* The Company judges collectability of the arrangement fees on a customer-by-customer basis pursuant to its credit review policy. The Company typically sells to customers with whom it has a history of successful collection. For a new customer, or when an existing customer substantially expands its commitments, the Company evaluates the customer's financial position and ability to pay and typically assign a credit limit based on that review. The Company increases the credit limit only after it has established a successful collection history with the customer. If the Company determines at any time that collectability is not probable under a particular arrangement based upon its credit review process or the customer's payment history, it recognizes revenue under that arrangement as customer payments are actually received.

Warranties and Indemnities. The Company generally warrants its products to be free from defects in media and to substantially conform to material specifications for a period of 90 days for software products and for up to six months for hardware products. In certain cases, the Company also provides its customers with limited indemnification with respect to claims that their use of the Company's software products infringe on United States patents, copyrights, trademarks or trade secrets. The Company is unable to estimate the potential impact of these commitments on the future results of operations. To date, the Company has not been required to pay any material warranty claims.

Net Income Per Share. The Company computes basic income per share by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income per share reflects the dilution from potential common shares outstanding such as stock options and unvested restricted stock units and awards during the period using the treasury stock method.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

The table below reconciles the weighted average common shares used to calculate basic net income per share with the weighted average common shares used to calculate diluted net income per share.

	Year Ended October 31,		
	2011	2010	2009
	(in thousands)		
Numerator:			
Net income	\$221,364	\$237,063	\$167,681
Denominator:			
Weighted average common shares for basic net income per share	146,573	148,013	143,752
Dilutive effect of common share equivalents from equity—based compensation	3,794	3,898	2,105
Weighted average common shares for diluted net income per share	<u>150,367</u>	<u>151,911</u>	<u>145,857</u>
Net income per share:			
Basic	\$ 1.51	\$ 1.60	\$ 1.17
Diluted	\$ 1.47	\$ 1.56	\$ 1.15
Anti-dilutive employee stock-based awards excluded (1)	4,669	10,999	17,288

(1) These stock options and unvested restricted stock units were anti-dilutive for the respective periods and are excluded in calculating diluted net income per share. While such awards were anti-dilutive for the respective periods, they could be dilutive in the future.

Note 3. Business Combinations

During the fiscal years presented, the Company made several acquisitions which were accounted for as business combinations. The Company does not consider these acquisitions to be material, individually or in the aggregate to the Company's balance sheet and results of operations. The consolidated financial statements include the operating results of each acquired business from the respective date of acquisition.

Effective for fiscal 2010, the Company adopted ASC 805, *Business Combinations*. The fair values assigned to the acquired identifiable intangible assets were based upon future discounted cash flows related to the existing products' projected income streams. In addition, the purchased in-process research and development (IPR&D) for fiscal 2010 has been capitalized at fair value as an intangible asset with an indefinite life (see Note 4) and is assessed for impairment annually. Upon completion of development, the underlying intangible asset will be amortized over its estimated useful life and recorded in cost of revenue. Prior to the adoption of ASC 805, IPR&D was expensed upon acquisition if it had no alternative future use.

Goodwill primarily relates to expected synergies and represents the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired in the acquisitions. Goodwill is not amortized but is assessed for impairment in subsequent periods and is generally not deductible for tax purposes except for certain asset acquisitions. Goodwill of \$39.4 million resulting from fiscal 2010 acquisitions is deductible for tax purposes.

SYNOPSYS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Fiscal 2011 Acquisitions

During fiscal 2011, the Company completed two acquisitions for cash and preliminarily allocated the total purchase consideration of \$37.4 million to the assets and liabilities acquired based on their respective fair values at the acquisition date resulting in goodwill of \$30.7 million. Acquired identifiable intangible assets of \$9.3 million are being amortized over two to ten years.

Fiscal 2010 Acquisitions

Virage Logic Corporation

On September 2, 2010, the Company acquired all outstanding shares of Virage Logic Corporation (Virage). Virage was a leading provider of embedded memories with test and repair, non-volatile memories (NVMs), logic libraries, and configurable cores for control and multimedia sub-systems. The acquisition expanded the Company's Designware interface and analog IP portfolio.

Purchase Price. Synopsys paid \$12.00 per share for all outstanding shares, including vested awards of Virage for an aggregate cash payment of \$299.5 million, net of cash acquired. Additionally, the Company assumed unvested restricted stock units and stock appreciation rights, collectively called "stock awards."

Purchase Price Allocation. The Company allocated the total purchase consideration of \$316.6 million (including \$4.6 million related to stock awards assumed) to the assets acquired and liabilities assumed based on their respective fair values at the acquisition dates, including acquired identifiable intangible assets of \$96.7 million and IPR&D of \$13.2 million, resulting in total goodwill of \$210.1 million. Acquisition-related costs, consisting of professional services, severance costs, contract terminations and facilities closure costs, totaling \$13.0 million were expensed as incurred in the statement of operations. Goodwill primarily resulted from the Company's expectation of sales growth and cost synergies from the integration of Virage's technology with the Company's technology and operations to provide an expansion of products and market reach. Identifiable intangible assets consisted of technology, customer relationships, contract rights and trademarks, were valued using the income method, and are being amortized over two to ten years.

Fair Value of Stock Awards Assumed. The Company assumed unvested restricted stock units (RSUs) and stock appreciation rights (SARs) with a fair value of \$21.7 million. Of the total consideration, \$4.6 million was allocated to the purchase consideration and \$17.1 million was allocated to future services and will be expensed over their remaining service periods on a straight-line basis

Other Fiscal 2010 Acquisitions

During fiscal 2010, the Company completed seven other acquisitions for cash. The Company allocated the total purchase consideration of \$221.7 million to the assets acquired and liabilities assumed based on their respective fair values at the acquisition dates, resulting in total goodwill of \$110.8 million. Acquired identifiable intangible assets totaling \$92.8 million are being amortized over their respective useful lives ranging from one to ten years. Acquisition-related costs totaling \$10.6 million were expensed as incurred in the statement of operations.

The purchase consideration for one of the acquisitions included contingent consideration up to \$10.0 million payable upon the achievement of certain technology milestones over three years. The contingent consideration was recorded as a liability at its estimated fair value determined based on the net present value of estimated payments of \$7.8 million on the acquisition date and is being remeasured at fair value quarterly during the three-year contingency period with changes in its fair

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

value recorded in the Company's statements of operations. The contingent consideration liability as of the end of fiscal 2011 was \$4.3 million. See Note 6. *Fair Value Measures* for further discussion related to the contingent consideration.

Fiscal 2009 Acquisitions

During fiscal 2009, the Company completed certain acquisitions for cash. The Company allocated the total purchase consideration of \$62.9 million to the assets acquired and liabilities assumed, based on their respective fair values at the acquisition dates, resulting in aggregate goodwill of \$35.1 million. Identifiable intangible assets of \$27.5 million are being amortized over one to six years. In-process research and development expense related to these acquisitions was \$2.2 million.

Note 4. Goodwill and Intangible Assets

Goodwill consists of the following:

	<u>(in thousands)</u>
Balance at October 31, 2009	\$ 932,691
Additions	329,496
Other adjustments(1)	<u>3,656</u>
Balance at October 31, 2010	\$1,265,843
Additions	30,717
Other adjustments(2)	<u>(7,274)</u>
Balance at October 31, 2011	<u><u>\$1,289,286</u></u>

- (1) Adjustments relate to reduction of merger costs and income tax adjustments for acquisitions.
(2) Adjustments relate to changes in estimates for acquisitions that closed in the prior fiscal year for which the purchase price allocation was still preliminary and achievement of certain milestones for an acquisition that closed prior to fiscal 2010.

Intangible assets as of October 31, 2011 consisted of the following:

	<u>Gross Assets(1)</u>	<u>Accumulated Amortization(1)</u>	<u>Net Assets</u>
		<u>(in thousands)</u>	
Core/developed technology	\$226,928	\$104,391	\$122,537
Customer relationships	80,238	31,250	48,988
Contract rights intangible	33,300	19,801	13,499
Covenants not to compete	2,530	2,105	425
Trademarks and trade names	6,400	2,561	3,839
In-process research and development (IPR&D)(2)	3,425	—	3,425
Capitalized software development costs	<u>11,245</u>	<u>7,927</u>	<u>3,318</u>
Total	<u><u>\$364,066</u></u>	<u><u>\$168,035</u></u>	<u><u>\$196,031</u></u>

- (1) Intangible assets as of October 31, 2011 decreased as compared to October 31, 2010 primarily due to the retirement of fully amortized assets.
(2) IPR&D is reclassified to core/developed technology upon completion.

SYNOPSYS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Intangible assets as of October 31, 2010 consisted of the following:

	<u>Gross Assets</u>	<u>Accumulated Amortization</u> (in thousands)	<u>Net Assets</u>
Core/developed technology	\$263,592	\$118,587	\$145,005
Customer relationships	113,020	55,040	57,980
Contract rights intangible	30,400	9,522	20,878
Covenants not to compete	2,200	1,884	316
Trademarks and trade names	6,200	1,541	4,659
In-process research and development (IPR&D)	17,525	—	17,525
Capitalized software development costs ...	8,873	5,580	3,293
Total	<u>\$441,810</u>	<u>\$192,154</u>	<u>\$249,656</u>

Total amortization expense related to intangible assets is set forth in the table below:

	<u>Year Ended October 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(in thousands)		
Core/developed technology	\$ 44,869	\$ 33,232	\$ 29,644
Customer relationships	13,030	9,325	11,109
Contract rights intangible	10,279	3,861	3,399
Covenants not to compete	222	637	741
Trademarks and trade names	1,020	630	581
Capitalized software development costs(1) ...	2,964	2,964	2,948
Total	<u>\$ 72,384</u>	<u>\$ 50,649</u>	<u>\$ 48,422</u>

- (1) Amortization of capitalized software development costs is included in cost of license revenue in the consolidated statements of operations.

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

<u>Fiscal Year</u>	<u>(in thousands)</u>
2012	\$ 66,266
2013	53,228
2014	33,127
2015	18,663
2016	13,314
2017 and thereafter	8,008
IPR&D (to be amortized upon project completion or written off upon abandonment)(1)	3,425
Total	<u>\$196,031</u>

- (1) IPR&D projects are estimated to be completed within two years as of October 31, 2011. Amortization will begin upon project completion or the asset will be written off upon abandonment.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Note 5. Financial Assets and Liabilities

Cash, Cash Equivalents and Investments. Short-term investments have been classified as available-for-sale securities. Cash, cash equivalents and investments are detailed as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	Gross Unrealized Losses 12 Months or Longer	Estimated Fair Value(1)
			(in thousands)		
Balance at October 31, 2011					
Classified as current assets:					
Non-interest bearing cash (U.S. and International)	\$ 149,998	\$—	\$ —	\$—	\$ 149,998
Money market funds (U.S.)	55,267	—	—	—	55,267
Cash deposits and money market funds (International)	649,812	—	—	—	649,812
Municipal securities	148,850	296	(149)	—	148,997
	<u>1,003,927</u>	<u>296</u>	<u>(149)</u>	<u>—</u>	<u>1,004,074</u>
Classified as non-current assets:					
Strategic investments	3,982	—	—	—	3,982
Total	<u>\$1,007,909</u>	<u>\$296</u>	<u>\$(149)</u>	<u>\$—</u>	<u>\$1,008,056</u>

	Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	Gross Unrealized Losses 12 Months or Longer	Estimated Fair Value(1)
			(in thousands)		
Balance at October 31, 2010					
Classified as current assets:					
Non-interest bearing cash (U.S. and International)	\$ 45,687	\$—	\$—	\$—	\$ 45,687
Money market funds (U.S.)	68,099	—	—	—	68,099
Cash deposits and money market funds (International)	661,621	—	—	—	661,621
Municipal securities	162,440	723	(9)	—	163,154
	<u>937,847</u>	<u>723</u>	<u>(9)</u>	<u>—</u>	<u>938,561</u>
Classified as non-current assets:					
Strategic investments	7,360	—	—	—	7,360
Total	<u>\$ 945,207</u>	<u>\$723</u>	<u>\$ (9)</u>	<u>\$—</u>	<u>\$ 945,921</u>

(1) See Note 6 for further discussion on fair values of money market funds, municipal securities, and strategic investments.

As of October 31, 2011, the stated maturities of the Company's short-term investments are:

	Fair Value (in thousands)
Due in 1 year or less	\$ 89,791
Due in 1–5 years	28,413
Due in 6–10 years	11,409
Due after 10 years	19,384
Total	<u>\$ 148,997</u>

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Actual maturities may differ from the stated maturities because borrowers may have the right to call or prepay certain obligations. These investments are classified as available-for-sale and are recorded on the balance sheet at fair market value with unrealized gains or losses, net of tax, reported as a component of accumulated other comprehensive income (loss), or OCI. The cost of securities sold is based on the specific identification method and realized gains and losses are included in other income (expense), net. Realized gains and losses on sales of short-term investments have not been material in any period presented.

Strategic Investments. The Company's strategic investment portfolio consists of minority equity investments in privately held companies. The cost basis of securities sold is based on the specific identification method. Securities of privately held companies are reported at cost net of impairment losses.

Derivatives. In accordance with ASC 815, *Derivatives and Hedging*, the Company recognizes derivative instruments as either assets or liabilities in the consolidated financial statements at fair value and provides qualitative and quantitative disclosures about such derivatives. The Company operates internationally and is exposed to potentially adverse movements in foreign currency exchange rates. The Company enters into hedges in the form of foreign currency forward contracts to reduce its exposure to foreign currency rate changes on non-functional currency denominated forecasted transactions and balance sheet positions including: (1) certain assets and liabilities, (2) shipments forecasted to occur within approximately one month, (3) future billings and revenue on previously shipped orders, and (4) certain future intercompany invoices denominated in foreign currencies.

The duration of forward contracts ranges from one month to 21 months, the majority of which are short-term. The Company does not use foreign currency forward contracts for speculative or trading purposes. The Company enters into foreign exchange forward contracts with high credit quality financial institutions that are rated 'A' or above and to date has not experienced nonperformance by counterparties. Further, the Company anticipates continued performance by all counterparties to such agreements.

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

Cash Flow Hedging Activities

Certain foreign exchange forward contracts are designated and qualify as cash flow hedges. These contracts have durations of 21 months or less. Certain forward contracts are rolled over periodically to capture the full length of exposure to the Company's foreign currency risk, which can be up to three years. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on the hedged transactions. The effective portion of gains or losses resulting from changes in fair value of these hedges is initially reported, net of tax, as a component of OCI, in stockholders' equity and reclassified into revenue or operating expenses, as appropriate, at the time the hedged transactions affect earnings. We expect most of the hedge balance in OCI to be reclassified to the statements of operations within the next twelve months.

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

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Non-designated Hedging Activities

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

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

The effects on the changes in the fair values of non-designated forward contracts for fiscal years 2011 and 2010 are summarized as follows:

	October 31,	
	2011	2010
	(in thousands)	
Gain (loss) recorded in other income (expense), net	\$ 889	\$ (2,815)

Foreign currency forward contracts outstanding are as follows:

	As of October 31, 2011	As of October 31, 2010
	(in thousands)	
Total gross notional amount	\$ 599,844	\$ 691,343
Net fair value	\$ (14,695)	\$ (7,500)

The notional amounts for derivative instruments provide one measure of the transaction volume outstanding as of October 31, 2011 and October 31, 2010, respectively, and do not represent the amount of the Company's exposure to market gain or loss. The Company's exposure to market gain or loss will vary over time as a function of currency exchange rates. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

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

	Fair Values of derivative instruments designated as hedging instruments	Fair Values of derivative instruments not designated as hedging instruments
	(in thousands)	
As of October 31, 2011		
Other current assets	\$ 2,161	\$ —
Other current liabilities	\$16,827	\$ 29
As of October 31, 2010		
Other current assets	\$ 5,680	\$ —
Other current liabilities	\$11,626	\$1,554

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

	<u>Location of gain (loss) recognized in OCI on derivatives</u>	<u>Amount of gain (loss) recognized in OCI on derivatives (effective portion)</u>	<u>Location of gain (loss) reclassified from OCI</u>	<u>Amount of gain (loss) reclassified from OCI (effective portion)</u>
		(in thousands)		
Fiscal year ended October 31, 2011				
Foreign exchange contracts	Revenue	\$ (5,647)	Revenue	\$(8,561)
Foreign exchange contracts	Operating expenses	(3,225)	Operating expenses	6,572
Total		<u>\$ (8,872)</u>		<u>\$(1,989)</u>
Fiscal year ended October 31, 2010				
Foreign exchange contracts	Revenue	\$ (9,747)	Revenue	\$ 1,689
Foreign exchange contracts	Operating expenses	(1,961)	Operating expenses	1,754
Total		<u>\$(11,708)</u>		<u>\$ 3,443</u>

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

	<u>Amount of gain (loss) recognized in income statement on derivatives (ineffective portion)(1)</u>	<u>Amount of gain (loss) recognized in income statement on derivatives (excluded from effectiveness testing)(2)</u>
	(in thousands)	
Fiscal year ended October 31, 2011		
Foreign exchange contracts	\$ 74	\$ 241
Fiscal year ended October 31, 2010		
Foreign exchange contracts	\$788	\$(1,051)

(1) The ineffective portion includes forecast inaccuracies.

(2) The portion excluded from effectiveness includes the discount earned or premium paid for the contracts.

Other Commitments—Credit Facility. On October 14, 2011, the Company entered into a five-year, \$350.0 million senior unsecured revolving credit facility providing for loans to the Company and its foreign subsidiaries. The facility replaces the Company's previous \$300.0 million senior unsecured facility, which was terminated effective October 14, 2011. The amount of the facility may be increased by up to an additional \$150.0 million through the fourth year of the facility. The facility contains financial covenants requiring the Company to operate within a maximum leverage ratio and specified levels of cash, as well as other non-financial covenants. The facility terminates on October 14, 2016. Borrowings under the facility bear interest at a floating rate based on, a margin over the Company's choice of base rates as defined in the credit agreement. In addition, commitment fees are payable on

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

the facility at rates between 0.150% and 0.300% per year based on the Company's leverage ratio. As of October 31, 2011, the Company had no outstanding borrowings under this credit facility and was in compliance with all covenants.

Note 6. Fair Value Measures

ASC 820-10, *Fair Value Measurements and Disclosures*, defines fair value, establishes guidelines and enhances disclosure requirements for fair value measurements.

The accounting guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The accounting guidance also establishes a fair value hierarchy based on the independence of the source and objective evidence of the inputs used. There are three fair value hierarchies based upon the level of inputs that are significant to fair value measurement:

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

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

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

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

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

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

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

During fiscal 2010, the Company recorded a liability for contingent consideration of \$7.8 million arising from a business combination which is payable over three years upon achievement of certain milestones. The fair value of the contingent consideration was determined at the acquisition date using the income approach based on the net present value of estimated payments and is re-measured at the end of each reporting period. The contingent consideration was classified within Level 3 as management assumptions for the valuation included discount rates and estimated probabilities of achievement of certain technical milestones which are unobservable in the market. Changes in fair value of the contingent consideration due to revisions to the estimated probabilities of achievement of

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

technical milestones are recorded as operating expenses while changes due to time value are recorded in other income (expense), net. The Company recorded a reduction of \$3.8 million during the year, in research and development expenses due to the change in fair value of the liability for the contingent consideration. As of October 31, 2011, the fair value of the liability for contingent consideration was estimated at \$4.3 million.

Assets/Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below as of October 31, 2011:

Description	Fair Value Measurement Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets				
Cash equivalents:				
Money market funds	\$543,770	\$543,770	\$ —	\$ —
Short-term investments:				
Municipal securities	148,997	—	148,997	—
Prepaid and other current assets:				
Foreign currency derivative contracts	2,161	—	2,161	—
Other long-term assets:				
Deferred compensation plan assets	90,060	90,060	—	—
Total assets	\$784,988	\$633,830	\$151,158	\$ —
Liabilities				
Accounts payable and accrued liabilities:				
Foreign currency derivative contracts	\$ 16,856	\$ —	\$ 16,856	\$ —
Contingent consideration . .	2,096	—	—	2,096
Other long-term liabilities:				
Contingent consideration . .	2,200	—	—	2,200
Total liabilities	\$ 21,152	\$ —	\$ 16,856	\$4,296

SYNOPTSYS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Assets and liabilities measured at fair value on a recurring basis are summarized below as of October 31, 2010:

Description	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets				
Cash equivalents:				
Money market funds	\$ 487,199	\$487,199	\$ —	\$ —
Short-term investments:				
Municipal securities	163,154	—	163,154	—
Other current assets:				
Foreign currency derivative contracts	5,680	—	5,680	—
Other long-term assets:				
Deferred compensation plan assets	83,330	83,330	—	—
Total assets	<u>\$ 739,363</u>	<u>\$570,529</u>	<u>\$168,834</u>	<u>\$ —</u>
Liabilities				
Account payable and accrued liabilities:				
Foreign currency derivative contracts	\$ 13,180	\$ —	\$ 13,180	\$ —
Contingent consideration	3,121	—	—	3,121
Other long-term liabilities:				
Contingent consideration	4,935	—	—	4,935
Total liabilities	<u>\$ 21,236</u>	<u>\$ —</u>	<u>\$ 13,180</u>	<u>\$8,056</u>

Equity investments in privately-held companies are accounted for under the cost method of accounting. These equity investments (also called non-marketable equity securities) are classified within Level 3 as they are valued using significant unobservable inputs or data in an inactive market, and the valuation requires management judgment due to the absence of market price and inherent lack of liquidity. The non-marketable equity securities are measured and recorded at fair value when an event or circumstance which impacts the fair value of these securities indicates an other-than-temporary decline in value has occurred. As a result of the fair value measurement using the income approach, the Company recorded \$1.0 million, \$0.5 million, and \$7.2 million of other-than-temporary impairments during fiscal 2011, 2010 and 2009, respectively. During fiscal 2011, an equity investment with a cost basis of \$2.4 million was sold for \$3.2 million resulting in a \$0.8 million gain. This sale does not include a \$1.5 million potential earn out receivable if certain milestones are met by this former investee. The carrying value of equity investments was \$4.0 million and \$7.4 million as of October 31, 2011 and of October 31, 2010, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

The following tables present the non-marketable equity securities that were measured and recorded at fair value within long-term assets and the loss recorded during the following periods:

	Balance as of October 31, 2011	Significant Unobservable Inputs (Level 3) (in thousands)	Total (losses) for Fiscal 2011
Non-marketable equity securities	\$ 92	\$ 92	\$ (999)

	Balance as of October 31, 2010	Significant Unobservable Inputs (Level 3) (in thousands)	Total (losses) for Fiscal 2010
Non-marketable equity securities	\$ 452	\$ 452	\$ (468)

Note 7. Commitments and Contingencies

Lease Commitments

The Company leases certain of its domestic and foreign facilities and certain office equipment under non-cancelable lease agreements. The lease agreements generally require the Company to pay property taxes, insurance, maintenance and repair costs. Rent expenses were \$58.1 million, \$49.7 million and \$45.2 million in fiscal 2011, 2010 and 2009, respectively. The Company charges operating lease payments to expense using the straight-line method. The Company subleases portions of its facilities and records sublease payments as a reduction of rent expense.

On October 15, 2011, the Company agreed to lease two office buildings to be constructed in Mountain View, California. Once construction is complete, the buildings together will provide approximately 341,000 square feet. The buildings may be enlarged up to a total size of approximately 440,000 square feet by mutual agreement of Synopsys and the lessor. The lease of such premises begins upon the later of March 1, 2015 or six months after construction is substantially completed and expires approximately 15 years thereafter and can be extended for an additional 19 years after such initial expiration. We may terminate the lease by exercising a separate option to purchase the property (i) at any time prior to January 13, 2012 or (ii) if the lessor fails to obtain financing. We may also terminate the lease if, under certain circumstances, the lessor fails to commence construction by June 1, 2013 or substantially complete construction of the buildings by March 1, 2015.

Anticipated future minimum lease payments on all non-cancelable operating leases with a term in excess of one year, net of sublease income, as of October 31, 2011 are as follows:

Fiscal Year	Minimum Lease Payments	Sublease Income (in thousands)	Net
2012	\$ 45,839	\$ 703	\$ 45,136
2013	35,894	670	35,224
2014	31,302	137	31,165
2015	20,256	—	20,256
2016	25,690	—	25,690
Thereafter	309,661	—	309,661
Total	<u>\$468,642</u>	<u>\$1,510</u>	<u>\$467,132</u>

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Legal Proceedings

The Company is subject to routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of its business. The ultimate outcome of any litigation is uncertain and unfavorable outcomes could have a negative impact on the Company's results of operations and financial condition. Regardless of outcome, litigation can have an adverse impact on the Company because of the defense costs, diversion of management resources and other factors.

In connection with the Company's definitive agreement to acquire Magma Design Automation, Inc. (Magma), on December 5, 2011, December 9, 2011, and December 13, 2011, purported Magma stockholders filed shareholder class action lawsuits against Magma, Magma's directors and the Company.

On December 5, 2011, plaintiff Dynetix Design Solutions, Inc. filed a patent infringement lawsuit against the Company.

We currently do not anticipate that a loss associated with these lawsuits is probable or reasonably estimable. See Note 14 for further information regarding these lawsuits.

Note 8. Stock Repurchase Program

The Company's Board of Directors (Board) previously approved a stock repurchase program pursuant to which the Company was authorized to purchase up to \$500.0 million of its common stock, and has periodically replenished the stock repurchase program to such amount. The Board most recently replenished the stock repurchase program up to \$500.0 million on May 25, 2011. The Company repurchases shares to offset dilution caused by ongoing stock issuances from existing plans for equity compensation awards, acquisitions, and when management believes it is a good use of cash. Repurchases are transacted in accordance with Rule 10b-18 of the Securities Exchange Act of 1934 (Exchange Act) and may be made through any means including, but not limited to, open market purchases, plans executed under Rule 10b5-1(c) of the Exchange Act and structured transactions. As of October 31, 2011, \$312.4 million remained available for further repurchases under the program.

On September 30, 2011, the Company entered into an accelerated share repurchase agreement (ASR) to repurchase an aggregate of \$75.0 million of the Company's common stock. Pursuant to the ASR, the Company made a prepayment of \$75.0 million and received an initial share delivery of 1,710,376 shares of the Company's common stock. The initial share delivery was valued at \$41.7 million and was recorded as treasury stock in the consolidated balance sheet. The remaining balance of \$33.3 million was recorded as an equity forward contract, which is included in "Capital in excess of par value" in the consolidated balance sheet as of October 31, 2011. Under the terms of the ASR, the specific number of shares that the Company ultimately repurchases will be based on the volume weighted average share price of the Company's common stock during the repurchase period, less a discount.

The following table summarizes stock repurchase activities as well as the reissuance of treasury stock for employee stock compensation purposes:

	Year Ended October 31,		
	2011	2010	2009
	(in thousands, except per share price)		
Shares repurchased	15,144	8,236	—
Average purchase price	\$ 26.53	\$22.42	—
Aggregate purchase price (1)	\$ 401.8	\$184.7	—
Reissuance of treasury stock	9,973	9,770	5,159

(1) Does not include \$33.3 million equity forward contract related to the above referenced ASR.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Note 9. Employee Benefit Plans

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan and International Employee Stock Purchase Plan (collectively, the ESPP), employees are granted the right to purchase shares of common stock at a price per share that is 85% of the lesser of the fair market value of the shares at (1) the beginning of a rolling two-year offering period or (2) the end of each semi-annual purchase period, subject to a plan limit on the number of shares that may be purchased in a purchase period.

During fiscal 2011, 2010 and 2009, the Company issued 2.2 million, 2.5 million, and 2.5 million shares, respectively, under the ESPP at average per share prices of \$17.95, \$15.32 and \$15.55, respectively. As of October 31, 2011, 2.8 million shares of common stock were reserved for future issuance under the ESPP.

Equity Compensation Plans

2006 Employee Equity Incentive Plan. On April 25, 2006, the Company's stockholders approved the 2006 Employee Equity Incentive Plan (2006 Employee Plan), which provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights and other forms of equity compensation, including performance stock awards and performance cash awards, as determined by the plan administrator. The terms and conditions of each type of award are set forth in the 2006 Employee Plan. Options granted under this plan have a contractual term of seven years. On March 24, 2011, the Company's stockholders approved an amendment to increase the number of shares of common stock reserved under the 2006 Employee Plan by 7.0 million shares for future issuance. As of October 31, 2011, an aggregate of 16.0 million stock options, and 3.5 million restricted stock units were outstanding, and 5.9 million shares were available for future issuance under the 2006 Employee Plan.

As a result of the stockholders' approval of the 2006 Employee Plan, the Company's 1992 Stock Option Plan, 1998 Non-Statutory Stock Option Plan and 2005 Assumed Stock Option Plan (collectively, the Prior Plans) have been terminated for future grants. Should any options currently outstanding under such Prior Plans and plans assumed by the Company in acquisitions prior to fiscal 2006 (6.4 million as of October 31, 2011) cancel or expire unexercised; they shall become available for future grant under the 2006 Employee Plan.

2005 Non-Employee Directors Equity Incentive Plan. On May 23, 2005, the Company's stockholders approved the 2005 Non-Employee Directors Equity Incentive Plan (the 2005 Directors Plan) and the reservation of 0.3 million shares of common stock for issuance there under. The 2005 Directors Plan provides for annual equity awards to non-employee directors in the form of either stock options or restricted stocks. On April 25, 2006, stockholders approved to increase the number of shares of common stock reserved under the 2005 Directors Plan by 0.5 million.

As of October 31, 2011, the Company has issued an aggregate of 246,041 shares of restricted stock awards with an aggregate grant date fair value of approximately \$5.4 million under the 2005 Directors Plan. The restricted stocks vest over a period of three years. In addition, the Company granted options to purchase 123,649 shares of common stock, which vest over a period of three to four years, with an aggregate grant date fair value of \$3.3 million to non-employee directors during fiscal 2007 and fiscal 2011. As of October 31, 2011, 53,916 shares of restricted stock and 123,649 stock options were outstanding and a total of 393,653 shares of common stock were reserved for future grant under the 2005 Directors Plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

1994 Non-Employee Directors Stock Option Plan. An aggregate of 333,332 stock options remained outstanding under the Company's 1994 Non-Employee Directors Stock Option Plan as of October 31, 2011, which expired as to future grants in October 2004.

Other Assumed Stock Plans through Acquisitions. In connection with the Company's acquisitions in fiscal 2008 and fiscal 2010, the Company assumed certain outstanding share-based awards of acquired companies. The amount of shares of the Company's common stock subject to such assumed equity awards is 2.8 million. If these equity awards are canceled, forfeited or expire unexercised, they do not become available for future grant. As of October 31, 2011, 0.8 million shares of the Company's common stock subject to such assumed equity awards remained outstanding.

Restricted Stock Units. Since fiscal 2007, restricted stock units are granted as part of the Company's new hire and annual incentive compensation program under the 2006 Employee Plan. Restricted stock units are valued based on the closing price of the Company's common stock on the grant date. In general, for non-executive officers, restricted stock units vest over three to four years and are subject to the employees' continuing service to the Company. For each restricted stock unit granted under the 2006 Employee Plan, a share reserve ratio is applied for the purpose of determining the remaining number of shares reserved for future grants under the plan. Prior to the second quarter of fiscal 2009, the share reserve ratio was 1.36 for each restricted stock unit granted, and an equivalent of 1.36 shares was deducted from the share reserve for each restricted stock unit issued. Likewise, each forfeited restricted stock unit increased the number of shares available for issuance by the applicable rate at the time of forfeiture. In the second quarter of fiscal 2010, the shareholders approved to amend the 2006 Employee Plan to prospectively change the reserve ratio from 1.36 to 2.18. On March 24, 2011, the shareholders approved to amend the 2006 Employee Plan to prospectively change the reserve ratio from 2.18 to 1.25.

The following table contains information concerning activities related to restricted stock units:

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In Years)	Aggregate Fair Value
	(in thousands, except per share and life amounts)			
Balance at October 31, 2008	2,676	\$25.45	1.61	
Granted	1,311	\$18.78		
Vested(2)(3)	(787)	\$25.64		\$14,859
Forfeited	(67)	\$24.64		
Balance at October 31, 2009	3,133	\$22.63	1.41	
Granted	1,228	\$22.00		
Assumed(1)	713	\$23.69		
Vested(2)(3)	(1,221)	\$22.40		\$27,345
Forfeited	(123)	\$22.51		
Balance at October 31, 2010	3,730	\$22.71	1.41	
Granted	1,483	\$26.89		
Vested(2)(3)	(1,522)	\$23.11		\$35,164
Forfeited	(237)	\$23.49		
Balance at October 31, 2011	<u>3,454</u>	\$24.28	1.48	

(1) The Company assumed restricted stock units outstanding under various plans through acquisitions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

- (2) Represents the market value of Synopsys common stock on the date the restricted stock unit vests.
- (3) The number of vested restricted stock units includes shares that were withheld on behalf of employees to satisfy the statutory tax withholding requirements.

The following table contains additional information concerning activities related to stock options and restricted stock units under all equity plans, other than shares available for grant under the 2005 Directors Plan:

	Options(2)				
	Available for Grant(3)	Options Outstanding	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
	(in thousands, except per share and life amounts)				
Balance at October 31, 2008	4,347	28,777	\$21.52	3.43	\$15,403
Options Granted	(1,395)	1,395	\$18.16		
Options Exercised	—	(2,112)	\$18.07		
Options Canceled/forfeited/expired	2,113	(2,242)	\$26.06		
Restricted stock units granted(1)	(2,476)				
Restricted stock units forfeited(1)	114				
Additional shares reserved	4,000				
Balance at October 31, 2009	6,703	25,818	\$21.22	2.89	\$58,267
Options Granted	(1,995)	1,995	\$21.30		
Options Assumed(2)		456	\$18.10		
Options Exercised		(6,465)	\$18.16		
Options Canceled/forfeited/expired	372	(620)	\$23.19		
Restricted stock units granted(1)	(2,677)				
Restricted stock units forfeited(1)	203				
Additional shares reserved	—				
Balance at October 31, 2010	2,606	21,184	\$21.83	2.80	\$90,013
Options Granted	(2,228)	2,270	\$26.07		
Options Exercised		(6,800)	\$20.53		
Options Canceled/forfeited/expired	550	(694)	\$27.24		
Restricted stock units granted(1)	(2,182)				
Restricted stock units forfeited(1)	165				
Additional shares reserved	7,000				
Balance at October 31, 2011	<u>5,911</u>	<u>15,960</u>	<u>\$22.76</u>	<u>2.97</u>	<u>\$74,068</u>
Vested and expected to vest as of					
October 31, 2011		<u>15,762</u>	<u>\$22.73</u>	<u>2.93</u>	<u>\$73,554</u>
Exercisable at October 31, 2011		<u>12,051</u>	<u>\$22.59</u>	<u>2.06</u>	<u>\$58,779</u>

- (1) These amounts do not reflect the actual number of restricted stock units granted or forfeited but rather the effect on the total remaining shares available for future grants after the application of the share reserve ratio. For more information about the share reserve ratio, please see *Restricted Stock Units* above.
- (2) The Company assumed options and stock appreciation rights (SARs) outstanding under various plans through acquisitions.

SYNOPSYS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

(3) Excluding shares reserved for future issuance under the 2005 Directors Plan.

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value based on stock options with an exercise price less than the Company's closing stock price of \$27.19 as of October 31, 2011. The pretax intrinsic value of options exercised and their average exercise prices were:

	Year Ended October 31,		
	2011	2010	2009
	(in thousands, except per share price)		
Exercise value	\$42,388	\$29,788	\$7,428
Average exercise price per share	\$ 20.53	\$ 18.16	\$18.07

The following table summarizes information about stock options outstanding as of October 31, 2011:

Range of Exercise Prices	Options Outstanding			Exercisable Options	
	Number Outstanding (in thousands)	Weighted-Average Remaining Contractual Life (In Years)	Weighted-Average Exercise Price	Number Exercisable (in thousands)	Weighted-Average Exercise Price
\$ 4.95 - \$17.64	2,285	2.49	\$16.15	1,941	\$16.26
\$17.70 - \$20.46	1,691	1.80	\$18.94	1,526	\$18.90
\$20.52 - \$21.10	2,629	2.31	\$20.96	2,167	\$20.95
\$21.12 - \$22.96	1,620	3.79	\$21.61	916	\$21.87
\$23.09 - \$24.70	1,630	4.03	\$23.60	1,035	\$23.69
\$24.92 - \$26.17	2,118	2.05	\$25.87	2,042	\$25.89
\$26.19 - \$27.01	1,959	5.84	\$26.79	429	\$26.66
\$27.04 - \$39.81	2,028	2.03	\$28.81	1,995	\$28.83
	<u>15,960</u>	2.97	\$22.76	<u>12,051</u>	\$22.59

Restricted stock award activities during fiscal 2011 under the 2005 Director Plan are summarized as follows:

	Restricted Shares	Weighted-Average Grant Date Fair Value
	(in thousands)	
Unvested at October 31, 2010	57	\$21.33
Granted	27	\$27.50
Vested	(30)	\$20.83
Forfeited	—	\$ —
Unvested at October 31, 2011	<u>54</u>	\$24.73

Valuation and Expense of Stock Compensation. The Company estimates the fair value of stock based awards in the form of stock options, employee stock purchases under employee stock purchase plans, restricted stock, and restricted stock units on the grant date. The value of awards expected to vest is recognized as expense over the applicable service periods. The Company uses the straight-line attribution method to recognize stock compensation costs over the service period of the award. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options, stock appreciation rights and employee stock purchase plans awards under ASC 718, *Compensation—Stock Compensation*. The Black-Scholes option-pricing model incorporates various subjective

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

assumptions including expected volatility, expected term and interest rates. The expected volatility for both stock options and stock purchase rights under the ESPP is estimated by a combination of implied volatility for publicly traded options of the Company's common stock with a term of six months or longer and the historical stock price volatility over the estimated expected term of the Company's stock-based awards. The expected term of the Company's stock-based awards is based on historical experience.

The assumptions used to estimate the fair value of stock options granted under the Company's stock option plans and stock purchase rights granted under the ESPP are as follows:

	Year Ended October 31,		
	2011	2010	2009
Stock Options			
Expected life (in years) . . .	4.8	3.65 - 5.73	4.60
Risk-free interest rate	0.96% - 2.28%	1.08% - 2.57%	1.43% - 2.43%
Volatility	26.96% - 30.30%	26.92% - 30.76%	31.28% - 44.86%
Weighted average estimated fair value	\$7.04	\$7.10	\$6.66
ESPP			
Expected life (in years) . . .	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Risk-free interest rate	0.09% - 0.68%	0.18% - 0.78%	0.32% - 0.94%
Volatility	19.48% - 27.08%	22.4% - 31.27%	30.93% - 45.14%
Weighted average estimated fair value	\$6.82	\$6.16	\$3.37

The following table presents stock compensation expense for fiscal 2011, 2010 and 2009, respectively:

	Year Ended October 31,		
	2011	2010	2009
	(in thousands)		
Cost of license	\$ 5,658	\$ 6,497	\$ 6,649
Cost of maintenance and service	1,416	1,908	2,166
Research and development expense	26,747	26,551	24,222
Sales and marketing expense	11,068	12,372	12,231
General and administrative expense	11,525	12,660	11,666
Stock compensation expense before taxes	56,414	59,988	56,934
Income tax benefit	(14,798)	(14,525)	(12,862)
Stock compensation expense after taxes	<u>\$ 41,616</u>	<u>\$ 45,463</u>	<u>\$ 44,072</u>

As of October 31, 2011, \$113.2 million of total unrecognized stock compensation expense is expected to be recognized over a weighted average period of 2.7 years.

The cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense recorded for the options (excess tax benefits) are classified as cash flows from financing activities. The Company has not recorded any excess tax benefits in fiscal periods 2011, 2010 and 2009, respectively.

Deferred Compensation Plan. The Company maintains the Synopsys Deferred Compensation Plan (the Deferred Plan), which permits eligible employees to defer up to 50% of their annual cash base compensation and up to 100% of their eligible cash variable compensation. Amounts may be

SYNOPSYS, INC.

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withdrawn from the Deferred Plan pursuant to elections made by the employees in accordance with the terms of the plan. Since the inception of the Deferred Plan, the Company has not made any matching or discretionary contributions to the Deferred Plan. There are no Deferred Plan provisions that provide for any guarantees or minimum return on investments. Undistributed amounts under the Deferred Plan are subject to the claims of the Company's creditors. These securities held by the Deferred Plan are classified as trading securities.

Deferred Plan Assets and Liabilities are as follows:

	As of October 31, 2011	As of October 31, 2010
	(In millions)	
Plan assets recorded in long-term other assets . .	\$ 90.1	\$ 83.3
Plan liabilities recorded in long-term other liabilities(1)	\$ 90.1	\$ 83.3

(1) For undistributed deferred compensation due to participants.

Income or loss from the change in fair value of the Deferred Plan assets is recorded in other income (expense), net. The increase or decrease in the fair value of the undistributed Deferred Plan obligation is recorded in total cost of revenue and operating expense. The following table summarizes the impact of the Deferred Plan:

	Year Ended October 31,		
	2011	2010	2009
	(in thousands)		
Increase (reduction) to cost of revenue and operating expense	\$2,449	\$9,426	\$8,957
Other income (expense), net	2,449	8,810	9,969
Net increase (decrease) to net income	<u>\$ —</u>	<u>\$ (616)</u>	<u>\$1,012</u>

Other Retirement Plans. The Company sponsors various retirement plans for its eligible U.S. and non-U.S. employees. Total contributions to these plans were \$21.4 million, \$14.7 million and \$14.5 million in fiscal 2011, 2010 and 2009, respectively. For employees in the United States and Canada, the Company matches pretax employee contributions up to a maximum of US \$1,500 and Canadian \$4,000, respectively, per participant per year.

Note 10. Income Taxes

The domestic and foreign components of the Company's total income before provision for income taxes are as follows:

	Year Ended October 31,		
	2011	2010	2009
	(in thousands)		
United States	\$ 40,434	\$ 57,795	\$ 72,681
Foreign	178,679	140,863	160,389
	<u>\$219,113</u>	<u>\$198,658</u>	<u>\$233,070</u>

SYNOPSYS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

The components of the (benefit) provision for income taxes were as follows:

	Year Ended October 31,		
	2011	2010	2009
	(in thousands)		
Current:			
Federal	\$ (6,436)	\$(17,097)	\$ 1,813
State	(2,197)	8	8,236
Foreign	474	25,421	14,450
	(8,159)	8,332	24,499
Deferred:			
Federal	(7,160)	(25,156)	38,368
State	(2,456)	(9,309)	(2,875)
Foreign	15,524	(12,272)	5,397
	5,908	(46,737)	40,890
(Benefit) provision for income taxes	<u>\$ (2,251)</u>	<u>\$(38,405)</u>	<u>\$65,389</u>

The (benefit) provision for income taxes differs from the taxes computed with the statutory federal income tax rate as follows:

	Year Ended October 31,		
	2011	2010	2009
	(in thousands)		
Statutory federal tax	\$ 76,689	\$ 69,530	\$ 81,575
State tax (benefit), net of federal effect	(4,988)	(2,491)	2,055
Tax credits	(19,042)	(7,451)	(7,326)
Tax exempt income	(354)	(1,479)	(2,732)
Tax on foreign earnings less than U.S. statutory tax	(28,968)	(11,615)	(23,558)
Tax settlements	(32,782)	(73,045)	—
Stock based compensation	7,817	5,336	13,488
Changes in valuation allowance	49	(21,612)	—
Other	(672)	4,422	1,887
	<u>\$ (2,251)</u>	<u>\$(38,405)</u>	<u>\$ 65,389</u>

SYNOPSYS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

The significant components of deferred tax assets and liabilities were as follows:

	October 31,	
	2011	2010
	(in thousands)	
Net deferred tax assets:		
Deferred tax assets:		
Accruals and reserves	\$ 16,274	\$ 15,375
Deferred revenue	47,603	53,574
Deferred compensation	36,975	32,062
Capitalized costs	98,420	102,706
Capitalized research and development costs	45,710	30,214
Stock compensation	32,186	41,370
Tax loss carryovers	36,515	54,167
Foreign tax credit carryovers	23,759	29,549
Research and other tax credit carryovers	74,110	68,345
Capital loss carryovers	1,896	7,558
Other	1,349	2,357
Gross deferred tax assets	414,797	437,277
Valuation allowance	(13,395)	(14,684)
Total deferred tax assets	401,402	422,593
Deferred tax liabilities:		
Intangible assets	49,948	63,276
Undistributed earnings of foreign subsidiaries	12,631	17,331
Total deferred tax liabilities	62,579	80,607
Net deferred tax assets	<u>\$338,823</u>	<u>\$341,986</u>

The valuation allowance decreased by \$1.3 million which is related principally to capital loss carryforwards. It is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining deferred tax assets.

The Company has the following tax loss and credit carryforwards available to offset future income tax liabilities:

<u>Carryforward</u>	<u>Amount</u>	<u>Expiration</u>
	(in thousands)	Date
Federal net operating loss carryforward	\$89,349	2018-2030
Federal research credit carryforward	74,388	2018-2031
Foreign tax credit carryforward	25,662	2012-2021
State research credit carryforward	67,757	Indefinite

The federal net operating loss carryforward is from acquired companies and the annual use of such loss is subject to significant limitations under Internal Revenue Code Section 382. Foreign tax credits may only be used to offset tax attributable to foreign source income. The fiscal year 2010 federal research tax credit that expired as of December 31, 2009 was reinstated through December 31, 2011.

The Company has unrecognized deferred tax assets of approximately \$36.8 million as of October 31, 2011 attributable to excess tax deductions related to stock options, the benefit of which will be credited to equity when realized.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

The Company has not provided taxes for undistributed earnings of its foreign subsidiaries except to the extent that the Company does not plan to reinvest such earnings indefinitely outside the United States. If the cumulative foreign earnings exceed the amount the Company intends to reinvest in foreign countries in the future, the Company would provide for taxes on such excess amount. As of October 31, 2011, there was approximately \$530 million of earnings upon which U.S. income taxes of approximately \$114 million have not been provided for.

The gross unrecognized tax benefits decreased by approximately \$36.0 million during fiscal 2011, resulting in gross unrecognized tax benefits of \$177.9 million as of October 31, 2011. A reconciliation of the beginning and ending balance of gross unrecognized tax benefits is summarized as follows:

	<u>2011</u>	<u>2010</u>
	(in thousands)	
Beginning balance	\$213,923	\$253,861
Increases in unrecognized tax benefits related to prior year tax positions	4,188	9,243
Decreases in unrecognized tax benefits related to prior year tax positions	(44,061)	(78,464)
Increases in unrecognized tax benefits related to current year tax positions	19,922	38,505
Decreases in unrecognized tax benefits related to settlements with taxing authorities	(1,258)	(14,962)
Reductions in unrecognized tax benefits due to lapse of applicable statute of limitations	(15,200)	(12,686)
Increases in unrecognized tax benefits acquired	350	15,966
Changes in unrecognized tax benefits due to foreign currency translation	29	2,460
Balance as of October 31	<u>\$177,893</u>	<u>\$213,923</u>

As of October 31, 2011 and 2010, approximately \$177 million and \$202 million, respectively, of the unrecognized tax benefits would affect our effective tax rate if recognized upon resolution of the uncertain tax positions.

Interest and penalties related to estimated obligations for tax positions taken in the Company's tax returns are recognized as a component of income tax expense in the consolidated statements of operations and totaled approximately \$2.8 million, \$3.4 million and \$2.0 million for fiscal 2011, 2010 and 2009, respectively. As of October 31, 2011 and 2010, the combined amount of accrued interest and penalties related to tax positions taken on the Company's tax returns was approximately \$7.4 million and \$7.3 million, respectively.

In March 2010, in a case between Xilinx, Inc. and the IRS, the U.S. Court of Appeals for the Ninth Circuit issued a decision affirming an earlier U.S. Tax Court ruling that stock option compensation does not need to be included in the costs shared under a cost sharing arrangement. In July 2010, the IRS announced that it would acquiesce to the result of the Xilinx decision and issued an Action on Decision (AOD) in August 2010. As a result of this announcement, in fiscal year 2010, the Company reversed certain tax liabilities which were originally recorded in fiscal year 2009 and recorded a credit to additional paid-in capital.

The Company files income tax returns in the United States and various state and local jurisdictions. Its subsidiaries file tax returns in various foreign jurisdictions, including Ireland, Hungary,

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Taiwan and Japan. The Company remains subject to income tax examinations in the United States for fiscal years after 2009. In Ireland, Hungary, Taiwan and Japan, the Company's subsidiaries remain subject to tax examinations for fiscal years after 2005. See *IRS Examinations* below for the status of our current federal income tax audits.

The timing of the resolution of income tax examinations is highly uncertain as well as the amounts and timing of various tax payments that are part of the settlement process. This could cause large fluctuations in the balance sheet classification of current and non-current assets and liabilities. The Company believes that in the coming 12 months, it is reasonably possible that the statute of limitations on certain state and foreign income and withholding taxes will expire. Given the uncertainty as to ultimate settlement terms, the timing of payment and the impact of such settlements on other uncertain tax positions, the range of the estimated potential decrease in underlying unrecognized tax benefits is between \$0 and \$110 million.

IRS Examinations

The Company is regularly audited by the IRS. In fiscal 2011, the Company reached a final settlement with the Examination Division of the IRS for its audits of fiscal years 2006 through 2009. As a result of the settlement, the Company's unrecognized tax benefits decreased by \$35.9 million and the impact to other balance sheet tax accounts was not material. The net tax benefit resulting from the settlement was \$32.8 million.

The audit of certain returns filed by Synplicity, Inc. prior to its acquisition by the Company in May 2008 was finalized in the first quarter of fiscal 2011, which resulted in a decrease in unrecognized tax benefits of \$4.0 million.

In fiscal 2010, the Company reached a settlement with the IRS that resolved certain disputes related to the Company's acquisition of Avant! Corporation in 2002 that arose in the audit of its fiscal years 2002 through 2004. This settlement resulted in a decrease in the Company's tax expense for fiscal 2010 of approximately \$94.3 million, which is primarily due to the release of previously established tax liabilities of \$67.8 million, as well as a release of a valuation allowance of \$21.6 million for foreign tax credits which were utilized in connection with the settlement.

In fiscal 2010, as a result of the IRS settlement of fiscal years 2002 through 2004, the Company's net deferred tax assets increased by \$55.4 million. The change is due primarily to increases in its deferred tax assets of \$72.3 million for certain costs that have been capitalized for tax purposes and will be amortized in future periods, partially offset by a decrease to deferred tax assets of \$25.2 million, due to the use of the Company's foreign tax credit carryover, net of the reversal of a valuation allowance.

Non-U.S. Examinations

The Company's subsidiaries are being audited in a number of jurisdictions, including Taiwan (for fiscal 2008 and 2010) and Hungary (for fiscal 2007 and fiscal 2008). The Company believes that it has adequately provided for potential tax adjustments in both jurisdictions, including interest. The Hungarian tax authorities have disallowed the Company's claim to tax benefits with respect to certain intercompany charges, which would result in additional tax and interest for the years under examination and for subsequent years. In addition, Hungarian tax rules provide for penalties of up to 50% of the amount of additional tax which may be abated if certain requirements are met, and are subject to further administrative appeal. The Company believes that it has meritorious defenses against the imposition of significant penalties and accordingly has not provided for such penalties in its financial statements.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Note 11. Other Income (Expense), Net

The following table presents the components of other income (expense), net:

	Year Ended October 31,		
	2011	2010	2009
		(in thousands)	
Interest income	\$2,117	\$ 5,396	\$10,831
Gain (loss) on investments	(64)	3,846	(6,442)
Gain (loss) on assets related to deferred compensation plan	2,426	8,810	9,969
Foreign currency exchange gain (loss)	1,655	(1,514)	7,097
Other, net	136	(1,990)	3,364
Total	<u>\$6,270</u>	<u>\$14,548</u>	<u>\$24,819</u>

Note 12. Segment Disclosure

ASC 280, *Segment Reporting*, requires disclosures of certain information regarding operating segments, products and services, geographic areas of operation and major customers. Segment reporting is based upon the “management approach,” i.e., how management organizes the Company’s operating segments for which separate financial information is (1) available and (2) evaluated regularly by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources and in assessing performance. Synopsys’ CODMs are the Company’s Chief Executive Officer and Chief Operating Officer.

The Company provides software products and consulting services in the EDA software industry. The Company operates in a single segment. In making operating decisions, the CODMs primarily consider consolidated financial information, accompanied by disaggregated information about revenues by geographic region. Specifically, the CODMs consider where individual “seats” or licenses to the Company’s products are used in allocating revenue to particular geographic areas. Revenue is defined as revenues from external customers. Goodwill is not allocated since the Company operates in one reportable operating segment. Revenues and property and equipment, net, related to operations in the United States and other by geographic areas were:

	Year Ended October 31,		
	2011	2010	2009
		(in thousands)	
Revenue:			
United States	\$ 714,036	\$ 667,956	\$ 664,911
Europe	207,071	183,831	196,916
Japan	275,174	256,454	264,642
Asia Pacific and Other	339,362	272,420	233,576
Consolidated	<u>\$1,535,643</u>	<u>\$1,380,661</u>	<u>\$1,360,045</u>
		As of October 31,	
		2011	2010
		(in thousands)	
Property and Equipment, net:			
United States	\$121,101	\$116,781	
Other countries	38,416	31,799	
Total	<u>\$159,517</u>	<u>\$148,580</u>	

Geographic revenue data for multiregional, multi-product transactions reflect internal allocations and is therefore subject to certain assumptions and to the Company’s methodology.

SYNOPSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

One customer, in the aggregate, accounted for 10.6%, 10.9%, and 10.8% of the Company's consolidated revenue in fiscal 2011, 2010 and 2009, respectively.

Note 13. Effect of New Accounting Pronouncements

In September 2011, the FASB issued guidance regarding goodwill impairment tests. The new guidance states that a "qualitative" assessment may be performed to determine whether further impairment testing is necessary. The new guidance will be effective in the first quarter of fiscal 2013 and early adoption is permitted. The Company does not believe the adoption of the guidance will have a material impact on its consolidated financial statements.

In June 2011, the FASB issued new guidance regarding the presentation of comprehensive income (loss) in financial statements to require an entity to present the total of comprehensive income (loss), the components of net income, and the components of other comprehensive income (loss) either in a single continuous statement of comprehensive income (loss) or in two separate but consecutive statements. The guidance eliminates the option to present the components of other comprehensive income (loss) as part of the statement of equity. The new guidance will be effective on a retrospective basis in the first quarter of fiscal 2013 and early adoption is permitted. The Company is currently assessing the impact of adoption of the guidance on its consolidated financial statements.

In May 2011, the FASB issued new guidance for fair value measurements to achieve common fair value measurement and disclosure requirements. The new requirements are effective on a prospective basis in the first quarter of fiscal 2013. The Company is currently assessing the impact of adoption of the guidance on its consolidated financial statements.

Note 14. Subsequent Events

On November 30, 2011, the Company entered into a definitive agreement pursuant to which the Company, through its wholly owned subsidiary, has agreed to acquire 100% of the outstanding common stock of Magma in exchange for cash. The consummation of the acquisition is subject to certain conditions, including approval by Magma's stockholders and receipt of regulatory approvals. Subject to the receipt of all required approvals, it is currently anticipated that the closing of the acquisition will occur around the end of the second calendar quarter of 2012. The Company has agreed to pay \$7.35 per share for each outstanding share of Magma common stock for a total of approximately \$507 million net of cash and debt acquired. In addition, we have agreed to assume certain unvested equity awards of Magma in exchange for equity awards of the Company.

In connection with our definitive agreement to acquire Magma, on December 5, 2011, December 9, 2011 and December 13, 2011, purported Magma stockholders filed shareholder class action lawsuits against Magma, Magma's directors and Synopsys. The lawsuits allege, among other things, that Magma and its directors breached their fiduciary duties to Magma's stockholders in negotiating and entering into the definitive agreement and by agreeing to sell Magma at an unfair price, pursuant to an unfair process and pursuant to unreasonable terms, and that Synopsys aided and abetted these alleged breaches of fiduciary duties. The lawsuits seek, among other things, to enjoin consummation of the acquisition and monetary damages.

On December 5, 2011, plaintiff Dynetix Design Solutions, Inc. filed a patent infringement lawsuit against the Company. The lawsuit alleges, among other things, that the Company's VCS functional verification tool, and more specifically its VCS multicore technology, infringes Dynetix's United States Patent No. 6,466,898, and that such infringement is willful. The lawsuit seeks, among other things, compensatory damages and a permanent injunction.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

- (a) *Evaluation of Disclosure Controls and Procedures.* As of October 31, 2011, Synopsys carried out an evaluation under the supervision and with the participation of Synopsys' management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Synopsys' disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives. Our Chief Executive Officer and Chief Financial Officer have concluded that, as of October 31, 2011, (1) Synopsys' disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, and (2) Synopsys' disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports Synopsys files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required, and that such information is accumulated and communicated to Synopsys' management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding its required disclosure.

- (b) *Management's Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for Synopsys.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of October 31, 2011. In making this assessment, our management used the framework established in *Internal Control Integrated Framework* issued by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Our management has concluded that, as of October 31, 2011, our internal control over financial reporting was effective based on these criteria. Our independent registered public accounting firm, KPMG LLP, has issued an auditors' report on the effectiveness of our internal control over financial reporting, which is included herein.

- (c) *Changes in Internal Control Over Financial Reporting.* There were no changes in Synopsys' internal control over financial reporting during the fiscal quarter ended October 31, 2011 that have materially affected, or are reasonably likely to materially affect, Synopsys' internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

For information with respect to our executive officers, see *Executive Officers of the Registrant* in Part I, Item 1 of this Annual Report.

All other information required by this Item is incorporated by reference herein from our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders (the Proxy Statement) scheduled to be held on April 3, 2012.

Item 11. *Executive Compensation*

The information required by this Item is incorporated herein by reference from the Proxy Statement.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item is incorporated herein by reference from the Proxy Statement.

Item 13. *Certain Relationships and Related Transactions and Director Independence*

The information required by this Item is incorporated herein by reference from the Proxy Statement.

Item 14. *Principal Accountant Fees and Services*

The information required by this Item is incorporated herein by reference from the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Form 10-K:

(1) Financial Statements

The following documents are included as Part II, Item 8 of this Form 10-K:

	Page
Report of Independent Registered Public Accounting Firm	46
Consolidated Balance Sheets	47
Consolidated Statements of Operations	48
Consolidated Statements of Stockholders' Equity and Comprehensive Income	49
Consolidated Statements of Cash Flows	50
Notes to Consolidated Financial Statements	51

(2) Financial Statement Schedules

None.

(3) Exhibits

See Item 15(b) below.

(b) Exhibits

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Agreement and Plan of Merger among Synopsys, Inc., Magma Design Automation, Inc. and Lotus Acquisition Corp. dated November 30, 2011	8-K	000-19807	2.1	12/01/11	
3.1	Amended and Restated Certificate of Incorporation	10-Q	000-19807	3.1	09/15/03	
3.2	Amended and Restated Bylaws	8-K	000-19807	3.2	06/03/09	
4.1	Specimen Common Stock Certificate	S-1	33-45138	4.3	02/24/92 (effective date)	
10.1	Form of Indemnification Agreement for directors and executive officers	8-K	000-19807	99.2	07/14/11	
10.2	Director's and Officer's Insurance and Company Reimbursement Policy	S-1	33-45138	10.2	02/24/92 (effective date)	
10.3	Lease Agreement, dated August 17, 1990, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Separate Property Trust), as amended, and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	S-1	33-45138	10.6	02/24/92 (effective date)	
10.4*	Deferred Compensation Plan as restated effective August 1, 2002	10-Q	000-19807	10.5	06/10/04	
10.5	Lease Agreement, dated June 16, 1992, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Separate Property Trust), as amended, and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.15	Fiscal year ended September 30, 1992	
10.6	Lease Agreement, dated June 23, 1993, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Separate Property Trust), as amended, and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.16	Fiscal year ended September 30, 1993	

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.7	Lease Agreement, dated August 24, 1995, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Separate Property Trust), as amended, and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.21	Fiscal year ended September 30, 1995	
10.8	Amendment No. 6 to Lease, dated July 18, 2001, amending Lease Agreement dated August 17, 1990, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1997 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1997 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.10	12/21/07	
10.9	Amendment No. 5 to Lease dated October 4, 1995, amending Lease Agreement dated August 17, 1990, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1997 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1997 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.11	12/21/07	
10.10	Amendment No. 3 to Lease, dated June 23, 1993, amending Lease Agreement dated August 17, 1990, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.12	12/21/07	
10.11	Amendment No. 1 to Lease, dated June 16, 1992, amending Lease Agreement dated August 17, 1990, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.13	12/21/07	

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.12	Amendment No. 4 to Lease, dated July 18, 2001, amending Lease Agreement dated June 16, 1992, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.14	12/21/07	
10.13	Amendment No. 3 to Lease, dated October 4, 1995, amending Lease Agreement dated June 16, 1992, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.15	12/21/07	
10.14	Amendment No. 3 to Lease, dated July 18, 2001, amending Lease Agreement dated June 23, 1993, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.16	12/21/07	
10.15	Amendment No. 2 to Lease, dated October 4, 1995, amending Lease Agreement dated June 23, 1993, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.17	12/21/07	
10.16	Amendment No. 1 to Lease, dated July 18, 2001, amending Lease Agreement dated August 24, 1995, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.18	12/21/07	
10.17	Lease dated January 2, 1996 between Synopsys, Inc. and Tarigo-Paul, a California Limited Partnership	10-Q	000-19807	10.28	05/14/96	

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.18	Notification of Change of Ownership of Leased Premises—Effective April 25, 2006, notifying Synopsys, Inc. of the change of ownership under multiple leases	10-K	000-19807	10.20	12/21/07	
10.19	Lease Agreement dated October 14, 2011 between Synopsys, Inc. and 690 E. Middlefield Road Fee, LLC					X
10.20*	1992 Stock Option Plan, as amended and restated	10-K	000-19807	10.29	01/25/02	
10.21*	Employee Stock Purchase Plan, as amended	8-K	000-19807	10.21	03/31/10	
10.22*	International Employee Stock Purchase Plan, as amended	10-K	000-19807	10.22	12/22/08	
10.23*	Synopsys Amended and Restated Deferred Compensation Plan II	10-Q	000-19807	10.23	3/09/09	
10.24*	1994 Non-Employee Directors Stock Option Plan, as amended and restated	10-Q	000-19807	10.1	09/15/03	
10.25*	1998 Nonstatutory Stock Option Plan	S-8	333-90643	10.1	11/09/99	
10.26	Credit Agreement dated October 20, 2006 among Synopsys, Inc., as Borrower, the Several Lenders from Time to Time Parties thereto, BNP Paribas and Wells Fargo Bank, N.A., as Co-Documentation Agents, Bank of America as Syndication Agent, and JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	000-19807	10.25	10/25/06	
10.27	Credit Agreement, dated October 14, 2011, among Synopsys, Inc. as Borrower, the several Lenders from time to time parties thereto, Bank of America, N.A. and Wells Fargo Bank, N.A. as Co-Syndication Agents, HSBC Bank USA, N.A. and Union Bank, N.A. as Co-Documentation Agents, and JPMorgan Chase Bank, N.A. as Administrative Agent	8-K	000-19807	10.43	10/18/11	
10.28*	Form of Stock Option Agreement under 1992 Stock Option Plan	10-K	000-19807	10.27	01/12/05	
10.29*	Director Compensation Arrangements					
10.30*	2005 Non-Employee Director Equity Incentive Plan, as amended	8-K	000-19807	10.30	03/31/10	
10.31*	Synopsys, Inc. 2005 Assumed Stock Option Plan	8-K	000-19807	10.34	09/12/05	
10.32*	Form of Amended and Restated Executive Change of Control Severance Benefit Plan	10-K	000-19807	10.32	12/22/08	
10.33*	Form of Restricted Stock Grant Notice and Award Agreement under 2005 Non-Employee Directors Equity Incentive Plan					X
10.34*	Form of Stock Options Grant Notice and Option Agreement under 2005 Non-Employee Directors Equity Incentive Plan					X
10.35*	2006 Employee Equity Incentive Plan, as amended	8-K	000-19807	10.33	03/25/11	
10.36*	Form of Restricted Stock Unit Grant Notice and Award Agreement under 2006 Employee Equity Incentive Plan	10-Q	000-19807	10.37	09/02/11	

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.37*	Form of Notice of Grant of Stock Options and Option Agreement under 2006 Employee Equity Incentive Plan	10-Q	000-19807	10.34	09/02/11	
10.38	Second Amendment to Lease dated August 31, 2006 amending Mary Avenue Industrial Lease between Synopsys, Inc. and Tarigo-Paul, LLC dated January 2, 1996	8-K	000-19807	10.41	09/12/06	
10.39	First Amendment to Lease dated July 15, 1996 amending Mary Avenue Industrial Lease between Synopsys, Inc. and Tarigo-Paul, LLC dated January 2, 1996	8-K	000-19807	10.42	09/12/06	
10.40*	ISE Milestone Compensation Plan	10-K	000-19807	10.48	12/21/07	
10.41*	Executive Incentive Plan 162(m)	8-K	000-19807	10.42	01/28/10	
10.42*	Amended and Restated Employment Agreement, dated June 2, 2008, between Synopsys, Inc. and Dr. Aart de Geus	8-K	000-19807	10.50	06/03/08	
10.43*	Amended and Restated Employment Agreement, dated June 2, 2008, between Synopsys, Inc. and Dr. Chi-Foon Chan	8-K	000-19807	10.51	06/03/08	
10.44*	Compensation Recovery Policy	10-K	000-19807	10.46	12/22/08	
21.1	Subsidiaries of Synopsys, Inc.					X
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm					X
24.1	Power of Attorney (see signature page to this annual report)					X
31.1	Certification of Chief Executive Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
31.2	Certification of Chief Financial Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
32.1	Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code					X
101.INS**	XBRL Instance Document					X
101.SCH**	XBRL Taxonomy Extension Schema Document					X
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document					X

* Indicates a management contract, compensatory plan or arrangement.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SYNOPSYS, INC.

Date: December 15, 2011

By: /s/ Brian M. Beattie

Brian M. Beattie
Chief Financial Officer
(Principal Financial Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Aart J. de Geus and Brian M. Beattie, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and reconstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Name</u>	<u>Title</u>	<u>Date</u>
/s/ AART J. DE GEUS Aart J. de Geus	Chief Executive Officer (Principal Executive Officer) and Chairman of the Board of Directors	December 15, 2011
/s/ BRIAN M. BEATTIE Brian M. Beattie	Chief Financial Officer (Principal Financial Officer)	December 15, 2011
/s/ ESFANDIAR NADDAF Esfandiar Naddaf	Vice President, Corporate Controller (Principal Accounting Officer)	December 15, 2011
/s/ CHI-FOON CHAN Chi-Foon Chan	President, Chief Operating Officer and Director	December 15, 2011
/s/ ALFRED J. CASTINO Alfred J. Castino	Director	December 15, 2011
/s/ BRUCE R. CHIZEN Bruce R. Chizen	Director	December 15, 2011
/s/ DEBORAH A. COLEMAN Deborah A. Coleman	Director	December 15, 2011
/s/ CHRYSOSTOMOS L. NIKIAS Chrysostomos L. Nikias	Director	December 15, 2011
/s/ JOHN G. SCHWARZ John G. Schwarz	Director	December 15, 2011
/s/ ROY VALLEE Roy Vallee	Director	December 15, 2011
/s/ STEVEN C. WALSKE Steven C. Walske	Director	December 15, 2011

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Agreement and Plan of Merger among Synopsys, Inc., Magma Design Automation, Inc. and Lotus Acquisition Corp. dated November 30, 2011	8-K	000-19807	2.1	12/01/11	
3.1	Amended and Restated Certificate of Incorporation	10-Q	000-19807	3.1	09/15/03	
3.2	Amended and Restated Bylaws	8-K	000-19807	3.2	06/03/09	
4.1	Specimen Common Stock Certificate	S-1	33-45138	4.3	02/24/92 (effective date)	
10.1	Form of Indemnification Agreement for directors and executive officers	8-K	000-19807	99.2	07/14/11	
10.2	Director's and Officer's Insurance and Company Reimbursement Policy	S-1	33-45138	10.2	02/24/92 (effective date)	
10.3	Lease Agreement, dated August 17, 1990, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Separate Property Trust), as amended, and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	S-1	33-45138	10.6	02/24/92 (effective date)	
10.4*	Deferred Compensation Plan as restated effective August 1, 2002	10-Q	000-19807	10.5	06/10/04	
10.5	Lease Agreement, dated June 16, 1992, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Separate Property Trust), as amended, and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.15	Fiscal year ended September 30, 1992	
10.6	Lease Agreement, dated June 23, 1993, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Separate Property Trust), as amended, and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.16	Fiscal year ended September 30, 1993	
10.7	Lease Agreement, dated August 24, 1995, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Separate Property Trust), as amended, and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.21	Fiscal year ended September 30, 1995	
10.8	Amendment No. 6 to Lease, dated July 18, 2001, amending Lease Agreement dated August 17, 1990, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1997 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1997 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.10	12/21/07	

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.9	Amendment No. 5 to Lease dated October 4, 1995, amending Lease Agreement dated August 17, 1990, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1997 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1997 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.11	12/21/07	
10.10	Amendment No. 3 to Lease, dated June 23, 1993, amending Lease Agreement dated August 17, 1990, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.12	12/21/07	
10.11	Amendment No. 1 to Lease, dated June 16, 1992, amending Lease Agreement dated August 17, 1990, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.13	12/21/07	
10.12	Amendment No. 4 to Lease, dated July 18, 2001, amending Lease Agreement dated June 16, 1992, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.14	12/21/07	
10.13	Amendment No. 3 to Lease, dated October 4, 1995, amending Lease Agreement dated June 16, 1992, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.15	12/21/07	
10.14	Amendment No. 3 to Lease, dated July 18, 2001, amending Lease Agreement dated June 23, 1993, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.16	12/21/07	
10.15	Amendment No. 2 to Lease, dated October 4, 1995, amending Lease Agreement dated June 23, 1993, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.17	12/21/07	

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.16	Amendment No. 1 to Lease, dated July 18, 2001, amending Lease Agreement dated August 24, 1995, between Synopsys, Inc. and John Arrillaga, Trustee, or his successor trustee, UTA dated July 20, 1977 (John Arrillaga Survivor's Trust), and Richard T. Peery, Trustee, or his successor trustee, UTA dated July 20, 1977 (Richard T. Peery Separate Property Trust), as amended	10-K	000-19807	10.18	12/21/07	
10.17	Lease dated January 2, 1996 between Synopsys, Inc. and Tarigo-Paul, a California Limited Partnership	10-Q	000-19807	10.28	05/14/96	
10.18	Notification of Change of Ownership of Leased Premises—Effective April 25, 2006, notifying Synopsys, Inc. of the change of ownership under multiple leases	10-K	000-19807	10.20	12/21/07	
10.19	Lease Agreement dated October 14, 2011 between Synopsys, Inc. and 690 E. Middlefield Road Fee, LLC					X
10.20*	1992 Stock Option Plan, as amended and restated	10-K	000-19807	10.29	01/25/02	
10.21*	Employee Stock Purchase Plan, as amended	8-K	000-19807	10.21	03/31/10	
10.22*	International Employee Stock Purchase Plan, as amended	10-K	000-19807	10.22	12/22/08	
10.23*	Synopsys Amended and Restated Deferred Compensation Plan II	10-Q	000-19807	10.23	3/09/09	
10.24*	1994 Non-Employee Directors Stock Option Plan, as amended and restated	10-Q	000-19807	10.1	09/15/03	
10.25*	1998 Nonstatutory Stock Option Plan	S-8	333-90643	10.1	11/09/99	
10.26	Credit Agreement dated October 20, 2006 among Synopsys, Inc., as Borrower, the Several Lenders from Time to Time Parties thereto, BNP Paribas and Wells Fargo Bank, N.A., as Co-Documentation Agents, Bank of America as Syndication Agent, and JPMorgan Chase Bank, N.A., as Administrative Agent	8-K	000-19807	10.25	10/25/06	
10.27	Credit Agreement, dated October 14, 2011, among Synopsys, Inc. as Borrower, the several Lenders from time to time parties thereto, Bank of America, N.A. and Wells Fargo Bank, N.A. as Co-Syndication Agents, HSBC Bank USA, N.A. and Union Bank, N.A. as Co-Documentation Agents, and JPMorgan Chase Bank, N.A. as Administrative Agent	8-K	000-19807	10.43	10/18/11	
10.28*	Form of Stock Option Agreement under 1992 Stock Option Plan	10-K	000-19807	10.27	01/12/05	
10.29*	Director Compensation Arrangements					
10.30*	2005 Non-Employee Director Equity Incentive Plan, as amended	8-K	000-19807	10.30	03/31/10	
10.31*	Synopsys, Inc. 2005 Assumed Stock Option Plan	8-K	000-19807	10.34	09/12/05	
10.32*	Form of Amended and Restated Executive Change of Control Severance Benefit Plan	10-K	000-19807	10.32	12/22/08	
10.33*	Form of Restricted Stock Grant Notice and Award Agreement under 2005 Non-Employee Directors Equity Incentive Plan					X
10.34*	Form of Stock Options Grant Notice and Option Agreement under 2005 Non-Employee Directors Equity Incentive Plan					X
10.35*	2006 Employee Equity Incentive Plan, as amended	8-K	000-19807	10.33	03/25/11	
10.36*	Form of Restricted Stock Unit Grant Notice and Award Agreement under 2006 Employee Equity Incentive Plan	10-Q	000-19807	10.37	09/02/11	

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10.38	Second Amendment to Lease dated August 31, 2006 amending Mary Avenue Industrial Lease between Synopsys, Inc. and Tarigo-Paul, LLC dated January 2, 1996	8-K	000-19807	10.41	09/12/06	
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10.41*	Executive Incentive Plan 162(m)	8-K	000-19807	10.42	01/28/10	
10.42*	Amended and Restated Employment Agreement, dated June 2, 2008, between Synopsys, Inc. and Dr. Aart de Geus	8-K	000-19807	10.50	06/03/08	
10.43*	Amended and Restated Employment Agreement, dated June 2, 2008, between Synopsys, Inc. and Dr. Chi-Foon Chan	8-K	000-19807	10.51	06/03/08	
10.44*	Compensation Recovery Policy	10-K	000-19807	10.46	12/22/08	
21.1	Subsidiaries of Synopsys, Inc.					X
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm					X
24.1	Power of Attorney (see signature page to this annual report)					X
31.1	Certification of Chief Executive Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
31.2	Certification of Chief Financial Officer furnished pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
32.1	Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code					X
101.INS**	XBRL Instance Document					X
101.SCH**	XBRL Taxonomy Extension Schema Document					X
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document					X

* Indicates a management contract, compensatory plan or arrangement.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

690 E. MIDDLEFIELD ROAD LEASE AGREEMENT

by and between

690 E. MIDDLEFIELD ROAD FEE, LLC

("Landlord")

and

SYNOPSYS, INC.

("Tenant")

BASIC LEASE INFORMATION

Lease Date: October 14, 2011

LANDLORD: 690 E. MIDDLEFIELD ROAD FEE, LLC,
a Delaware limited liability company

Managing Agent: Dostart Development Company, LLC

Landlord's and Managing Agent's Address: 690 E. Middlefield Road Fee, LLC
145 Addison Avenue
Palo Alto, CA 94301
steve@dostart.com
mollie@dostart.com

With Copies To:

Rockwood Capital, LLC
2 Embarcadero Center, Suite 2360
San Francisco, CA 94111
Attn: Peter Kaye or 690 E. Middlefield Asset Manager
pkaye@rockwoodcap.com

and

Buchalter Nemer
333 Market Street, 25th Floor
San Francisco, CA 94105
Attn: Thomas M. Sherwood
tsherwood@buchalter.com

TENANT: SYNOPSIS, INC.,
a Delaware corporation

Tenant's Address: For Notice:

Synopsys
700 E. Middlefield Road
Mountain View, CA 94043
Attn: Vice President, Real Estate and Facilities
barbarad@synopsys.com
janc@synopsys.com

For Billing:

Synopsys
700 E. Middlefield Road
Mountain View, CA 94043
Attn: Vice President, Real Estate and Facilities
janc@synopsys.com

Land: The approximately 15.56 acre site located at 690 E.

	Middlefield Road, Mountain View, California described on <u>Exhibit A-1</u> (the " <u>Land</u> ")
Buildings:	690 E. Middlefield Road, Mountain View, California
Premises:	Entirety of both Buildings
Project:	The Land and all improvements to be constructed thereon
Rentable Area of the Premises:	340,913 square feet
Rentable Area of Building 1:	170,823 square feet
Rentable Area of Building 2:	170,090 square feet
Tenant's Use of the Premises:	General office, administration, software research and development (such as software labs, data rooms, data centers, equipment test rooms and sound booths) not involving the use of Hazardous Substances beyond Permitted Hazardous Substances, and legal uses ancillary thereto (which may include, without limitation, employee gym, cafeteria, training rooms, and information technology rooms).
Lease Term:	(i) One hundred eighty-six (186) months if the Commencement Date is the first day of a month, or (ii) the last day of the month which is one hundred eighty-six (186) calendar months after the month in which the Commencement Date occurs if the Commencement Date is not the first day of a month
Anticipated Commencement Date	March 1, 2015
Commencement Date:	See Paragraph 2(a)
Expiration Date:	(i) The date which is one hundred eighty (180) calendar months after the Rent Commencement Date if the Rent Commencement Date is the first day of a month, or (ii) the last day of the month which is one hundred eighty (180) calendar months after the month in which the Rent Commencement Date occurs if the Rent Commencement Date is not the first day of a month
Extension Options:	One (1) extension option of one hundred twenty (120) months (" <u>First Extension Term</u> ") followed by one (1) extension option of one hundred thirteen (113) months (" <u>Second Extension Term</u> ") (see <u>Section 39</u>)
Rent During Extension Terms	See <u>Section 40</u>
Tenant Allowance:	See Work Letter (<u>Exhibit B</u>)
Base Rent:	\$3.15 per rentable square foot of area of the Premises per month (\$1,073,875.95 per month) during the first six (6) months from the Rent Commencement Date. (The monthly Base Rent amount set forth in the preceding sentence will increase if the rentable square footage of the Premises increases pursuant to <u>Section 3(c)</u> of this Lease.)

Base Rent Adjustment:	The Base Rent shall be increased by three percent (3.0%) per annum on each anniversary of the Commencement Date.
Rent Commencement Date:	The date which is six (6) months after the Commencement Date
Tenant's Share [for purposes of Expenses, Real Estate, Taxes and Parking]:	100.0%, subject to adjustment as provided in Section 3(d)(i)(H) from and after the Direct Lease Date
Security Deposit:	See <u>Section 32</u>
Broker:	Cornish & Carey Commercial Newmark Knight Frank (" <u>Landlord's Broker</u> ") and Warren Wixen-Real Estate Services and Colliers International - Silicon Valley (collectively, " <u>Tenant's Broker</u> ")
Broker's Fee or Commission Paid By:	Landlord

The foregoing Basic Lease Information is hereby incorporated into and made a part of this Lease. Each reference in this Lease to any of the Basic Lease Information shall mean the respective information hereinabove set forth and shall be construed to incorporate all of the terms provided under the particular paragraph pertaining to such information. In the event of any conflict between any Basic Lease Information and the Lease, the latter shall control.

LANDLORD:

690 E. MIDDLEFIELD ROAD FEE, LLC,
a Delaware limited liability company

By: DDC Rock 690 E. Middlefield, LLC,
a Delaware limited liability company,
its Sole Member

By: DDC 690 E. Middlefield Associates, LLC,
a Delaware limited liability company,
its Manager

By: /s/ Mollie Ricker

Name: Mollie Ricker

Its: Authorized Representative

TENANT:

SYNOPSYS, INC.,
a Delaware corporation

By: /s/ Janet S. Collinson

Name: Janet S. Collinson

Its: Senior Vice President, H.R. and Facilities

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Exhibits

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LEASE AGREEMENT

THIS LEASE AGREEMENT is made and entered into as of October 14, 2011, by and between **690 E. MIDDLEFIELD ROAD FEE, LLC**, a Delaware limited liability company (herein called "Landlord"), and **SYNOPSIS, INC.**, a Delaware corporation (herein called "Tenant").

Upon and subject to the terms, covenants and conditions hereinafter set forth, Landlord hereby leases to Tenant and Tenant hereby hires from Landlord those premises (the "Premises") consisting of the entirety of both buildings to be constructed at 690 East Middlefield Road, Mountain View, California, as shown on the site plan attached hereto in Exhibit A-2 (each hereinafter referred to as a "Building" and collectively as the "Buildings"). The term "Common Area" shall mean all areas and facilities within the Project that are not designated by Landlord for the exclusive use of Tenant or any other tenant or other occupant of the Project, including the parking areas, access and perimeter roads, pedestrian sidewalks, landscaped areas, trash enclosures, recreation areas and the like.

1. OCCUPANCY AND USE.

Tenant may use and occupy the Premises for the purpose specified in the Basic Lease Information and for no other use or purpose without the prior written consent of Landlord. Landlord shall have the right to grant or withhold consent to a proposed change of use in its sole discretion.

2. TERM AND POSSESSION.

(a) **Term and Commencement.** The term of this Lease (the "Term") shall commence on the later of (i) March 1, 2015, or (ii) one hundred eighty (180) days after Landlord's Work (as such term is defined in the Work Letter described below [herein, "Landlord's Work"]) is Substantially Complete (as such term is defined in the Work Letter [herein, "Substantially Complete" or "Substantial Completion"]), and, unless sooner terminated pursuant to the express provisions of this Lease, shall expire on the Expiration Date specified in the Basic Lease Information (the "Expiration Date"); provided, however, that (A) the date of Substantial Completion of Landlord's Work shall be advanced day-for-day for each day of delay caused by or resulting from Tenant Delays (as such term is defined in the Work Letter [herein, "Tenant Delays"]), and (B) the one hundred eighty (180) day period specified in clause (ii) shall be postponed day-for-day for each day of Delay in Tenant's Work Caused by Landlord (defined below). The later of the dates specified in clauses (i) and (ii) of the immediately preceding sentence are referred to herein as the "Commencement Date".

(b) **Early Occupancy.** If (i) Tenant desires to commence business operations within all or a portion of a Building following Substantial Completion of that portion of such Building and prior to the Commencement Date, (ii) such occupancy does not materially interfere with Landlord's ability to complete any work required of it, and (iii) the City of Mountain View authorizes such occupancy, then Tenant shall have the right to occupy all or portions of such completed Building(s). Tenant's early occupancy of the Premises as provided in this Section 2(b) shall be subject to all of the terms and conditions of this Lease, provided, however, that (i) Tenant will not be obligated to pay Base Rent attributable to the space so occupied by Tenant until the earlier of (A) the Rent Commencement Date or (B) the date which is six (6) months after Tenant first so occupies a Building for the purpose of conducting business therein, and (ii) Tenant will be obligated to pay all Expenses attributed to the space so occupied by Tenant (including insurance and Real Estate Taxes). (The period between the date on which Tenant so first commences business operations within the Premises and the Commencement Date is referred to herein as the "Early Occupancy Period".)

(c) **Delay in Delivery.** If Landlord, for any reason whatsoever, cannot deliver possession of the Premises to Tenant on the Anticipated Commencement Date specified in the Basic Lease Information with Landlord's Work Substantially Completed, this Lease shall not be void or voidable, nor shall Landlord be liable to Tenant for any loss or damage resulting therefrom. Notwithstanding the foregoing:

(i) if Landlord does not complete its Minimum Work (defined below) by the applicable Penalty Date (defined below), then Tenant shall be entitled to a credit against Base Rent coming due following the Rent Commencement Date in an amount equal to two (2) days' Base Rent, calculated at the Base Rent rate in effect on the Rent Commencement Date and applied to the greater of (A) the square footage of the portion of the applicable Minimum Work that was not completed by the applicable Penalty Date(s), or (B) three hundred thousand (300,000) square feet, for each day of delay beyond the Penalty Date (the "Tenant Credit"). Notwithstanding the foregoing, in no event shall the total amount of the Tenant Credit exceed an amount equal to one hundred and eighty (180) days' Base Rent (calculated at the initial rate of \$3.15 per rentable square foot per month) for the greater of (A) the square footage of the portion of the applicable Minimum Work that was not completed by the applicable Penalty Date(s), or (B) three hundred thousand (300,000) square feet. As used herein: (A) the term "Minimum Work" shall mean the Substantial Completion of Landlord's Work; (B) the term "Penalty Date" shall mean June 1, 2014, subject to day-for-day postponement on account of Tenant Delays and Force Majeure Delays; and (C) the term "Force Majeure Delays" shall mean and refer to a period of delay or delays encountered affecting all construction work of Landlord's Work because of: natural disaster, earthquake, floods or other acts of God; fire, explosion, extraordinary adverse weather conditions; acts of Government which generally affects the construction industry in the City of Mountain View (including building moratoria but excluding permit review); or inability to procure or a general shortage of labor, equipment, facilities, energy, materials or supplies in the open market, failure of transportation, strikes or lockouts beyond the control of Landlord which generally affects the construction industry in the San Francisco Bay Area.

(ii) Notwithstanding anything herein to the contrary: (A) if Landlord cannot deliver the Premises to Tenant with Landlord's Work Substantially Complete by March 1, 2015, which date is subject to extension for Tenant Delays and Force Majeure Delays, then Tenant shall have the right, as its sole and exclusive remedy, to terminate this Lease upon written notice thereof to Landlord given at least sixty (60) days in advance of the proposed termination date, and if the Premises is not delivered to Tenant with Landlord's Work Substantially Complete prior to such proposed termination date, then this Lease shall terminate, and Tenant shall be deemed to have waived any other right, remedy, claim or cause of action which Tenant shall otherwise have against Landlord due to Landlord's failure to deliver the Premises with Landlord's Work Substantially Complete on a timely basis; (B) if Landlord cannot deliver the Premises to Tenant with Landlord's Work Substantially Complete by March 1, 2016, subject to day-for-day postponement on account of Landlord Delays, then Landlord shall have the right to terminate this Lease on sixty (60) days' written notice thereof to Tenant. As used herein, the term "Landlord Delay" shall mean any delays to the Substantial Completion of Landlord's Work due to any of the following: (a) Landlord's failure to use commercially reasonable efforts to commence (for reasons other than Tenant Delays or Force Majeure Delays) the Landlord's Work by the date established by Landlord, in its commercially reasonable discretion, as date upon which such commencement should occur in order to Substantially Complete the Landlord's Work by September 15, 2014, and to thereafter diligently prosecute the Landlord's Work to Substantial Completion, all as required by the Work Letter; (b) Landlord's requested changes to the Base Building (as defined in the Work Letter [herein, the "Base Building"]); or (c) the acts or omissions of Landlord or any other Landlord Party (defined below) (including, without limitation,

failure to comply with its obligations under this Lease and the Work Letter within the time periods set forth herein or therein).

(d) **Delay in Tenant's Work Caused By Landlord.** As used herein, the term "Delay in Tenant's Work Caused by Landlord" shall mean any actual delays to the Substantial Completion of Tenant's Work (defined below) either (i) occurring after the Substantial Completion of Landlord's Work, or (ii) occurring before the Substantial Completion of Landlord's Work and causing Tenant to be unable to Substantially Complete Tenant's Work within the one hundred eighty (180) day period immediately following the Substantial Completion of Landlord's Work, and (in either case) resulting directly from any of the following: (A) Landlord's failure to comply with Landlord's obligations under this Lease or the Work Letter, including Landlord's failure to timely approve or disapprove Tenant's plans, drawings and specifications and Landlord's failure to timely disburse the Tenant Allowance, within the applicable time period(s) provided in this Lease or the Work Letter; or (B) Landlord's acts or omissions, including Landlord's interference with the performance of the Tenant's Work unless such interference is permitted pursuant to the provisions of this Lease or the Work Letter. In no event shall the timing of the delivery of the Premises to Tenant with Landlord's Work Substantially Complete or a delay in such delivery constitute a Delay in Tenant's Work Caused by Landlord. If Tenant contends that a Delay in Tenant's Work Caused by Landlord has occurred or is occurring, Tenant shall notify Landlord in writing (the "Delay Notice") of the event that Tenant claims constitutes such Delay in Tenant's Work Caused by Landlord, provided that such notice shall be ineffective unless it contains the caption "**NOTICE OF DELAY IN TENANT'S WORK CAUSED BY LANDLORD**" in bold face, 12-point type. Any Delay Notice shall be sent by Tenant to Landlord's representative set forth in Paragraph 19 of the Work Letter, as opposed to the addresses for notices for Landlord set forth in this Lease, and may be delivered via electronic mail or hand delivery. If such action, inaction or circumstance described in the Delay Notice is not cured by Landlord within two (2) Business Days of Landlord's receipt of the Delay Notice and if such action, inaction or circumstance otherwise qualifies as a Delay in Tenant's Work Caused by Landlord, then a Delay in Tenant's Work Caused by Landlord shall be deemed to have occurred commencing as of the date of Landlord's receipt of the Delay Notice and ending as of the date such delay ends. For the avoidance of doubt, Tenant acknowledges and agrees that a Delay in Tenant's Work Caused by Landlord shall not exist during any period when despite the existence of an event or circumstance described in the first sentence of this Section 2(d), Tenant has not commenced or is not performing Tenant's Work for reasons not related to such event or circumstance. For purposes of this Lease, "Substantial Completion of Tenant's Work" shall be deemed to have occurred, at such time as Tenant has completed Tenant's Work subject only to the completion of "punchlist" items or similar corrective work.

(e) **Delivery.** The Premises shall be deemed "delivered" and the Term shall commence as defined in Exhibit B.

(f) **Commencement Date Memorandum.** Within five (5) Business Days (defined below) after the Commencement Date, the parties shall execute a letter confirming the Commencement Date and certifying that Tenant has accepted delivery of the Premises, in the form attached hereto as Exhibit C (the "Commencement Date Memorandum"). Either party's failure to request execution of, or to execute, the Commencement Date Memorandum shall not in any way alter the Commencement Date. Completion of the improvements to the Premises and Buildings shall be governed by the terms and conditions of the separate work letter attached hereto as Exhibit B ("Work Letter"),

(g) **Required Occupancy.** Tenant shall occupy a minimum of fifty thousand (50,000) rentable square feet of the Premises by the date which is the later to occur of (i) April 1, 2015, or (ii) one hundred and eighty (180) days after the date of issuance by the appropriate governmental agency of a Certificate of Occupancy or its equivalent concerning Tenant's Work (as such term is defined in the

Work Letter described below [herein, "Tenant's Work"]), subject to day-for-day postponement on account of Force Majeure Delays. Time is of essence, and Tenant's default under this Section 2(g) shall constitute a Tenant Default. This Section 2(g) shall not be construed as an obligation of Tenant to continuously occupy the Premises.

3. RENT; RENT ADJUSTMENTS; ADDITIONAL CHARGES FOR EXPENSES AND TAXES.

(a) **Base Rent.** Commencing on the Rent Commencement Date, Tenant shall pay to Landlord throughout the Term the base rent specified in the Basic Lease Information ("Base Rent"), as adjusted annually on each anniversary of the Commencement Date as specified in the Basic Lease Information. Monthly Base Rent shall be payable by Tenant in equal monthly installments on, or, at Tenant's election, before, the first day of each month, in advance, in lawful money of the United States. If the Rent Commencement Date is not the first day of a calendar month, then (i) the monthly installment of Base Rent for the seventh (7th) month of the Term shall include Base Rent prorated for the partial calendar month in which the Rent Commencement Date occurs (such proration to be based on the actual number of days in such month and the number of days from the Rent Commencement Date to the last day of such month) as well as Base Rent for the following full calendar month which constitutes the balance of said seventh (7th) month of the Term. Base Rent shall be paid, without any prior demand therefor and, except as expressly set forth in Sections 3(d)(i)(F) and 3(d)(iii) of this Lease and Paragraph 13(d) of the Work Letter, without deduction or offset whatsoever, to Landlord or Landlord's Managing Agent at the address specified in the Basic Lease Information or to such other firm or to such other place as Landlord or Landlord's Managing Agent may from time to time designate in writing. At Landlord's election, and upon written notice to Tenant, all payments required to be made by Tenant to Landlord hereunder shall be made by (i) Bank Wire Transfer or (ii) Electronic Funds Transfer/ACH-Direct Deposit (initiated by Tenant), or other substantially similar process reasonably required by Landlord, at such place as Landlord may from time to time designate in writing. Upon Tenant's request, Landlord shall provide Tenant with the proper bank ABA number, account number and designation of the account to which any such electronic payment shall be made.

(b) **Advance Rent.** Concurrently with its execution of this Lease, Tenant shall deposit with Landlord an amount equal to (i) one (1) month's Base Rent in the amount which is payable for the first full month after the Rent Commencement Date, plus (ii) the Expenses (defined below) due for the first month of the Term as reasonably estimated by Landlord. Prior to the date hereof, Landlord has provided Tenant with a breakdown of its good faith estimate of Expenses; Tenant is aware, acknowledges and agrees that because the Buildings and other Project improvements have not been constructed, such breakdown is only a good faith estimate and Landlord shall have no responsibility for the accuracy thereof. If the square footage is adjusted pursuant to the provisions of Section 3(c) because a sky bridge is added to the Premises, concurrently with the execution of the Lease amendment specified in Section 3(c) Tenant shall deposit with Landlord an amount equal to the increase in Base Rent for the first full month after the Rent Commencement Date.

(c) **Possible Adjustment in Base Rent.** As more particularly provided in the Work Letter, Tenant has the right to request, at any time prior to June 1, 2012, that Landlord seek to obtain design approval from the City of Mountain View for a sky bridge between the Buildings at the third or fourth floor, as mutually agreed upon by Landlord and Tenant. If Tenant makes such request and Landlord is successful in obtaining such approval from the City of Mountain View, then (i) such Sky Bridge (as defined in the Work Letter) [herein, the "Sky Bridge")] will be a part of the Premises and the rentable square footage of the Premises shall be

increased accordingly (the area of the Sky Bridge to be determined in accordance with Standard for Measuring Floor Area in Office Buildings, ANSI Z65.1 1996), (ii) the Base Rent for the first year of the Term specified in the Basic Lease Provisions shall be increased by amount equal to an annualized nine and one-half percent (9.5%) return on Landlord's cost for construction of the Sky Bridge, (iii) the increase in the first year's Base Rent specified in clause (ii) shall be increased by three percent (3.0%) on each anniversary of the Commencement Date, and (iv) Landlord and Tenant shall enter into an amendment to this Lease to revise the Basic Lease Provisions to reflect the foregoing adjustments in the rentable square footage of the Premises and Base Rent.

(d) **Additional Charges for Expenses and Taxes.**

(i) **Definitions.** For purposes of this Section 3(d), the following terms shall have the meanings hereinafter set forth:

(A) "Additional Charges" shall mean collectively Additional Charges for Expenses (defined below) and Additional Charges for Real Estate Taxes (defined below).

(B) "Capital Expense Threshold" shall mean Twenty-Nine Cents (\$0.29) per rentable square foot per year for each Building.

(C) "Capital Expenses" shall mean the cost of any capital improvements or capital replacements made to the Project after the Commencement Date which are not expressly excluded from the definition of Expenses pursuant to the second paragraph of Section 3(d)(i)(D). The determination of what constitutes a Capital Expense shall be made by Landlord based upon its reasonable interpretation of how such cost or expense would be characterized under accounting principles commonly utilized in the commercial real estate industry for Class "A" office buildings, consistently applied (the "Accounting Standard").

(D) "Expenses" shall mean all expenses and costs of every kind and nature not expressly excluded from the definition of Expenses pursuant to the second paragraph of this Section 3(d)(i)(D) which have been paid or incurred by Landlord in connection with the management, maintenance, repair, preservation, ownership and operation of the Project or any portion thereof (whether obligated to do so or undertaken at Landlord's sole discretion), including: (I) the cost of water, electricity, gas, sewer, waste disposal, communication and cable television facilities, heating, ventilation, air conditioning, mechanical and all other utilities and services and the cost of supplies and equipment and maintenance and service contracts in connection therewith; (II) the cost of repairs, replacements and general maintenance and cleaning; (III) the cost of all insurance premiums and costs for the insurance which Landlord is required or permitted to maintain by Landlord hereunder, excluding Additional Insurance (defined below), and all amounts paid as a result of loss sustained that would be covered by such policies but for "deductible" provisions; (IV) the premiums and costs of any Additional Insurance if Landlord's obtaining and maintenance of such Additional Insurance is consistent with the Management Standard (defined below); (V) one-half (1/2) of the premiums and costs of any Additional Insurance if Landlord's obtaining and maintenance of such Additional Insurance is not consistent with the Management Standard; (VI) reasonable legal fees and fees of independent contractors engaged by Landlord directly related to the operation of the Project; (VII) a management fee in an amount equal to one percent (1.0%) of Base Rent (the "Management Fee"), which management fee for the period between the Commencement Date and the Rent Commencement Date the Base Rent shall be deemed to be \$3.15 per rentable square foot per month for purposes of calculating the Management Fee); (VIII) wages and benefits of Landlord's or Managing Agent's

personnel engaged in the management, operation, maintenance and repair of the Project, provided that to the extent such individual performs such services for multiple properties or to the extent such responsibilities do not constitute substantially all of his or her employed time, such costs shall be prorated to reflect a reasonable estimate of time devoted specifically to the Project, and provided further that such wages and benefits shall not be included in Expenses during any period when Tenant is responsible for the repair and maintenance of substantially all of the Buildings or the Project in accordance with the provisions of Section 7(c); (IX) Capital Expenses up to the Capital Expense Threshold; and (X) any other reasonable expenses of any other kind whatsoever incurred in managing, operating, maintaining and repairing the Project. If the Project is not fully occupied during any Expense Year, an adjustment shall be made in computing Expenses for such Expense Year so that Expenses which vary according to occupancy shall be computed as though the Project had been fully occupied during such Expense Year; provided, however, that in no event shall Landlord collect in total, from Tenant and all other tenants of the Project, an amount greater than one hundred percent (100%) of the actual Expenses during any Expense Year.

Notwithstanding anything to the contrary herein contained, Expenses (including Capital Expenses) shall not include, and in no event shall Tenant have any obligation to pay pursuant to this Section 3 for, (a) any costs in connection with the initial construction of the Landlord's Work or the acquisition of the Land on which the Buildings are located, and any costs in excess of Two Hundred Fifty Thousand Dollars (\$250,000) per change in connection with any change to the Project which Landlord is not required or expressly authorized to make pursuant to this Lease unless Tenant gives its prior written approval to such change, which approval shall not be unreasonably withheld, conditioned or delayed; (b) the cost of the design and construction of tenant improvements for Tenant or any other tenant or occupant and the amount of any allowance or credits paid to or granted to other tenants or occupants for any such design or construction; (c) debt service (including financing charges, interest, principal, any impound payments and late fees not reimbursed pursuant to Section 3(e) below) required to be made on any mortgage or deed of trust (collectively, a (each, a "Mortgage") encumbering all or any portion of the Project; (d) the cost of special services, goods or materials provided to any tenant and any other costs incurred for the account of, separately billed to and paid by specific tenants (to the extent such special services, goods or materials are provided to Tenant, Tenant shall reimburse Landlord for such costs as Additional Rent and not as an Expense); (e) depreciation; (f) any management fee, regardless of whether paid to Landlord, its affiliate or any other party, other than the Management Fee; (g) costs occasioned by the fraud or willful misconduct under applicable laws of Landlord, its employees, its property manager or its property manager's employees; (h) costs for which Landlord has a right of and has received reimbursement from others (including insurance reimbursements) or costs for which Landlord would have been reimbursed if Landlord had carried the insurance Landlord is required to carry pursuant to this Lease or would have been reimbursed if Landlord had used commercially reasonable efforts to collect such amounts, from any third party, including any tenant or occupant of the Project or insurance carrier; (i) costs to correct any construction or design defects in the original construction of the Premises, the Buildings or the Project including defects in Landlord's Work; (j) repairs or replacement repairs and replacements (I) paid for from the proceeds of insurance, (II) paid for directly by Tenant or other tenants of the Project, or (III) for the benefit solely of tenants of the Project other than Tenant to the extent that Tenant could not obtain similar services from Landlord without an obligation to reimburse Landlord for the entire cost thereof under

the provisions of this Lease; (k) repairs, replacement and upgrades to the structural elements of the Buildings, structural elements of the roof or the exterior walls of the Buildings (but not the glass components thereof), unless such repair, replacement and/or upgrade is required due to (I) the installation, use or operation of any Alterations (defined below) or other modification to the Premises or Project made by Tenant (including Tenant's Work), (II) the installation, use or operation of Tenant's property or fixtures, (III) the moving of Tenant's property or fixtures in or out of the Buildings or in and about the Project, (IV) the acts, omissions or negligence of any Tenant Parties (defined below), (V) the particular use or particular occupancy or manner of use or occupancy of the Premises or Project by Tenant or any such person, as opposed to office uses generally, (VI) changes in Laws or safety enhancements not required by laws applicable at the time the permits were obtained for the construction of the Base Building improvements, or (VII) casualty (except to the extent any claims arising from any of the following are reimbursed by insurance carried by Landlord); (l) any costs for which Landlord has indemnified Tenant pursuant to Section 36; (m) marketing costs, legal fees, space planners' fees, and advertising or promotional costs incurred in connection with the original development, subsequent improvement or original or future leasing of the Project; (n) leasing commissions; (o) rental payments for any Base Building equipment such as HVAC equipment, elevators and the like included in Landlord's Work; (p) wages and benefits of any employee who does not devote substantially all of his or her employed time to the Project unless such wages and benefits are prorated to reflect time spent on operating and managing the Project as opposed to time spent on matters unrelated to operating and managing the Project, (q) wages, benefits or other compensation of any officers or executives above the grade of Project Manager, (r) costs associated with the operation of the business of the entity which constitutes Landlord, as the same are distinguished from the costs of management of the Buildings and the Project, including legal expenses, accounting expenses or consulting expenses of any kind not directly related to the management of the Buildings and Project (as opposed to the business of Landlord's partnership) or not expressly provided elsewhere in this Lease (such management, costs of defending any lawsuits with any mortgagee (except as the actions of the Tenant may be in issue), costs of selling, syndicating, financing, mortgaging or hypothecating any of the Landlord's interest in the Project, and costs incurred in connection with any disputes between Landlord and its employees, between Landlord and Project management, or between Landlord and other tenants or occupants; (s) any costs paid to affiliates or parties related to Landlord for services or materials to the extent that such costs are in excess of the fair market amount for such services or materials (the Management Fee shall be deemed a market amount for such service); (t) amounts for which Landlord has indemnified Tenant elsewhere in this Lease and for fines, penalties interest and fees for late payments unless caused by Tenant's failure to timely pay Rent and Additional Charges; (s) repairs or construction necessitated by violations of laws applicable to the Buildings as of the date the permits for the construction thereof were obtained, (u) any bad debt loss, rent loss, or reserves for bad debts or rent loss or any reserves of any kind, (v) electric power costs or costs for other utilities for which any tenant (including Tenant) directly contracts with a public service company, or any costs for electricity, water, heat, air conditioning or other utilities provided by Landlord to any tenant free of charge in excess of the costs for utilities offered by Landlord to Tenant free of charge, (x) the amount of any interest expense associated with the financing of improvements undertaken with the intent to reduce Expenses (for example, to reduce energy costs) in excess of the reasonably anticipated savings (x) costs, other than those incurred in ordinary maintenance or repair, for sculptures, paintings, fountains or other objects of art, (y) rent for any office space

occupied by Project management personnel (except to the extent included in the Management Fee), z) costs arising from Landlord's charitable or political contributions; (aa) any entertainment expenses (including dining or travel expenses for any purpose; (bb) any gifts of flowers, balloons or similar items provided to Tenant, other tenants, occupants, employees, contractors, prospective tenants and agents; (cc) any finders' fees, brokerage commissions, job placement costs or job advertising cost; (dd) any above Building standard cleaning, including, but not limited to construction cleanup or special cleanings associated with parties/events (to the extent Landlord incurs such costs as result of parties/events of Tenant, Tenant shall reimburse Landlord as Additional Rent and not as an Expense); (ee) the cost of any tenant relations parties, events or promotion not consented to by an authorized representative of Tenant in writing; (ff) the cost of any magazine, newspaper, trade or other subscriptions; and, (gg) the cost of any training or incentive programs other than (I) training required by Law and (II) incentive programs conducted to satisfy the requirements of the TOD Permit (defined below) or other Laws. All costs and expenses shall be determined by Landlord based upon its reasonable interpretation of management practices commonly utilized in the commercial real estate industry for class A office buildings, consistently applied (the "Management Standard"). Additionally, during the first ten (10) years of the Initial Term (defined below), Expenses shall not include, and Tenant shall not have any obligation to pay for, any replacement of the roof membrane.

(E) "Expense Year" shall mean each twelve (12) consecutive month period commencing January 1 of the calendar year during which the Commencement Date occurs, provided that Landlord, upon notice to Tenant, may change the Expense Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's Share of Expenses shall be equitably adjusted for the Expense Years involved in any such change.

(F) "Real Estate Taxes" shall mean all taxes, assessments and charges levied upon or with respect to the Project or any personal property of Landlord used in the operation of thereof, or Landlord's interest in the Project or such personal property. Real Estate Taxes shall include, without limitation, all general real property taxes and general and special assessments, charges, fees or assessments for police, fire or other governmental services (including transit and housing fees) or purported benefits to the Project (provided, however, that any refunds of Real Estate Taxes paid by Tenant (as part of Tenant's Share of Real Estate Taxes) shall be credited against the next installments of Base Rent due under this Lease until the full amount of the excess has been so credited or, if this Lease has expired, shall be promptly refunded to Tenant), service payments in lieu of taxes, and any tax, fee or excise on the act of entering into this Lease, or any other lease of space in the Project, or on the use or occupancy of the Project or any part thereof, or on the rent payable under any lease or in connection with the business of renting space in the Project, that are now or hereafter levied or assessed against Landlord by the United States of America, the State of California, or any political subdivision, public corporation, district or any other political or public entity, and shall also include any other tax, fee or other excise, however described, that may be levied or assessed as a substitute for, or as an addition to, in whole or in part, any other Real Estate Taxes, whether or not now customary or in the contemplation of the parties on the date of this Lease. Real Estate Taxes shall also include reasonable legal fees, costs and disbursements incurred in connection with proceedings to contest, determine or reduce Real Estate Taxes; provided that such fees, costs and disbursements do not exceed the actual savings in Real Estate Taxes obtained by Tenant over the Term of this Lease. Real Estate Taxes shall not

include: (i) succession, gift, estate, franchise, transfer, inheritance or capital stock taxes or income taxes measured by the net income of Landlord from all sources; (ii) any impact fees, special assessments or other exactions imposed on Landlord as a condition to the initial development or construction of the Project; or (iii) any late payment charges and penalties imposed because of Landlord's late payment of Real Estate Taxes unless a Tenant Default (defined below) exists with respect to its obligation to pay Rent at the time the installment of Real Estate Taxes for which the late payment charge or penalty is incurred was due. If any assessments are levied on the Project, Tenant shall have no obligation to pay more than Tenant's Share of the minimum installment of principal and interest that would become due during any Tax Year had Landlord elected to pay the assessment in the maximum number of permissible installment payments, even if Landlord pays the assessment in full, provided, however, that Tenant shall not be responsible for any portion of an assessment levied against the Project as a result of any improvement(s) made by or for another tenant (other than an assignee or sublessee of Tenant) of the Project or as a result of any specific use of the Project by another tenant. Landlord shall deliver copies of all assessment notices promptly after receipt, but in no event later than forty five (45) days prior to the last day to file an appeal (provided that Landlord has received such notice by that date). In the event that Tenant desires to seek a reduction in Real Estate Taxes (pursuant to Proposition 8 or otherwise) or challenge any assessments levied against the Project for Real Estate Taxes, which, in the case of reductions other than those sought pursuant to Proposition 8, Tenant shall be entitled to do no more frequently than once every five (5) years and only for so long as Tenant is leasing at least seventy-five percent (75%) of the rentable square footage of the Project, Tenant shall provide written notice to Landlord of such intent. Landlord shall have a period of fifteen (15) days within which to notify Tenant of its election to (i) seek such reduction or challenge the assessment, as applicable, or (ii) not seek such reduction or challenge the assessment, as applicable. A lack of response from Landlord shall indicate that Landlord has elected to not seek such reduction or challenge the assessment, as applicable. If Tenant desires to directly seek such reduction or challenge the assessment, it shall then notify Landlord of its intent to do so and, following such notice, Landlord shall reasonably cooperate with Tenant in its efforts in connection therewith (including executing and filing, in Landlord's name, any reasonable documentation necessary) so long as Tenant pays all costs of such action, reimbursed Landlord for all costs incurred by Landlord in connection with such action, and, with respect to a challenge of an assessment, posts a bond or pays any other costs necessary to prevent a lien from being placed against the Project while such challenge is pending; provided, however, Landlord shall have the right to approve any such challenge to an assessment, in advance, during the last two (2) years of the Term, which approval shall not be unreasonably withheld. The benefit of any reduction in taxes during applicable periods shall accrue to Tenant.

(G) "Tax Year" shall mean each twelve (12) consecutive month period commencing January 1st of the calendar year during which the Commencement Date occurs, provided that Landlord, upon notice to Tenant, may change the Tax Year from time to time to any other twelve (12) consecutive month period and, in the event of any such change, Tenant's Share of Real Estate Taxes shall be equitably adjusted for the Tax Years involved in any such change.

(H) "Tenant's Share" shall mean a fraction, the numerator of which is the rentable square footage of the Premises and the denominator of which is the rentable square footage of the Project, stated as a percentage. As of the Commencement Date and at all times prior to the Direct Lease Date (defined below), Tenant's Share is acknowledged to be one hundred percent (100%).

(ii) **Building Cost Pools.** Notwithstanding anything to the contrary set forth herein, Landlord shall have the right, at any time after if Landlord has exercised its Recapture Option (defined below) or has otherwise entered into a direct lease of a portion of the Project consistent with its rights under this Lease or pursuant to a written agreement with Tenant (the date on which any of such events first occur is referred to herein as the "Direct Lease Date"), and from time to time thereafter, to equitably allocate some or all of the Expenses (including costs of maintenance, repairs, utilities and services) for the Project between the tenant(s) of the two Buildings in a manner consistent with the Management Standard, in which case such sums shall be charged to the tenant(s) of the Project in an equitable manner.

(iii) **Payment of Real Estate Taxes.** With reasonable promptness after Landlord has received the tax bills for any Tax Year, Landlord shall furnish Tenant with a statement which shall include a copy of the tax bill (herein called "Landlord's Tax Statement") setting forth the amount of Real Estate Taxes for such Tax Year, and Tenant's Share thereof. Unless otherwise required in Section 3(d)(vi) below, Tenant shall pay, subject to Tenant's dispute rights in Section 3(d)(i)(F), to Landlord actual Real Estate Taxes no later than the later of (A) thirty (30) days after billing by Landlord, or (B) twenty (20) days prior to the due date of such Real Estate Tax installment. In no event shall Landlord recapture more than one hundred percent (100%) of the actual taxes. Tenant's obligation with respect to Tenant's Share of Real Estate Taxes shall commence as of the Commencement Date.

(iv) **Payment of Expenses.** Commencing on the Commencement Date (or upon the date upon which Tenant takes early occupancy of the Premises pursuant to the provisions of Section 2(b)), Tenant shall pay to Landlord as Additional Charges ("Additional Charges for Expenses") one-twelfth (1/12th) of Tenant's Share of the Expenses for each Expense Year on or before the first day of each month of such Expense Year, in advance, in an amount reasonably estimated in good faith by Landlord and billed by Landlord to Tenant, and Landlord shall have the right initially to determine monthly estimates and to revise such estimates from time to time; provided, however that if such revised estimate provides that the total aggregate amount of all Expenses will increase by more than five percent (5%) over a prior estimate, then Landlord shall provide Tenant with a written explanation of the reasons(s) for such increase promptly following Tenant's Request therefor. Within one hundred and eighty (180) days after the expiration of each Expense Year, Landlord shall furnish Tenant with a statement (herein called "Landlord's Expense Statement"), setting forth in reasonable detail the Expenses for such Expense Year and Tenant's Share thereof. If Tenant's Share of the actual Expenses for such Expense Year exceeds the estimated Expenses paid by Tenant for such Expense Year, Tenant shall pay to Landlord the difference between the amount paid by Tenant and Tenant's Share of the actual Expenses within thirty (30) days after the receipt of Landlord's Expense Statement, and if the total amount paid by Tenant for any such Expense Year shall exceed the actual Expenses for such Expense Year, such excess shall be credited against the next installment(s) of Rent due from Tenant to Landlord hereunder until the full amount of the excess has been so credited or, if the Term has expired, it shall be returned to Tenant within thirty (30) days. Any utility rebates for the Project which Landlord receives for payments made by Tenant (as part of Tenant's Share of Expenses) shall be forwarded to Tenant so long as such rebate is received within two years following the Expiration Date or sooner termination of this Lease. If it has been determined that

Tenant has overpaid Expenses during the last year of the Term (including rebates of utilities applicable to Tenant), then Landlord shall reimburse Tenant for such overage on or before the thirtieth (30th) day following the date on which Landlord makes such determination. Any disputes pursuant to this Section shall be settled pursuant to the arbitration provisions of this Lease.

(v) Payment of Capital Expenses.

(A) Except as provided in the last sentence of this Section 3(d)(v)(i)(A), the cost of Capital Expenses in excess of the Capital Expense Threshold shall be prorated over the lesser of (I) the useful life of the item in question determined by Landlord in accordance with the Accounting Standard, or (II) ten (10) years. Tenant shall reimburse Landlord as Additional Rent at the time Landlord actually incurs any Capital Expense for the portion of the prorated Capital Expense allocated to the period between the date on which Landlord incurs such Capital Expense and the then-current Expiration Date. Similarly, in the event of an early termination of this Lease other than a termination by Landlord in connection with a Tenant Default, Landlord shall promptly reimburse Tenant for the portion of the prorated Capital Expense allocated to the period following such date of termination through the Expiration Date. Any "deductible" in connection with any casualty insurance policy carried by Landlord shall be prorated and paid in the same manner as a Capital Expense with a useful life of ten (10) years, provided, however in no event shall Tenant be responsible for any deductible amounts in excess of the greater of (i) five percent (5%) of the actual loss, or (ii) the lowest deductible available in the marketplace at commercially reasonable rates. Notwithstanding the foregoing, if any portion of a Capital Expense is allocated to the period following the then-current Expiration Date and the Term is subsequently extended for the first Extension Term (defined below) or the second Extension Term, then that portion of the Capital Expense which was not paid by Tenant to Landlord at the time the Capital Expense was incurred will become immediately due and payable by Tenant.

(B) If, and to the extent, (A) Tenant assumes Landlord's repair and maintenance responsibilities for the Buildings or the Project pursuant to the provisions of Section 7(c), (B) repairs or maintenance which would otherwise be Landlord's responsibility require incurring a Capital Expense in order to maintain the Buildings or Project (as applicable) in accordance with the Management Standard, and (C) such Capital Expense is approved by Landlord as specified in Section 3(d)(v), then the cost of Capital Expenses in excess of the Capital Expense Threshold shall be prorated in the manner specified in Section 3(d)(v) and Landlord shall reimburse Tenant at the time Tenant actually incurs any such Capital Expense for the portion of the prorated Capital Expense allocated to the period following the then-current Expiration Date. Notwithstanding the foregoing, if any portion of a Capital Expense is allocated to the period following the then-current Expiration Date and the Term is subsequently extended for the first Extension Term or second Extension Term, then that portion of the Capital Expense falling within such Extension Term which was paid by Landlord to Tenant at the time the Capital Expense was incurred will become immediately due and payable to Landlord by Tenant. Similarly, in the event of an early termination of this Lease other than a termination by Landlord in connection with a Tenant Default, Landlord shall promptly reimburse Tenant for the portion of the prorated Capital Expense allocated to the period following such date of termination through the then-current Expiration Date. If Landlord fails to pay such amounts to Tenant within thirty (30) days after the same is

due, Tenant shall have the right to offset such amounts from Base Rent until Tenant has been repaid in full.

(C) Any other provision of this Lease to the contrary notwithstanding, any Capital Expenses incurred when Tenant is performing the repair and maintenance of the Buildings or the Project pursuant to Section 7(c) shall only be prorated as provided in this Section 3(d)(v) if, prior to Tenant incurring such Capital Expense, Landlord approves in writing the performance of the work which will result in such Capital Expense, which approval shall not be unreasonably withheld, it being understood that it will be unreasonable for Landlord to withhold its consent if the Capital Expense is required in order to maintain the Buildings or the Project in a first class condition in accordance with the Management Standard and the maintenance of the Buildings or the Project in a first class condition through the performance of repairs and maintenance of a non-capital nature is inconsistent with the Management Standard. If Landlord does not give its written approval to work which will result in a Capital Expense and Tenant elects to perform such work, the full cost of such work shall be borne and paid by Tenant.

(vi) **Other.** To the extent any item of Real Estate Taxes or Expenses is payable by Landlord in advance of the period to which it is applicable due to (A) a requirement by Landlord's lender for an escrow account (such as, by way of example only, insurance and tax escrows required by the mortgagee or beneficiary under a Mortgage [each, a "Mortgagee"]), or (B) because prepayment to the third party billing authority is customary or required for the service or matter (such as, by way of example only, insurance premiums or Real Estate Taxes), (I) Landlord may include such items in Landlord's estimate for periods prior to the date such item is to be paid by Landlord, (II) to the extent Landlord has not collected the full amount of such item prior to the date such item is to be paid by Landlord, Landlord may include the balance of such full amount in a revised monthly estimate for Additional Charges, and (III) to the extent Landlord elects not to include such item(s) in its estimated monthly Additional Charge for Expenses, Landlord may charge Tenant the full amount of such expense no sooner than thirty (30) days prior to the date such expense is due and payable by Landlord. If the Commencement Date (or the date upon which Landlord delivers early occupancy of the Premises pursuant to the provisions of Section 2(b)) or the Expiration Date shall occur on a date other than the first day of a Tax Year and/or Expense Year, Tenant's Share of Real Estate Taxes and Expenses, for the Tax Year and/or Expense Year in which the Commencement Date (or the date upon which Landlord delivers early occupancy of the Premises pursuant to the provisions of Section 2(b)) occurs shall be prorated.

(vii) **Audit.** Within one hundred eighty (180) days after receipt of any Expense Statement or Tax Statement from Landlord, Tenant shall have the right to examine Landlord's books and records relating to such Expense Statements and Tax Statements. Landlord agrees to keep and maintain such books and records in utilizing a system of accounts in accordance with the Accounting Standard, and for so long as 690 E. Middlefield Road Fee, LLC is the Landlord, such books and records shall be available for audit pursuant to this provision in the greater San Francisco Bay Area. Such inspection may be made either by employees of Tenant or by an accounting firm or audit firm selected by Tenant which is accustomed to engaging in such activity and which is not compensated on a contingent fee basis. If Tenant determines, based on such audit, that Tenant believes that it has overpaid Expenses or Real Estate Taxes for the year covered by the applicable Expense Statement or Tax Statement, Tenant shall notify Landlord of its dispute within one hundred eighty (180) days after the date the applicable Expense Statement or Tax Statement was received by Tenant. Tenant shall keep confidential, and shall use commercially reasonable efforts to cause its agents, employees and any accounting or

audit firm engaged by Tenant to perform such examination or audit to agree in writing to keep confidential, all of the information obtained through any such examination or audit and any compromise, settlement or adjustment reached between Landlord and Tenant relative to the results of such examination or audit, save and except that Tenant may disclose such information to a trier of fact in the event of any dispute between Tenant and Landlord with regard to Additional Charges, provided that Tenant shall stipulate to such protective or other orders in the proceeding as may be reasonably required to preserve the confidentiality of such information. Following Tenant's notice of dispute to Landlord, Landlord and Tenant shall, for a period of thirty (30) days thereafter, attempt to resolve the dispute. If the parties are unable to resolve the dispute within such thirty (30) day period, the dispute shall be resolved by arbitration as provided in Section 37. If Tenant prevails in any such arbitration proceeding, then Landlord shall promptly reimburse Tenant for such overage, and if such overage exceeds three percent (3%) of the actual amount of Expenses or Real Estate Taxes paid by Landlord for the Tax or Expense Year covered by such audit, then Landlord shall reimburse Tenant for its actual out-of-pocket costs incurred in connection with such audit, up to a maximum cost of Twenty Thousand Dollars (\$20,000) and repay the overage with interest at the "prime", "base", "index" or "reference" rate of Bank of America NT&SA reported in the Wall Street Journal (the "Prime Rate") over the period the funds are advanced, plus two percent (2%), but in no event greater than the maximum rate permitted by law ("Interest Rate"); provided, however, that in the event that Bank of America NT&SA shall cease to establish or publish a "prime", "base", "index" or "reference" rate, whether so denominated or otherwise named, the Interest Rate shall be determined with reference to the average of the "prime", "base", "index" or "reference" rate of Citibank N.A. and The Chase Manhattan Bank, N.A. (in the event either such banking institution publishes more than one such rate, the rate used shall be the highest amount so published by such banking institution) as reported in the Wall Street Journal and in such even the definition of "Prime Rate" shall mean the rate so used. If there is no overage or if the overage is less than three percent (3%) of the actual amount of Real Estate Taxes or Expenses paid by Landlord for the Tax or Expense Year covered by such audit, Tenant shall reimburse Landlord within thirty (30) days of written demand for its actual out-of-pocket costs incurred in connection with such audit, up to a maximum cost of Twenty Thousand Dollars (\$20,000). Said audit shall be conducted at the offices where the records of Landlord are maintained (or at such other location as may be designated by Landlord) in accordance with the provisions of this Section. If Tenant fails to object to any such Expense Statement or Tax Statement or request an independent audit thereof within such one hundred and eighty (180) day period, such Expense Statement and/or Tax Statement shall be final and shall not be subject to any audit, challenge or adjustment.

(viii) **Place of Payment; Remedies.** Tenant shall pay to Landlord all Additional Charges in the manner and at the place where the Base Rent is payable and Landlord shall have the same remedies for a Tenant Default in the payment of Additional Charges as for a Tenant Default in the payment of the Base Rent, subject to the notice and cure rights provided in Section 21(a)(i).

(e) **Late Charges.** Tenant recognizes that late payment of any Base Rent, Additional Charges or Additional Rent (defined below) will result in administrative expenses to Landlord, the extent of which additional expense is extremely difficult and economically impractical to ascertain. Tenant therefore agrees that if any Base Rent, Additional Charges, or Additional Rent remains unpaid three (3) days after the date of written notice from Landlord, the amount of such unpaid Base Rent, Additional Charges or Additional Rent shall be increased by a late charge to be paid to Landlord by Tenant, as an Additional Charge, in an amount equal to five percent (5%) (or such greater amount not to exceed six percent (6%) as may be charged by the Mortgagee for a late payment of a monthly Mortgage payment) of the amount of the delinquent Base Rent, Additional Charges or Additional Rent. Notwithstanding the

foregoing, Landlord shall not be required to provide such notice more than two (2) times during any two (2) year period during the Term, the late charge accruing with respect to the third such non-payment from the date which is three (3) days after the due date of such amount without the requirement of notice from Landlord. Tenant agrees that such amount is a reasonable estimate of the loss and expense to be suffered by Landlord as a result of such late payment by Tenant and may be charged by Landlord to defray such loss and expense. In addition, any outstanding Base Rent, Additional Charges, Additional Rent and late charges shall accrue interest at an annualized rate of the greater of (i) ten percent (10%) or (ii) the Prime Rate as published on the last day of whichever of said three (3) day periods is applicable plus four percent (4%), but in no event greater than the maximum rate allowed by law (the "Default Rate"), until paid to Landlord. The provisions of this Section 3(e) shall not relieve Tenant of the obligation to pay Base Rent, Additional Charges or Additional Rent on or before the date on which they are due, or in any way affect Landlord's remedies pursuant to Section 21(b) if any Base Rent, Additional Charges or Additional Rent are unpaid after they are due.

(f) **Rent.** All sums payable by Tenant hereunder other than Base Rent or Additional Charges shall be payable as, and are collectively referred to herein as, "Additional Rent". Tenant shall pay to Landlord all Additional Rent at the place where the Base Rent is payable and Landlord shall have the same remedies for a Tenant Default in the payment of Additional Rent as for a Tenant Default in the payment of Rent, subject to the notice and cure rights provided in Section 21(a). As used herein, the term "Rent" shall include all Base Rent, Additional Charges, and Additional Rent.

4. RESTRICTIONS ON USE.

Tenant shall not (a) use or allow the Premises to be used for any unlawful purpose, (b) cause or maintain or permit any nuisance in, on or about the Premises, or (c) commit or suffer the commission of any waste in, on or about the Premises. From and after the Direct Lease Date, Tenant shall not do or permit anything to be done in or about the Premises which will obstruct or interfere with the rights of other tenants or occupants of the Buildings or the Project or injure or annoy them.

5. COMPLIANCE WITH LAWS.

(a) **Laws.** Tenant shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any applicable law, statute, ordinance, resolution, order or governmental rule, regulation, requirement, permit, approval or license now in force or which may hereafter be enacted, promulgated or issued, whether state, federal or municipal or promulgated by other agencies or bodies having or claiming jurisdiction (collectively, "Laws"). Tenant shall not do or permit anything to be done in or about the Premises or bring or keep anything therein which will in any way increase the rate of any insurance upon the Project or any of its contents (unless Tenant agrees to pay for such increase) or cause a cancellation of such insurance. Tenant shall at its sole cost and expense promptly comply with (i) all Laws to the extent applicable to the use, improvement, condition or occupancy of the Premises, the Buildings and the Project (including all applicable Laws pertaining to air and water quality, waste disposal, air emissions and other environmental matters and including the Americans with Disabilities Act) now in force or which may hereafter be in force, and (ii) with the requirements of any board of fire underwriters or other similar body now or hereafter constituted relating to or affecting the condition, use or occupancy of the Premises, to the extent required because of (A) Tenant's unique use of the Premises, (B) Alterations or improvements made by or for Tenant, or (C) Tenant's negligence or willful misconduct. In the event of a discrepancy between the terms of this Section and the terms of Section 36 concerning obligations with respect to Hazardous Substances, the latter shall control. Except to the extent such compliance is Tenant's responsibility as set forth above, Landlord shall promptly comply with (i) all Laws to the extent applicable to the Project (including all applicable Laws pertaining to air and water quality, waste disposal, air emissions and other environmental

matters and including the Americans with Disabilities Act) now in force or which may hereafter be in force, and (ii) the requirements of any board of fire underwriters or other similar body now or hereafter constituted to the extent applicable to the Project. The provisions this Section 5 shall in no way limit Tenant's obligation to pay Expenses to the extent provided in Section 3. The judgment of any court of competent jurisdiction or the admission of a party in an action against such party that such party has so violated any such law, statute, ordinance, rule, regulation or requirement, shall be conclusive of such violation as between Landlord and Tenant.

(b) **Transit-Oriented Development Permit.** Without limiting the generality of Section 5(a), Tenant shall at all times comply with all requirements of the Transit-Oriented Development Permit issued by the City of Mountain View with respect to the Project (the "TOD Permit") to the extent related to Tenant's use, occupancy, operation or management of the Premises or the Project. Landlord shall cause the Landlord's Work to comply with the requirements of the TOD Permit to the extent applicable to the Landlord's Work. In connection therewith, and without limiting the generality of the foregoing, Landlord and Tenant acknowledge that: (i) all outdoor recreation areas shall be maintained for use by all employees, including contract employees, and shall be made available for use by all tenants in the Buildings; (ii) Tenant and any subtenant(s) leasing over 30,000 square feet (single floor occupancy) must participate in a commuter check program whereby employees can purchase transit passes with pretax dollars; (iii) Tenant shall cooperate with the continuing operation and maintenance of advertising/announcements (such as, by way of example only, digital screens installed in elevators or lobbies) installed by Landlord and related to neighborhood and downtown Mountain View retail merchants; (iv) Tenant shall designate a commute coordinator to manage and monitor commute alternative programs and shall submit a report on the number of employees using commute alternatives (alternatives to the single-occupant car) to the City of Mountain View Zoning Administrator each year for each of the first five (5) years following occupancy, which report must be accompanied by a report on all incentive programs (including on-site commercial services) for use of commute alternatives then being offered to permanent and contract employees; and (v) unless otherwise approved by the City of Mountain View, the land area associated with the potential Off-Ramp Reconfiguration (defined below) shall be used solely for landscaping, recreational activities, limited surface parking, and other uses as shown on Landlord's Plans (as defined in the Work Letter [herein, "Landlord's Plans"]) that will not materially interfere with the acquisition and development of the area for interchange purposes.

6. ALTERATIONS.

(a) **Landlord's Consent Required For Alterations.** Except as set forth in Section 6(b), Tenant shall not make or suffer to be made any alterations, additions or improvements to the Premises ("Alterations") without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Tenant's request for Landlord's consent to any proposed Alterations shall include a description of the proposed Alterations and shall be accompanied by materials sufficient to enable Landlord to evaluate the request. Depending on the nature and extent of the proposed Alterations, it is anticipated that such materials could range from paint chips, internally prepared diagrams, plans and specifications prepared by licensed architects and engineers, a description of proposed construction means and methods, the identity of any contractor or subcontractor to be employed in the construction of the Alterations, the estimated cost of such work and the estimated time for performance thereof. Promptly following its receipt of Tenant's request for consent, Landlord shall advise Tenant in writing of how long it anticipates its evaluation of Tenant's request will take and any additional materials it needs to receive from Tenant in order to evaluate Tenant's request. Tenant acknowledges and agrees that it will not be unreasonable for Landlord to withhold its consent with respect to proposed Alterations that: (i) upon completion will be incompatible with the Buildings and their mechanical, electrical, plumbing, HVAC and life-safety systems; (ii) will interfere with the use and occupancy of any other portion of the Project by any other tenant or their invitees; (iii) will affect the structural portions of the Buildings; (iv) will

involve any full or partial penetration of the lowest floor slab of the particular Building; (v) will, either alone or when taken together with other improvements or alterations, require the construction of any other improvements or alterations within the Buildings not being undertaken as a part of the Alterations in question; or (vi) will be visible from the exterior of the applicable Building. Landlord shall respond to Tenant's written request for Landlord's consent promptly (taking into consideration the nature and extent of the Alterations for which its consent is being requested) but in all events within fifteen (15) Business Days after the later to occur of (x) the date of Landlord's receipt of Tenant's written request, or (y) the date upon which Landlord receives all documents and information reasonably requested in connection with its evaluation of the proposed Alteration. If Landlord has failed to respond with its disapproval of the proposed Alteration by the date specified in Landlord's initial notice to Tenant's request as specified above (but in no event later the expiration of the fifteen (15) Business Day period specified in the immediately preceding sentence), then Tenant may resubmit the same to Landlord with a cover letter stating "**LANDLORD'S FAILURE TO RESPOND WITHIN FIVE (5) BUSINESS DAYS SHALL RESULT IN THE DEEMED APPROVAL OF THE PROPOSED ALTERATION ATTACHED**" in all capital letters and in bold face type. In the event Landlord thereafter fails to approve, conditionally approve or disapprove Tenant's request for approval by the date which is five (5) Business Days following Tenant's second written request, then such Alterations shall be deemed approved by Landlord. Landlord may hire outside consultants to review such documents and information and Tenant shall, within thirty (30) days after Landlord's written demand, reimburse Landlord for the actual cost thereof.

(b) **Permitted Alterations.** Notwithstanding the provisions of Section 6(a), Tenant may, without Landlord's prior consent upon not less than five (5) Business Days prior written notice to Landlord: (i) re-paint or re-carpet the Premises; and (ii) make other Alterations to the Premises (but not to the exterior walls, roof or lowest floor slab of any Building) so long as (A) such Alterations will not have the effect described in any of items (i) through (vi) in the fifth sentence of Section 6(a), and (B) such Alterations do not involve the expenditure of more than One Hundred Thousand Dollars (\$100,000) in any given instance or Three Hundred Thousand Dollars (\$300,000) in the aggregate with all Permitted Alterations made during the preceding twelve (12) month period (any such Alterations being defined herein as "Permitted Alterations"); provided, however, that Tenant shall not be required to give Landlord prior written notice of routine, non-material Permitted Alterations performed by Tenant's personnel, such as the moving or adding of electrical switches or electrical outlets, so long as such work is reflected on a commercially reasonable quarterly report summarizing such Permitted Alterations.

(c) **Making of Alterations.** Tenant shall make any Alterations consented to or permitted under this Section 6 at Tenant's sole cost and expense and in compliance with the following requirements: (i) all Alterations (other than Permitted Alterations) shall be made in accordance with plans and specifications reasonably approved by Landlord; (ii) all Alterations shall be made in accordance with the requirements of Section 8; (iii) all Permitted Alterations shall be consistent with Tenant Improvement Minimum Building Standards (as such term is defined in the Work Letter) unless otherwise approved by Landlord in writing; (iv) the Alterations shall be made by that contractor or other person selected by Tenant and reasonably approved in writing by Landlord, provided Tenant may, at its election, submit names of potential contractors or other persons to Landlord for pre-approval and shall not thereafter be required to obtain Landlord's subsequent re-approval of any such preapproved contractors for the performance of Permitted Alterations; and (v) all Alterations shall be made in compliance with all applicable Laws and any Mortgage and in a diligent and first-class workmanlike manner in accordance with the Management Standard. Tenant shall pay all costs for utilities consumed and for the removal of debris in connection with the construction of any Alterations. All Alterations shall be the property of Tenant during the Term and shall become Landlord's property at the end of the Term without compensation to Tenant. Upon completion of any Alterations (including Permitted Alterations) which involve construction of any kind, Tenant shall provide Landlord, at Tenant's expense, with a complete set of as-built plans and specifications in reproducible form and specifications reflecting the actual conditions

of the Premises as affected by the Alteration, together with an electronic copy of such plans in the AutoCAD format or such other format as may then be in common use for computer assisted design purposes. Landlord may hire outside consultants to review such documents and information and Tenant shall, within thirty (30) days after Landlord's written demand, reimburse Landlord for the actual cost thereof.

(d) **Removal of Alterations.** Upon the expiration or sooner termination of the Lease, Tenant shall upon demand by Landlord, at Landlord's election either (i) at Tenant's sole cost and expense, forthwith and with all due diligence remove (A) any Alterations whose installation altered or interfered with the ceiling grid (i.e. any partitions constructed that are not below the ceiling grid) unless specifically approved by Landlord and identified as not required to be removed in writing in advance of its installation, (B) any Alterations designated by Landlord to be removed (as provided below), (C) any Alterations (other than Permitted Alterations which are commonly considered typical for generic "market ready" improvements commonly constructed by landlords of Class "A" office buildings) as to which Tenant does not make a Request for Advice Regarding Removal (defined below), and (D) any Alterations which Landlord designates for removal in response to a Request for Advice Regarding Removal from Tenant, and restore the Premises to its original condition as of the date of the making of the Alterations in question, subject in both cases to Normal Wear and Tear (defined below) and the rights and obligations of Tenant concerning casualty damage pursuant to Section 22, or (ii) pay Landlord one-half (1/2) of the reasonable estimated cost thereof. Notwithstanding the foregoing, at the time Tenant requests approval for any proposed Alteration or provides written notice of any Permitted Alteration that would alter or interfere with the ceiling grid or which are not commonly considered typical for generic "market ready" improvements commonly constructed by landlords of Class "A" office buildings, Tenant may include in such request for approval or written notice a request that Landlord advise Tenant whether Landlord shall require the removal of such proposed Alteration (or any portion thereof) and/or restoration (payment of one-half (1/2) of Landlord's reasonable estimated cost of such removal and restoration) as set forth in this Section 6 (a "Request for Advice Regarding Removal"). If Tenant's request for approval of any Alterations or notice of its intent to make Permitted Alterations contains a Request for Advice Regarding Removal, then as a part of any approval or conditional approval of Alterations by Landlord or, in the case of any Permitted Alterations, within five (5) Business Days after Landlord's receipt of Tenant's written notice of its intent to make such Permitted Alterations, Landlord shall advise Tenant in writing as to which portions, if any, of such Alteration Landlord shall require to be removed and restored (or payment of the reasonable estimated cost of removal and restoration thereof made) as set forth in this Section 6. If Landlord designates, in its response to a Request for Advice Regarding Removal for removal any Alterations which are not commonly considered typical for generic "market ready" improvements commonly constructed by landlords of Class "A" office buildings and at the time of such designation Tenant's Cash and Equivalents (defined below) are below the Credit Standard (defined below), Landlord may condition its consent to such Alterations on Tenant increasing the amount of the Letter of Credit (defined below) by the amount reasonably estimated by Landlord as the cost of the required removal and restoration. If Landlord fails to so notify Tenant within the applicable period, Tenant may send Landlord a second written request, which written request shall state "**LANDLORD'S FAILURE TO RESPOND TO THIS REQUEST WITHIN FIVE (5) BUSINESS DAYS SHALL ELIMINATE LANDLORD'S ABILITY TO REQUIRE THE REMOVAL OF CERTAIN ALTERATIONS TO THE PREMISES**", and if Landlord fails to respond to such notice within such five (5) Business Day period, Landlord shall be deemed to have advised Tenant that no portions of such Alteration shall be required to be removed and restored at the end of the Term. Notwithstanding anything in this Lease to the contrary, Tenant shall have the right to remove any Alterations made by, in or to the Premises, provided that (i) Tenant repairs any damage caused by the removal and restores the Premises to the condition prior to the installation of such Alterations, and (ii) Tenant may not remove only a portion of an Alteration if such removal would result in the remainder of the Alteration being rendered unusable unless material modifications, additions or alterations are made thereto.

7. **REPAIR AND MAINTENANCE.**

(a) **Landlord's Repair and Maintenance Responsibilities.** Subject to the provisions of Section 7(c), Landlord shall repair and maintain the following in a first-class condition in accordance with the Management Standard: (i) the exterior of the Buildings (including glass), roof and structural portions of the Buildings; (ii) the Building systems for electrical, mechanical, HVAC and plumbing and all controls appurtenant thereto; (iii) the areas outside of the Buildings such as parking areas, courtyards, sidewalks, entry ways, lawns, landscaping and other similar facilities or exterior Common Areas of the Project; (iv) any Common Areas within the Buildings; and (v) latent defects in the construction of Landlord's Work. Subject to the provisions of the immediately following sentence, in emergency situations where (i) the Project, Tenant's property, or the health or safety of Tenant's employees at the Premises is in danger, and (ii) Landlord has failed to respond to Tenant's requests for repairs within a reasonable time after its receipt of such requests (it being understood and agreed that the determination of what constitutes a reasonable time will depend on the nature of the emergency), Tenant shall have the authority to contact and order repairs (each an "Emergency Repair") directly from any vendors then being utilized by Landlord at the Project, or if Landlord has not advised Tenant of its vendors (or if such vendors are unwilling or unable to perform, or timely perform, such work), then Tenant may utilize the services of any other qualified vendor which normally and regularly performs similar work in other first class office buildings in the Silicon Valley and greater San Francisco Bay Area. In undertaking Emergency Repairs, Tenant shall use its best efforts to avoid incurring costs which will constitute a Capital Expense, including without limitation (if appropriate) performing temporary repairs which will give Landlord an opportunity to assess and correct the condition which created the need for the Emergency Repairs.

(b) **Tenant's Repair and Maintenance Responsibilities.** Tenant shall maintain and repair, in a first-class condition in accordance with the Management Standard, the interior portions of the Premises, including Tenant's Work and any Alterations (excluding any portions thereof which are structural in nature or which are the obligation of Landlord under Section 7(a)), and, from and after the Direct Lease Date, any improvements serving only the Premises. Additionally, Tenant shall be responsible for the expense of installation, operation, and maintenance of its telephone and other communications cabling from the point of entry into the Buildings to the Premises and throughout the Premises. Tenant hereby waives and releases its right to make repairs at Landlord's expense under Sections 1941 and 1942 of the California Civil Code or under any similar law, statute or ordinance now or hereafter in effect. In addition, Tenant hereby waives and releases its right to terminate this Lease under Section 1932(1) of the California Civil Code or under any similar law, statute or ordinance now or hereafter in effect. If Tenant fails to commence to make repairs required to be made by Tenant within fifteen (15) days after written notice from Landlord, or should Tenant thereafter fail to diligently pursue such repairs to completion, the same may be made by Landlord at the expense of Tenant and the expenses thereof incurred by Landlord shall be reimbursed immediately as Additional Rent within thirty (30) days after submission of a bill or statement therefor; for purposes of this sentence, "commence" includes any steps taken by Tenant to investigate, design, consult, bid or seek permit or other governmental approval in connection with such repairs. Notwithstanding the foregoing, if the repairs identified in Landlord's notice to Tenant are not emergency repairs, Tenant shall have the right to notify Landlord, in writing, within ten (10) Business Days of its receipt of Landlord's written notice that Tenant disputes that said repairs should be made by Tenant. If Tenant provides such written notice to Landlord, Landlord and Tenant shall, for a period of twenty (20) Business Days thereafter, attempt to resolve the dispute. If the parties are unable to resolve the dispute within such twenty (20) Business Day period, the dispute shall be resolved by arbitration pursuant to Section 37. Landlord shall not undertake any non-emergency repairs until the dispute is resolved. If Landlord undertakes any emergency repairs, Tenant shall have the right to notify Landlord, in writing, within ten (10) Business Days of the date Tenant learns of the emergency repairs, that Tenant disputes the need for such emergency repairs or that the costs thereof are Landlord's

responsibility under this Lease. If Tenant notifies Landlord of such dispute, Landlord and Tenant shall then for a period of twenty (20) days thereafter, attempt to resolve the dispute. If the parties are unable to resolve the dispute within such twenty (20) day period, the dispute shall be resolved by arbitration pursuant to Section 37. For the avoidance of doubt, Landlord acknowledges and agrees that Tenant shall in no event be in default of its repair and maintenance obligations pursuant to this Section 7 if Tenant has commenced to make such repairs or perform such maintenance and is diligently pursuing the same to completion.

(c) **Tenant's Option to Assume Landlord's Repair and Maintenance Responsibilities.** Tenant shall have the option, exercisable upon written notice to Landlord (an "R&M Tenant Assumption Notice") given at any time after Substantial Completion of Landlord's Work and Substantial Completion of Tenant's Work, to assume direct responsibility and authority for the repair and maintenance of both Buildings or the Project (excluding the Excluded R&M Items) effective thirty (30) days after the date of such notice (or such longer date as may be necessary for Landlord to terminate any contracts entered into by Landlord pertaining to the following matters unless Tenant shall assume such contracts). Tenant's R&M Tenant Assumption Notice shall specify the specific elements of the Buildings or the Project (as applicable) for which Tenant is assuming responsibilities. Regardless of such election, Landlord shall continue to maintain direct authority and responsibility for (and, in accordance with and subject to applicable provisions in this Lease, charge the Tenant for the cost of) the maintenance and repair of the following: (A) the exterior of the Buildings (e.g. Building facades and windows); (B) the roof membranes and structure of the Buildings; (C) any item related to or otherwise affecting any structural elements of the Buildings; and (D) latent defect in the construction of Landlord's Work (collectively, the "Excluded R&M Items"). If Tenant gives an R&M Tenant Assumption Notice, Tenant shall thereafter (A) repair and maintain the specific elements of the Buildings or the Project (as applicable) for which Tenant has assumed responsibilities in a first-class condition in accordance with the Management Standard, and (B) provide Landlord with copies of all material maintenance contracts and a commercially reasonable quarterly report summarizing repair work, material service calls and related activities. In the case of any repairs or maintenance of any portion of the Project outside the Premises, the determination of whether such standard is being satisfied shall be determined by Landlord in its reasonable, good faith discretion. Tenant shall use reasonable efforts to maintain sufficient records of and Landlord shall have the right, on a quarterly basis, to review, investigate and make copies (at the Premises) of all contracts, correspondence, invoices, billing statements, evidence of payment, and other documents and correspondence reasonably required by Landlord in connection with such activities. If Tenant exercises its right under this Section 7(c) to assume direct responsibility and authority for the repair and maintenance of all or any portion of both Buildings or the Project (excluding the Excluded R&M Items), such responsibility and authority shall automatically terminate, and Landlord shall reassume the authority and responsibility for such repair and maintenance, as of the Direct Lease Date.

(d) **Landlord's Right to Re-Assume Repair and Maintenance Responsibilities.** If Tenant fails to perform any required repairs or maintenance to the standard set forth in Section 7(c), Landlord may give Tenant written notice of such fact. In addition to any other rights or remedies available to Landlord under this Lease, if Tenant does not cure such failure within a reasonable period of time after such written notice, Landlord shall have the right to revoke some or of all of Tenant's rights under Section 7(c) to repair and maintain the Premises or Project by giving Tenant written notice of such revocation, which revocation shall become effective thirty (30) days after the date on which Landlord gives Tenant such written notice of revocation.

(e) **Tenant's Option to Relinquish Landlord's Repair and Maintenance Responsibilities.** If Tenant gives an R&M Tenant Assumption Notice, Tenant shall have the further option, exercisable upon written notice to Landlord (an "R&M Landlord Assumption Notice") given no later than ninety (90) days before the tenth (10th) anniversary of the Commencement Date, to have

Landlord undertake, beginning on the tenth (10th) anniversary of the Commencement Date, all or any portions of the maintenance of the Buildings or the Project which Tenant assumed pursuant to its R&M Tenant Assumption Notice. Tenant's R&M Landlord Assumption Notice shall specify the specific maintenance and/or repair elements of the Buildings or the Project (as applicable) which Tenant is returning to Landlord.

(f) **Allocation of Cost of Emergency Repairs.** If an Emergency Repair made by Tenant pursuant to the provisions of Section 7(a) is not a repair the cost of which is included within the definition of Expenses or is not a repair the cost of which Tenant is otherwise obligated under this Lease to pay as Additional Rent, if Tenant does not first obtain Landlord's approval of such repair work, Tenant shall bear the entire cost thereof. All other such Emergency Repairs shall be included within Expenses.

(g) **Repairs Necessitated by Tenant's Actions.** Except to the extent any claims arising from any of the foregoing are reimbursed by insurance carried by Landlord, are covered by the waiver of subrogation in Section 12 or are otherwise provided for in Section 22, Tenant shall bear, and shall reimburse Landlord (as Additional Rent and not an Expense) within ten (10) days after written demand from Landlord, for the full cost of repairs or maintenance of the interior or exterior, structural or otherwise, to preserve the Premises, Buildings and Project in good working order and condition, arising out of: (A) the performance or existence of any alteration or modification to the Premises made by Tenant; (B) the installation, use or operation of Tenant's property or fixtures; (C) the moving of Tenant's property or fixtures in or out of the Buildings or in and about the Premises; (D) the negligence or willful misconduct of the Tenant Parties; or (E) the acts, omissions or negligence of any Tenant Party, or the particular use or particular occupancy or manner of use or occupancy of the Premises by Tenant or any other Tenant Party. As used herein, the term "Tenant Parties" shall mean Tenant, its officers, directors, shareholders, members, partners, managers, investors, lenders and their respective agents, employees, servants, representatives, consultants, contractors, successors and assigns.

(h) **Excess Wear and Tear.** At the time of Landlord's approval of Tenant's Plans (as such term is defined in the Work Letter) and of any proposed Alterations, Landlord may designate any improvements which Landlord reasonably believes will cause there to be wear and tear of any related dedicated HVAC system(s) within the Premises or the Project ("Tenant's Wear and Tear") that is significantly greater than that which would be customary for premises being used for normal general office uses ("Normal Wear and Tear"), because of the hours during which such dedicated HVAC system(s) will be in use, the impact which equipment being operated by Tenant within the Premises will have on such dedicated HVAC system(s), or other similar factors (the extent to which Tenant's Wear and Tear exceeds Normal Wear and Tear being referred to herein as "Excess Wear and Tear"). If Landlord makes such a designation and Tenant constructs the improvements in question, then notwithstanding the provisions of Section 3(d)(v), the incremental cost of operating the dedicated HVAC system(s) due to the Excess Wear and Tear along with the incremental cost of maintaining, repairing and replacing all or any portion of the dedicated HVAC system(s) resulting from such Excess Wear and Tear shall be paid by Tenant within thirty (30) days after written demand from Landlord as Additional Rent and not as a part of Expenses).

(i) **No Abatement.** Except to the extent any claims arising from the condition of the Premises are reimbursed by insurance carried by Landlord, are covered by the waiver of subrogation in Section 12 or are otherwise provided for in Section 22, there shall be no abatement of Rent with respect to, and except for Landlord's gross negligence or willful misconduct, Landlord shall not be liable for any injury to or interference with Tenant's business arising from, any repairs, maintenance, alteration or improvement in or to any portion of the Buildings, including the Premises, or in or to the fixtures, appurtenances and equipment therein, and in no event shall Landlord be liable for any consequential damages or loss of business.

(j) **Coordination of Provisions.** The purpose of Sections 7(a) through 7(e) is to define the obligations of Landlord and Tenant to perform various repair and maintenance functions; the allocation of the costs therefor are covered by Sections 3, 7(f), 7(g) and 7(h).

8. **LIENS.**

Tenant shall keep the Premises free from any liens arising out of any work performed, material furnished or obligations incurred by Tenant. In the event that Tenant does not, within twenty (20) days following the earlier of (i) the date that Tenant actually learns of the imposition of any such lien or (ii) the date Tenant receives written notice of such lien from Landlord, cause the same to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other remedies provided herein and by law, the right, but not the obligation, to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith shall be considered Additional Rent and shall be payable to it by Tenant on demand with interest at the Interest Rate. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law, or which Landlord shall deem proper, for the protection of Landlord, the Premises, the Buildings and any other party having an interest therein, from mechanics' and materialmen's liens, and Tenant shall give written notice to Landlord at ten (10) Business Days' prior to commencement of any construction on the Premises.

9. **TAXES PAYABLE BY TENANT.**

At least ten (10) days prior to delinquency, Tenant shall pay all taxes levied or assessed upon Tenant's equipment, furniture, fixtures and other personal property located in or about the Premises. If the assessed value of Landlord's property (including the Project) is increased by the inclusion therein of a value placed upon any Alterations made by or on behalf of Tenant or Tenant's equipment, furniture, fixtures or other personal property, Tenant shall pay to Landlord, upon written demand, the taxes so levied against Landlord, or the proportion thereof resulting from said increase in assessment.

10. **ASSIGNMENT AND SUBLETTING.**

(a) **Landlord's Consent.** Except as otherwise provided in Sections 10(e) and 10(f), Tenant shall not directly or indirectly, voluntarily or by operation of law, sell, assign, encumber, pledge, mortgage or otherwise transfer or hypothecate all or any part of the Premises or Tenant's leasehold estate hereunder (collectively, "Assignment"), or permit the Premises to be occupied by anyone other than Tenant or sublet the Premises (collectively, "Sublease") or any portion thereof without Landlord's prior written consent in each instance, which consent shall not be unreasonably withheld, conditioned or delayed by Landlord. Without otherwise limiting the criteria upon which Landlord may withhold its consent to any proposed Sublease or Assignment, if Landlord withholds its consent where either (i) in the case of a sublease or assignment of more than thirty-four thousand (34,000) rentable square feet of space, the creditworthiness of the proposed sublessee or assignee is not reasonably acceptable to Landlord (e.g. there does not exist reasonable evidence that sublessee or assignee can pay the rent and additional rent to be charged to sublessee or assignee), or (ii) the proposed sublessee's or assignee's use of the Premises is not in compliance with the allowed Tenant's Use of the Premises as described in the Basic Lease Information, such withholding of consent shall be presumptively reasonable. If Landlord consents to the Sublease or Assignment, Tenant may thereafter enter into a valid Sublease or Assignment upon the terms and conditions set forth in this Section 10. In no event shall any Assignment or Sublease release Tenant from its obligations under this Lease.

(b) **Voluntary Assignments.** Without limiting the other events which may constitute an Assignment, the following shall be deemed an Assignment: (i) any dissolution, merger, consolidation, or other reorganization of Tenant; (ii) the sale or other transfer or disposition of substantially all of the assets of Tenant; and (iii) at any time which the corporate shares of, or partnership, membership or other ownership interests in, Tenant are not publicly traded, a transfer, in one or more transactions occurring within a period of twenty-four (24) months, whether by sale, assignment, bequest, inheritance, operation of law or other disposition or by subscription, of fifty percent (50%) or more of the corporate shares of, or partnership, membership or other ownership interests in, Tenant, provided, however, that if the capital stock of Tenant is publicly traded, the sale or other transfer of Tenant's capital stock shall not constitute an Assignment.

(c) **Notice to Landlord.** If Tenant desires at any time to enter into an Assignment of this Lease or a Sublease of the Premises or any portion thereof, it shall first give written notice to Landlord of its desire to do so, which notice shall contain (i) the name of the proposed assignee, sublessee or occupant; (ii) the name of the proposed assignee's, sublessee's, or occupant's business to be carried on in the Premises; (iii) the terms and provisions of the proposed Assignment or Sublease; (iv) in the case of a Sublease, the area to be sublet (the "Sublease Premises") and the arrangements which will exist for the establishment as "common area" of such portions of the Premises as may be necessary for ingress, egress, use of bathrooms, stairs, and similar rights of the proposed sublessee which will be necessary for the use and enjoyment of the Sublease Premises and the compliance thereof with all applicable Laws; and (v) such financial information as Landlord may reasonably request concerning the proposed assignee, sublessee or occupant.

(d) **Landlord's Right to Recapture; Assignment or Sublease Profits.** At any time within ten (10) Business Days after Landlord's receipt of the notice specified in Section 10(c), Landlord may by written notice to Tenant elect to: (i) terminate this Lease as to the Sublease Premises (a "Recapture Option") if and only if the Sublease (A) will result in Tenant no longer occupying at least twenty-five percent (25%) of the rentable area of the Premises, and (B) is not a Short-Term Sublease [defined below]; (ii) consent to the Sublease or Assignment, which consent shall not be unreasonably withheld, conditioned or delayed; or (iii) disapprove the Sublease or Assignment setting forth the reasons therefor. Any improvements, additions, or alterations to the Buildings or the Project that are required by any Law as a result of such Sublease or Assignment shall be installed and provided without cost or expense to Landlord, and Landlord may condition its consent to any proposed subtenant or assignee on the construction of such improvements, additions, or alterations. If Landlord consents to the Sublease or Assignment within said ten (10) Business Day period, Tenant may thereafter within ninety (90) days after Landlord's consent, but not later than the expiration of said ninety (90) days, enter into such Assignment or Sublease of the Premises or portion thereof upon the terms and conditions set forth in the notice furnished by Tenant to Landlord pursuant to Section 10(c). Failure by Landlord to respond to Tenant's written request for Landlord's consent to an assignment, encumbrance or sublease within the ten (10) Business Day time period specified above shall be deemed to be Landlord's consent thereto. Notwithstanding anything herein to the contrary, if Landlord notifies Tenant of its election to exercise the Recapture Option, then Tenant may revoke its notice to Landlord given pursuant to Section 10(c) by giving written notice of such revocation to Landlord within five (5) Business Days after Landlord gives Tenant notice of the exercise of the Recapture Option, in which event Landlord's exercise of the Recapture Option with respect to the portion of the Premises in question shall become null and void and the Lease shall not terminate as to such portion of the Premises. If Landlord exercises its Recapture Option and Tenant does not revoke its notice as provided above, Landlord and Tenant shall enter into an appropriate amendment to this Lease confirming such partial termination of this Lease, providing for a prorata reduction in and apportionment of Base Rent and Tenant's Share on a straight square footage basis, adding commercially reasonable lease provisions for a multi-tenant project, such as reasonable and appropriate access to the Sublease Premises through the remainder of the Premises and the equitable use of common facilities and parking, and Landlord shall have the right to use or relet the Sublease Premises for any legal purpose in its sole discretion. Additionally, if Landlord exercises its Recapture Option, then Landlord shall separately demise the portion of the Premises so recaptured by Landlord from the balance of the Premises, including, without limitation, capping, re-routing or reconfiguring all mechanical, electrical, plumbing, life-safety and other systems and equipment serving the affected portions of the Premises and construct such other improvements as may be required by Law or which Landlord reasonably deems to be necessary or appropriate to so demise the portion of the Premises so recaptured and the cost of such work shall be paid one-half (1/2) by Landlord and one-half (1/2) by Tenant. If Landlord consents to any Assignment or Sublease, Tenant shall be entitled to retain one hundred percent (100%) of any Assignment or Sublease Profits (defined below) realized by Tenant under any Assignment or Sublease unless and until such time (the "Profits Threshold Date") as the cumulative rentable square footage that is subject to Subleases and/or Assignments first equals or exceeds twenty-five percent (25%) of the rentable area of the Premises. All Assignment or Sublease Profits realized by Tenant on or after the Profits Threshold Date shall be shared fifty percent (50%) by Landlord and fifty percent (50%) by Tenant. Landlord's share of Assignment or Sublease Profits shall be paid to Landlord by Tenant or, at Landlord's option, directly by the sublessee or assignee to Landlord from and after the occurrence of a Tenant Default. As used herein, the term "Assignment or Sublease Profits" shall mean the excess of the total rent payable by the assignee or sublessee (including additional charges and other operating cost reimbursements) over the total Rent payable by Tenant to Landlord (including Additional Charges and other operating cost reimbursements) after deducting reasonable costs specifically related to the sublease of the Premises or the assignment of this Lease, including brokerage costs, reasonable legal fees and tenant improvements, all to be amortized over the remainder of the Term in the case of an Assignment or the term of the Sublease in the case of a Sublease (all of which shall be prorated on a per rentable square

foot basis in the case of a Sublease of less than all of the Premises). As used herein, the term "Short-Term Sublease" shall mean a Sublease which, in taking into account any renewal/extension options in such Sublease, satisfies all of the following conditions: (i) such Sublease does not expire during the last two (2) years of the Term (excluding any then-unexercised renewal/extension options in this Lease); (ii) such Sublease has a term that is less than half of the remaining Term (excluding any then-unexercised renewal/extension options in this Lease); and, (iii) such Sublease has a total base rental obligation that is less than the total remaining Base Rental obligation due by Tenant during the Term (calculated on a per square foot basis with respect to the portion of the premises proposed to be subleased).

(e) **No Release of Tenant.** No consent by Landlord to any Assignment or Sublease by Tenant shall relieve Tenant of any obligation to be performed by Tenant under this Lease, whether arising before or after the Assignment or Sublease. The consent by Landlord to any Assignment or Sublease shall not relieve Tenant from the obligation to obtain Landlord's express written consent to any other Assignment or Sublease. Any Assignment or Sublease that is not in compliance with this Section 10 shall be void and, at the option of Landlord, shall constitute a Tenant default. The acceptance of Base Rent, Additional Charges or Additional Rent by Landlord from a proposed assignee or sublessee shall not constitute the consent to such Assignment or Sublease by Landlord. Without liability to Tenant, Landlord shall have the right to offer and to lease space in the Buildings, or in any other property, to any party, including parties with whom Tenant is negotiating, or with whom Tenant desires to negotiate, concerning assignment or subletting the Premises, or any portion thereof.

(f) **Permitted Transfers.** Notwithstanding anything to the contrary contained in this Section 10, provided that the conditions of this Section 10(f) are satisfied, Tenant may enter into any of the following Assignments or Subleases (a "Permitted Transfer") without Landlord's prior written consent and without being subject to Landlord's termination or rent sharing rights provided in Section 10(d): (i) an assignment by Tenant of its interest in this Lease to a corporation, partnership, professional corporation, limited liability company, or limited liability partnership ("Transfer Entity") which results from a merger, consolidation or other reorganization, so long as the Transfer Entity has a net worth immediately following such transaction that is at least ninety-five percent (95%) of the net worth of Tenant as of the date immediately prior to such transaction; (ii) an assignment by Tenant of this Lease to a Transfer Entity which purchases or otherwise acquires all or substantially all of the stock or assets of Tenant, so long as such acquiring Transfer Entity has a net worth immediately following such transaction that is at least ninety-five percent (95%) of the net worth of Tenant as of the date immediately prior to such transaction; (iii) an assignment by Tenant of its interest in this Lease or a Sublease of all or any portion of the Premises to an Affiliate; or (iv) a merger, consolidation or other reorganization of Tenant in which Tenant is the surviving entity, provided that the net worth of Tenant immediately following such transaction is at least ninety-five percent (95%) of the net worth of Tenant as of the date immediately prior to such transaction. No Permitted Transfer shall relieve Tenant of Tenant's obligations under this Lease. As used herein, the term "Affiliate" shall mean and collectively refer to a corporation, partnership, limited liability company or other entity which controls, is controlled by or is under common control with Tenant, by means of an ownership of (i) more than fifty percent (50%) of the outstanding voting shares of stock or (ii) stock, partnership interests, membership interests or other ownership interests which provide the right to control the operations, transactions and activities of the applicable entity. Within five (5) Business Days following completion of the Permitted Transfer (or ten (10) Business Days prior to such Permitted Transfer if public disclosure of such transaction is not restricted by applicable Law or bona fide confidentiality requirements, the purpose of which was not to circumvent the requirement for prior notice of Permitted Transfers as set forth in this Section) Tenant shall provide written notice to Landlord of such Permitted Transfer as well as a statement of the basis of Tenant's belief that such Assignment or Sublease is a Permitted Transfer.

(g) **Assumption of Obligations.** Each assignee (including Transfer Entities under a Permitted Transfer) (i) shall deliver to Landlord concurrent with the Assignment an assumption agreement in form and substance satisfactory to Landlord whereby such assignee assumes and agrees to perform, observe and abide by the terms, provisions conditions of, and all obligations of Tenant under this Lease and (ii) shall be and remain liable jointly and severally with Tenant for the payment of Base Rent, Additional Charges and Additional Rent, and for the performance of all the terms, covenants, conditions and agreements herein contained on Tenant's part to be performed. If this Lease is assigned, whether or not in violation of the terms of this Lease, from and after the occurrence of a Tenant Default Landlord may collect Rent from the assignee. If the Premises or any part thereof is Subleased, Landlord may, upon any failure by Tenant to perform its obligations hereunder, collect Rent from the sublessee. In either event, Landlord shall apply the amount collected from the assignee or sublessee to Tenant's monetary obligations hereunder. Collecting Rent from the assignee or sublessee or applying that Rent to Tenant's monetary obligations shall not be deemed to be an acceptance of the assignee or sublessee as a direct tenant of Landlord nor a waiver of any provision of this Section 10 nor an assumption by Landlord of any obligation of Tenant or any other party as an assignor or sublessee to such assignee or sublessee. No Assignment shall be binding on Landlord unless the assignee or Tenant shall deliver to Landlord a counterpart of the Assignment and the assumption agreement required by the provisions of this Section 10(g), but the failure or refusal of the assignee, sublessee or other transferee to execute such instrument of assumption shall not release or discharge the assignee from its liability as set forth above.

(h) **Reimbursement of Landlord's Review Costs.** Tenant shall reimburse Landlord, within thirty (30) days after Landlord's written demand, for any reasonable out-of-pocket expenses incurred by Landlord in connection with such review of any request for consent to an Assignment or Sublease, including reasonable legal fees.

11. **INSURANCE AND INDEMNIFICATION.**

(a) **Landlord Indemnification.** Subject to the waivers provided in Section 12 and except to the extent caused by the negligence or willful misconduct of any Tenant Party, Landlord shall indemnify, defend and hold harmless Tenant from and against any and all claims or liability for any injury or damage to any person or property including any reasonable attorney's fees (but excluding any consequential damages or loss of business) (i) occurring in, on, or about the Project to the extent such injury or damage is caused by the negligence or willful misconduct of any Landlord Party (defined below), property manager, or its property manager's employees; provided, however, that the foregoing indemnity shall not include claims or liability to the extent waived by Tenant pursuant to Section 11(b). Further, (i) in the event of a discrepancy between the terms of this Section and the terms of Section 36 concerning Hazardous Substances liability, the latter shall control; and (ii) nothing in this Section 11(a) is intended to nor shall it be deemed to override the provisions of Section 12.

(b) **Tenant Waiver of Claims.** The Landlord Parties shall not be liable to Tenant, and Tenant hereby waives all claims against the Landlord Parties for any injury or damage to any person or property in or about the Premises by or from any cause whatsoever (other than the gross negligence or willful misconduct of any Landlord Party), and without limiting the generality of the foregoing, whether caused by water leakage of any character from the roof, walls, or other portion of the Premises or the Buildings, the Project, or caused by gas, fire, oil, electricity, or any cause whatsoever (other than the intentional or willful misconduct of Landlord and its agents and employees), in, on, or about the Premises, the Buildings, the Project or any part thereof. Tenant acknowledges that any casualty insurance carried by Landlord will not cover loss of income to Tenant or damage to any Alterations or Tenant's personal property located within the Premises. Tenant shall be required to maintain the insurance described in Section 11(d) during the Term. In the event of a discrepancy between the terms of this Section and the terms of Section 36 of this Lease concerning Hazardous Substance liability, the latter

shall control (except with respect to the last sentence of this Section 11(b)). Nothing in this Section 11(b) is intended to nor shall it be deemed to override the provisions of Section 12. Notwithstanding anything contained in this Lease to the contrary, in no event shall Landlord or Tenant have any liability whatsoever to the other for any consequential damages, or loss of business, revenue or profits, even if caused by the active or passive negligence, or intentional or willful misconduct, of any Landlord Party or Tenant Party. As used herein, the term "Landlord Parties" shall mean Landlord, its officers, directors, shareholders, members, partners, managers (including the Managing Agent), investors, lenders and their respective agents, employees, servants, representatives, consultants, property managers, contractors, successors and assigns.

(c) **Tenant Indemnification.** Subject to the waivers provided in Section 12 and except to the extent caused by the gross negligence or willful misconduct of any Landlord Party, Tenant shall indemnify, defend and hold harmless the Landlord Parties from and against any and all claims or liability for any injury or damage to any person or property whatsoever including any reasonable attorney's fees (but excluding any consequential damages or loss of business): (i) occurring in or on the Premises; (ii) occurring in, on, or about any other portion of the Project to the extent such injury or damage shall be caused by the negligence or willful misconduct by any Tenant Party, or its sublessees, assignees, guests or invitees, or (iii) arising from any breach of this Lease by Tenant. Tenant further agrees to indemnify and hold the Landlord Parties harmless from, and defend the Landlord Parties against, any and all claims, losses, or liabilities (including damage to Landlord's property) arising from (x) any breach of this Lease by Tenant and/or (y) the conduct of any work or business of Tenant Parties in or about the Project, including any release, discharge, storage or use of any hazardous substance, hazardous waste, toxic substance, oil, explosives, asbestos, or similar material. In the event of a discrepancy between the terms of this Section and the terms of Section 36 (concerning Hazardous Substance liability), the latter shall control. Nothing in this Section 11(c) is intended to nor shall it be deemed to override the provisions of Section 12.

(d) **Tenant's Insurance.** Tenant shall procure at its sole cost and expense and keep in effect during the Term the following insurance:

(i) commercial general liability insurance including contractual liability and broad form property damage with an each occurrence limit of Five Million Dollars (\$5,000,000) and a general aggregate limit of Five Million Dollars (\$5,000,000). Such insurance (A) shall name Landlord and Managing Agent (as identified in the Basic Lease Provisions) their respective officers, partners, members and employees and such additional persons or entities as Landlord may from time-to-time reasonably designate in writing as an additional insured, (B) shall include contractual liability coverage, (C) is intended to be primary insurance, and not excess over or contributory with any other valid, existing, and applicable insurance in force for or on behalf of Landlord, and (D) shall provide that the insurer shall endeavor to provide Landlord with thirty (30) days' written notice prior to any cancellation or change of coverage. Tenant covenants and agrees to also provide Landlord with thirty (30) days' written notice of any cancellation or change of coverage;

(ii) "all risk" property insurance on a "special causes of loss" basis (including boiler and machinery (if applicable); sprinkler damage, vandalism and malicious mischief) on Tenant's Work, any Alterations, all other improvements installed in the Premises by or on behalf of Tenant, and all of Tenant's personal property, such insurance to include a building ordinance provision (as to those Alterations for which such a provision will apply) and business income/extra expense coverage. Such insurance shall be in an amount equal to full replacement cost of the aggregate of the foregoing and shall provide coverage comparable to the coverage in

the standard ISO "special causes of loss" form, when such form is supplemented with the coverages required above, and shall name Landlord as a loss payee;

- (iii) worker's compensation insurance, statutory and employer's liability coverage; and
- (iv) such other insurance as may be required by Law.

Additionally, Tenant shall require all of its contractors, subcontractors, and vendors doing work in or to the Project (excluding the Tenant's Work as to which the insurance requirements of the Work Letter shall control) to maintain commercial general liability insurance meeting all of the requirements of Section 11(d)(i) (but with minimum limits of \$1,000,000), workers' compensation coverage including employers liability, and automobile liability coverage and to provide certificates of insurance or such other evidence of insurance as may be acceptable to Landlord. Additionally, contractors, subcontractors and vendors participating in the construction of Tenant's Work shall be required to provide the insurance specified in the Work Letter.

(e) **Policy Requirements.** All insurance policies required under Section 11(d) and Section 11(g) shall be issued by carriers each with a Best's Insurance Reports policy holder's rating of not less than A and a financial size category of not less than Class VIII. Landlord and Tenant shall deliver to the other certificates of insurance or other evidence acceptable to the other of such insurance on or before the Commencement Date, and thereafter at any time and from time-to-time within ten (10) Business Days after written request from the other. In the event Tenant shall fail to procure and keep such insurance in full force and effect during the Term, or to deliver such policies or certificates within said time frame, Landlord may, at its option, procure same for the account of Tenant, and the cost thereof shall be paid to Landlord as Additional Rent within five (5) Business Days after delivery to Tenant of bills therefor.

(f) **Survival.** The provisions of this Section 11 shall survive the expiration or termination of this Lease with respect to any claims or liability occurring prior to such expiration or termination.

(g) **Landlord Insurance.** Landlord shall maintain insurance on the Project against fire and risks covered by "special causes of loss" form (excluding earthquake and flood) on a 100% "replacement cost" basis. Landlord's insurance: (i) shall cover the Base Buildings; (ii) shall not cover any Alterations or any other improvements installed in the Premises by or on behalf of Tenant; (iii) shall have a building ordinance provision; and (iv) shall provide for rental interruption insurance covering a period of twelve (12) full months. In no event shall Landlord agree to any co-insurance obligations under any such policies (beyond standard deductibles). Landlord shall also maintain commercial general liability insurance including contractual liability coverage (or with contractual liability endorsement) on an occurrence basis in amounts not less than Five Million Dollars (\$5,000,000) per occurrence and general aggregate limit of Five Million Dollars (\$5,000,000) with respect to bodily injury or death and property damage. Notwithstanding the foregoing obligations of Landlord to carry insurance, Landlord may: (i) modify the foregoing coverages if and to the extent it is commercially reasonable to do so; (ii) carry earthquake and flood insurance at its sole discretion; and (ii) carry, at its sole discretion, insurance in addition to the insurance described in the first two sentences of this Section 11(g) (such additional insurance being referred to herein as "Additional Insurance").

12. WAIVER OF CLAIMS AND SUBROGATION.

Notwithstanding anything to the contrary in this Lease, to the extent that this waiver does not invalidate or impair their respective insurance policies, the parties hereto release each other and their respective agents, employees, successors, assignees and subtenants from all liability for injury to any

person or damage to any property that is caused by or results from a risk (i) which is actually insured against, to the extent of receipt of payment under such policy (unless the failure to receive payment under any such policy results from a failure of the insured party to comply with or observe the terms and conditions of the insurance policy covering such liability, in which event, such release shall not be so limited), (ii) which is required to be insured against under this Lease, or (iii) which would normally be covered by the standard "special causes of loss" form of property insurance, without regard to the negligence or willful misconduct of the entity so released. Landlord and Tenant shall each obtain from their respective insurers under all policies of fire, theft, and other property insurance maintained by either of them at any time during the Term insuring or covering the Project or any portion thereof of its contents therein, a waiver of all rights of subrogation which the insurer of one party might otherwise, if at all, have against the other party, and Landlord and Tenant shall each indemnify the other against any loss or expense, including reasonable attorneys' fees, resulting from the failure to obtain such waiver.

13. **SERVICES AND UTILITIES.**

(a) **Tenant Responsibilities.** Subject to the provisions elsewhere herein contained and to the Rules and Regulations, Tenant shall be responsible for arranging for, and direct payment of the cost of janitorial service for the Premises, security for the Premises, transportation management and mitigation programs, telephone, and cable and digital services, and any recycling, garbage pickup, water, electricity, gas or other utilities or services which are used by or serve exclusively Tenant (such as, by way of example only, utilities which are separately metered to the Premises or a portion thereof by the utility company providing the utility in question) and Landlord shall cooperate with Tenant's efforts to arrange such services.

(b) **Payment For Utilities and Services.** From and after the Direct Lease Date, Landlord shall have the right to measure utility and service usage at the Project, including electrical usage, through any reasonable and equitable method established by Landlord, including the installation of submeters, and utilities and services provided to Tenant at the Buildings shall, at Landlord's option, be paid for by Tenant either (i) through inclusion in Expenses (except as provided for excess usage); (ii) by a separate charge payable by Tenant to Landlord; or (iii) by a separate charge billed by the applicable utility or service company and payable directly by Tenant. From and after the Direct Lease Date, if, in Landlord's reasonable opinion, Tenant's use of any utility or service (including HVAC services) which is not separately metered is in excess of the customary usage by a tenant using similar office space in the Mountain View area for similar uses as the Permitted Uses (including uses occurring outside of Building Hours), Tenant shall pay Landlord the cost of providing such additional utility or service (as Additional Rent and not as a part of Additional Charges for Expenses) within thirty (30) days following presentation of an invoice therefor by Landlord to Tenant, or through such other equitable method as Landlord may employ. The cost chargeable to Tenant for all extra utilities and/or services shall constitute Additional Rent. From and after the Direct Lease Date, the HVAC system for the applicable multi-tenant Building or Buildings shall automatically run Monday through Friday (excluding holidays) from 7:00 a.m. to 6:00 p.m. ("Building Hours"). Tenant shall have the ability to activate the HVAC system for the Premises during non-Building Hours. Tenant agrees at all times to cooperate fully with Landlord and to abide by all the reasonable regulations and requirements which Landlord may prescribe for the proper functioning and protection of the HVAC system(s) and equipment.

(c) **Excessive Load.** Unless such apparatus or device is included in the Tenant Plans approved by Landlord, Tenant will not without the written consent of Landlord, which consent may be given, conditioned or withheld in Landlord's sole discretion, use any apparatus or device in the Premises which, when used, puts an excessive load (i.e., materially beyond the designed building load) on the Building or its structure or systems, including electronic data processing machines and other machines using excess lighting or voltage in excess of the amount for which the Building is designed without

providing the necessary (in Landlord's reasonable discretion) alteration necessary for the safe and adequate operation of said apparatus or device. Tenant shall not operate any equipment within the Buildings or the Premises which would (i) materially damage the Buildings or the Project, (ii) overload existing mechanical, electrical or other systems or equipment servicing the Buildings, (iii) impair the efficient operation of the sprinkler system or the heating, ventilating or air conditioning equipment within or servicing the Buildings, or (iv) overload or damage or corrode the sanitary sewer system.

(d) **Interruption of Services.** Landlord shall not be in default hereunder or be liable for any damages directly or indirectly resulting from, nor shall the rental herein reserved be abated except as expressly provided herein, by reason of (i) the installation, use or interruption of use of any equipment in connection with the foregoing utilities and services; (ii) failure to furnish or delay in furnishing any services to be provided by Landlord when such failure or delay is caused by any Force Majeure Delays, or by the making of repairs or improvements to the Premises or to the Buildings; or (iii) the limitation, curtailment, rationing or restriction on use of water or electricity, gas or any other form of energy or any other service or utility whatsoever serving the Premises or the Buildings. In the event of such an interruption, failure or delay, the rent herein reserved shall be abated as and to the extent (and only as and to the extent) that proceeds from Landlord's rental interruption insurance are available to fully reimburse Landlord for such abatement. Furthermore, Landlord shall be entitled to cooperate voluntarily in a reasonable manner with the efforts of national, state or local governmental agencies or utilities suppliers in reducing energy or other resources consumption provided that no material adverse impact on Tenant's operations at the Premises results therefrom. Notwithstanding the above, in the event that (i) Tenant is not then performing Landlord's repair and maintenance obligations pursuant to Section 7(c), (ii) such restoration of such utilities is within Landlord's control, (iii) such interruption has continued for more than three (3) Business Days, and (iv) Landlord has not commenced to diligently prosecute the restoration of said utilities within three (3) Business Days, then Tenant shall have the right to make the necessary repairs to the Project to restore said utilities. In the event that Tenant undertakes any emergency repairs of utilities, then for a period of twenty (20) days thereafter, Landlord and Tenant shall attempt to resolve any dispute about which party should be responsible for the cost thereof. If the parties are unable to resolve any such dispute within such twenty (20) day period, then the dispute shall be resolved by arbitration pursuant to Section 37. In the event that Tenant prevails in such arbitration and it is determined that Landlord shall be responsible for said costs, then Tenant shall be allowed to offset said cost against Base Rent, but in no event shall the amount of such offset during any month exceed five percent (5%) of the Base Rent due for such month. Notwithstanding the above, in the event that an interruption of utilities (the correction of such which is within Landlord's control) is (i) during the last year of the Term and (ii) continues for more than ninety (90) days, then Tenant shall have the right to terminate this Lease by delivering to Landlord written notice of its election to so terminate within ten (10) days of the passing of the ninety (90) day period.

(e) **Security.** Landlord shall not be required to provide, operate or maintain alarm, surveillance systems, security personnel or other security services for the Premises or the Project. Tenant shall provide such security services and shall install (upon satisfaction of the requirements of Section 6) within the Premises such security equipment, systems and procedures and employ such security personnel as may reasonably be required by Tenant for the protection of its employees and invitees, provided that Tenant shall coordinate such services and equipment with any security which Landlord (in its sole discretion) may from time-to-time elect to employ. The determination of the extent to which such supplemental security equipment, systems and procedures are reasonably required shall be made in the sole judgment, and shall be the sole responsibility, of Tenant. Tenant acknowledges that it has neither received nor relied upon any representation or warranty made by or on behalf of Landlord with respect to the safety or security of the Premises or the Project or any part thereof or the extent or effectiveness of any security measures or procedures now or hereafter provided by Landlord, and further acknowledges that Tenant has made its own independent determinations with respect to all such matters.

14. ESTOPPEL CERTIFICATES.

Within fifteen (15) days from receipt of written notice from Landlord or Tenant, the other party will execute, acknowledge and deliver to the requesting party, and at the requesting party's request, to any prospective tenant, subtenant, assignee, purchaser, ground or underlying lessor or Mortgagee of any part of the Buildings or the Land or any other party acquiring an interest in Landlord, a certificate substantially in the form attached as Exhibit D-1 (in the case of a certificate to be delivered by Tenant) or Exhibit D-2 (in the case of a certificate to be delivered by Landlord) and containing such additional information as the requesting party may request. It is intended that any such estoppel certificate delivered pursuant to this Section 14 may be relied upon by the party or parties to whom it is addressed.

15. HOLDING OVER.

If Tenant remains in possession of all or any portion of the Premises after the expiration or earlier termination of this Lease without the consent of Landlord, Tenant's continued possession shall be on the basis of a tenancy at the sufferance of Landlord. In such event, Tenant shall continue to comply with or perform all the terms and obligations of Tenant under this Lease, except that the monthly Base Rent (for each month or any part thereof of any such holding over, and together with such other amounts as may become due hereunder during Tenant's holding over) shall be (a) for the first thirty (30) days of holding over, one hundred twenty-five percent (125%) of the monthly Base Rent that Tenant was obligated to pay for the month immediately preceding the Expiration Date or earlier termination of this Lease, and (b) thereafter, one hundred fifty percent (150%) of the monthly Base Rent that Tenant was obligated to pay for the month immediately preceding the Expiration Date or earlier termination of this Lease; in both cases together with an amount estimated by Landlord for the monthly Additional Charges payable under this Lease. In addition to Rent, Tenant shall pay Landlord for all damages proximately caused by reason of Tenant's retention of possession. Landlord's acceptance of Rent after such termination shall not constitute a renewal of this Lease, and nothing contained in this provision shall be deemed to waive Landlord's right of re-entry or any other right hereunder or at law. Tenant acknowledges that, in Landlord's marketing and re-leasing efforts for the Premises, Landlord is relying on Tenant vacating the Premises on the Expiration Date. Accordingly, Tenant shall indemnify, defend and hold Landlord harmless from and against all claims, liabilities, losses, costs, expenses and damages arising or resulting directly or indirectly from Tenant's failure to timely surrender the Premises, including (i) any loss, cost or damages suffered by any prospective tenant of all or any part of the Premises, and (ii) Landlord's damages as a result of such prospective tenant rescinding or refusing to enter into the prospective lease of all or any portion of the Premises by reason of such failure of Tenant to timely surrender the Premises. Any holding over without Landlord's consent shall constitute a Tenant Default.

16. SUBORDINATION.

(a) **Lease Subordination.** Subject to the provisions of Section 16(b), this Lease shall be subject and subordinate at all times to: (i) all ground leases or underlying leases which may hereafter be executed affecting the Land, the Buildings or both; and (ii) the lien of any Mortgage which may hereafter be executed for which the Land, Buildings, ground leases or underlying leases, or Landlord's interest or estate in any of said items, is specified as security. Notwithstanding the foregoing, Landlord shall have the right to subordinate or cause to be subordinated any such ground leases or underlying leases or any such liens to this Lease. In the event that any ground lease or underlying lease terminates for any reason or any Mortgage is foreclosed or a conveyance in lieu of foreclosure is made for any reason, Tenant shall, notwithstanding any subordination, attorn to and become the Tenant of the successor in interest to Landlord at the option of such successor in interest. Tenant covenants and agrees to execute, acknowledge and deliver to Landlord any commercially reasonable documents confirming the

subordination of this Lease within fifteen (15) Business Days after delivery of same by Landlord, provided such document satisfy the requirements of Section 16(b).

(b) **Subordination, Non-Disturbance and Attornment.** Landlord represents and warrants to Tenant that as of the date of this Lease, neither the Land nor the existing buildings situated thereon are subject to any ground leases or underlying leases or the lien of any Mortgage. Notwithstanding anything to the contrary set forth in this Section 16, as a condition precedent to the future subordination of this Lease to a future ground or underlying lease or any Mortgage, the documents effecting such subordination of this Lease as described in the last sentence of Section 16(a) shall be required to provide Tenant with commercially reasonable non-disturbance provisions in favor of Tenant from the ground or underlying lessor or Mortgagee in question. Such agreement (an "SNDA") shall provide that, so long as Tenant is paying the Rent due under this Lease and no Tenant Default exists, its right to possession and the other terms of this Lease shall remain in full force and effect. Additionally, in the case of any Mortgage recorded prior to completion of Landlord's Work and Tenant's Work, the SNDA shall be required to include the agreement of the Mortgagee, that upon Landlord's default, that the Mortgagee will either complete construction of Landlord's Work, or grant Tenant the right to complete Landlord's Work in accordance with Landlord's Plans and offset the cost reasonably incurred by Tenant in completing Landlord's Work in accordance with Landlord's Plans, and will further provide that Tenant shall expressly retain all offset rights regarding any unfunded amount of the Tenant Allowance. Tenant acknowledges and agrees that such SNDA may include other commercially reasonable provisions in favor of the Mortgagee, including additional time on behalf of the Mortgagee to cure defaults of Landlord and provide that: (i) neither the Mortgagee nor any successor-in-interest shall be bound by (A) any payment of the Base Rent, Additional Charges, or Additional Rent, or other sum due under this Lease for more than one (1) month prior to their due date, or (B) any agreement terminating, amending or modifying this Lease made without the express written consent of the Mortgagee (except for amendments or modifications (a) that Landlord is entitled to enter into without the consent of Mortgagee pursuant to the terms of the mortgage or any other loan documents relating thereto, or (b) made solely for purposes of documenting the exercise of rights expressly set forth in this Lease); (ii) neither the Mortgagee nor any successor-in-interest will be liable for (A) any act or omission or warranties of any prior landlord (including Landlord), (B) the breach of any warranties or obligations relating to construction of improvements on the Project or any tenant finish work performed or to have been performed by any prior landlord (including Landlord) except as otherwise provided in this Section 16(b), or (C) the return of any security deposit, except to the extent such deposits have been received by Mortgagee; and (iii) neither Mortgagee nor any successor-in-interest shall be subject to any offsets or defenses which Tenant might have against any prior landlord (including Landlord)); provided, however the foregoing shall in no event be interpreted to waive any right of offset expressly provided Tenant herein or any defense which Tenant may have to the extent the same may arise in connection with circumstances arising or continuing after the date of such Mortgagee's or any successor-in-interest's succession to the interest of any prior landlord. Without limiting the form of SNDA which Tenant is obligated to sign pursuant to the provisions of this Section, Tenant acknowledges and agrees that the form of SNDA attached hereto as Exhibit E satisfies the requirements of this Section.

17. RULES AND REGULATIONS.

Tenant shall faithfully observe and comply with the rules and regulations attached to this Lease as Exhibit F (the "Rules and Regulations") and all reasonable modifications thereof and additions thereto from time to time put into effect by Landlord. Landlord shall not be responsible for the nonperformance by any other Tenant or occupant of the Buildings or the Project of any said rules and regulations. In the event of an express and direct conflict between the terms, covenants, agreements and conditions of this Lease and those set forth in the Rules and Regulations, as modified and amended from time to time by Landlord, this Lease shall control.

18. **LEED REQUIREMENTS.**

Tenant acknowledges that at Landlord's option, the Buildings or Project may be operated in accordance with the U.S. Green Building Council's Leadership in Energy and Environmental Design program's standards, as the same may be amended, supplemented, or replaced from time to time, or, at Landlord's option, any similar standards (hereinafter referred to as "LEED"), provided, however, that nothing contained herein shall obligate Landlord to so operate the Buildings or Project. In connection therewith:

(a) **Landlord's Election.** From and after the date Landlord notifies Tenant in writing that Landlord has elected to operate the Premises, Buildings, or Project in accordance with the LEED program, Tenant shall, in addition to complying with all of its other obligations under this Lease, comply with all LEED requirements applicable to the Premises, Buildings and/or Project as set forth by Landlord in such notice, and with any additional or supplemental requirements that may be provided by Landlord to Tenant from time to time (the "LEED Conditions") to the extent that such compliance can be done at no material cost to the Tenant;

(b) **Termination.** Landlord shall have the right to modify or discontinue the LEED Conditions at any time upon notice to Tenant;

(c) **Obtaining Certification.** Tenant covenants, at no material cost to Tenant, to cooperate with Landlord in seeking LEED certification if Landlord so elects, provided, however, that Landlord does not guarantee or represent to Tenant that certification will be sought or that the Premises, Buildings or Project will be certified to any particular LEED standard; and

(d) **No Interference.** If LEED certification is obtained, Tenant shall not seek decertification or otherwise interfere with Landlord's continuance of such certification.

19. **RE-ENTRY BY LANDLORD.**

Landlord reserves and shall at all reasonable times, upon reasonable prior notice (twenty-four (24) hours, except in the case of an emergency), and subject to Tenant's reasonable security requirements and the right of Tenant to accompany Landlord at all times, have the right to re-enter the Premises to inspect the same, to supply any service to be provided by Landlord to Tenant hereunder (unless Tenant is supplying such service), to show the Premises to prospective purchasers, investors, mortgagees or tenants (as to prospective tenants, only: during the last twenty-four (24) months of the Term or at any time a Tenant Default exists), to post notices of non-responsibility or as otherwise required or allowed by this Lease or by Law, and to alter, improve (in the case of to alter or improve the interior of the Premises, such entry shall only be in the event so required by laws or by Section 7) or repair the Premises and any portion of the Buildings which Landlord is obligated to or has the right to alter, improve or repair pursuant to the terms of this Lease and may for that purpose erect, use, and maintain scaffolding, pipes, conduits, and other necessary structures in and through the Premises where reasonably required by the character of the work to be performed. Landlord shall not be liable in any manner for any inconvenience, disturbance, loss of business, nuisance or other damage arising from Landlord's entry and acts pursuant to this Section and Tenant shall not be entitled to an abatement or reduction of Rent if Landlord exercises any rights reserved in this Section. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby, except for Landlord's negligence or willful misconduct. For each of the aforesaid purposes, Tenant shall provide reasonable access privileges to Landlord through Tenant's on-site security personnel and subject to Tenant's reasonable security requirements, provided, however, that at any time Tenant does not maintain on-site security personnel on a continuous basis,

Landlord shall at all times have and retain a key with which to un-lock all of the doors in, upon and about the Premises, excluding Tenant's vaults and safes, or special security areas (designated in advance). In an emergency, Landlord shall use commercially reasonable efforts to provide Tenant with notice reasonable in such situation and shall have the right to use any and all means which Landlord may deem necessary or proper to open doors and gain entry to the Premises, and no such emergency entry shall be construed or deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction, actual or constructive, of Tenant from the Premises or any portions thereof. Landlord shall use commercially reasonable efforts during any such entry to not unreasonably interfere with Tenant's use of the Premises or its business conducted therein.

20. INSOLVENCY OR BANKRUPTCY.

The appointment of a receiver to take possession of all or substantially all of the assets of Tenant, or a general assignment of Tenant for the benefit of creditors, or any action taken or suffered by Tenant under any insolvency, bankruptcy, reorganization or other debtor relief proceedings, whether now existing or hereafter amended or enacted, shall at Landlord's option constitute a breach of this Lease by Tenant unless a petition in bankruptcy, or receiver attachment, or other remedy pursued by a third party is discharged within sixty (60) days. Upon the happening of any such event or at any time thereafter, this Lease shall terminate five (5) days after written notice of termination from Landlord to Tenant. In no event shall this Lease be assigned or assignable by operation of law or by voluntary or involuntary bankruptcy proceedings or otherwise and in no event shall this Lease or any rights or privileges hereunder be an asset of Tenant under any bankruptcy, insolvency, reorganization or other debtor relief proceedings.

21. DEFAULTS AND REMEDIES.

(a) **Tenant Defaults.** The occurrence of any of the following shall constitute a "Tenant Default" hereunder:

(i) The failure of Tenant to pay Rent within three (3) Business Days after the date of written notice from Landlord demanding payment. Tenant waives any right to notice Tenant may have under Section 1161 of the California Code of Civil Procedure, the notice required by the provisions of this Section 21(a)(i) being deemed such notice to Tenant as required by, in lieu of, and not in addition to, the notice required by Section 1161 of the California Code of Civil Procedure;

(ii) The failure of Tenant to perform or honor any covenant, duty, obligation or condition made under this Lease (including the Exhibits hereto) other than those matters specified in Sections 21(a)(i) and 21(a)(iii) through 21(a)(xi) within thirty (30) days after the date of written notice from Landlord demanding performance, provided, however, that if such failure is susceptible to cure and cannot reasonably be cured within said thirty (30) day period, then Tenant shall have an additional sixty (60) day period to cure such failure and no Tenant Default shall be deemed to exist so long as (A) Tenant commences such cure within the initial thirty (30) day period and diligently and in good faith pursues such cure to completion within such resulting ninety (90) day period from the date of Landlord's notice. Tenant waives any right to notice Tenant may have under Section 1161 of the California Code of Civil Procedure, the notice required by the provisions of this Section 21(a)(ii) being deemed such notice to Tenant as required by, in lieu of, and not in addition to, the notice required by Section 1161 of the California Code of Civil Procedure;

(iii) The abandonment of the Premises for a continuous period in excess of five (5) Business Days, provided however, that abandonment shall be considered to not occur if

Tenant is performing all of its maintenance, repair and security obligations under the Lease and taking any and all steps necessary to maintain the insurance on each and every portion of the Premises. Tenant waives any right to notice Tenant may have under Section 1951.3 of the California Civil Code, the notice required by the provisions of this Section 21(a)(iii) being deemed such notice to Tenant as required by, in lieu of, and not in addition to, the notice required by Section 1951.3 of the California Civil Code;

(iv) The making by Tenant of a general assignment for the benefit of creditors;

(v) The filing of any voluntary petition in bankruptcy by Tenant, or the filing of an involuntary petition by Tenant's creditors, which involuntary petition remains undischarged for a period of sixty (60) days. If under applicable law the trustee in bankruptcy or Tenant has the right to affirm this Lease and continue to perform the obligations of Tenant hereunder, such trustee or Tenant shall, in such time period as may be permitted by the bankruptcy court having jurisdiction, cure all failures to perform the obligations of Tenant hereunder outstanding as of the date of the affirmation of this Lease and provide to Landlord such adequate assurances as may be necessary to ensure Landlord of the continued performance of Tenant's obligations under this Lease;

(vi) The admission by Tenant in writing of its inability to pay its debts as they become due, the filing by Tenant of a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, the filing by Tenant of an answer admitting or failing timely to contest a material allegation of a petition filed against Tenant in any such proceeding or, if within sixty (60) days after the commencement of any proceeding against Tenant seeking any reorganization, or arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such proceeding shall not have been dismissed;

(vii) The employment of a receiver to take possession of substantially all of Tenant's assets or the Premises, if such receivership remains undissolved for a period of sixty (60) days after creation thereof;

(viii) The attachment, execution or other judicial seizure of all or substantially all of Tenant's assets or the Premises, if such attachment or other seizure remains undismissed or undischarged for a period of thirty (30) days after the levy thereof;

(ix) Any Assignment or Subletting in violation of the provisions of Section 10 which is not cured within five (5) Business Days following notice;

(x) Tenant informs Landlord in writing that (for any reason other than a default by Landlord in the performance of its material obligations hereunder) Tenant no longer intends to pay, or that Tenant is no longer able to pay all or any portion of the Rent due hereunder as and when such Rent is due; or

(xi) Any other act or omission which is expressly provided in this Lease to be Tenant Default, as to which acts or events the notice provisions of Section 21(a)(ii) shall not be applicable.

(b) **Landlord's Remedies.** Upon a Tenant Default, Landlord shall have the following rights and remedies in addition to any other rights or remedies available to Landlord at law or in equity:

(i) The rights and remedies provided by California Civil Code, Section 1951.2, including recovery of: (A) the worth at the time of award of the unpaid Rent and other amounts which had been earned at the time of termination; (B) the worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such Rent loss that the Tenant proves could have been reasonably avoided; (C) the worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such Rent loss that the Tenant proves could be reasonably avoided; and (D) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which, in the ordinary course of things, would be likely to result therefrom (the "worth at the time of award" of the amounts referred to in clauses (A) and (B) shall be computed with interest at ten percent (10%) per annum or the highest lawful rate, whichever is the lower, and the "worth at the time of award" of the amount referred to in clause (C) shall be computed by discounting such amount at the "discount rate" of the Federal Reserve Bank of San Francisco in effect as of time of award plus one percent (1%) and, where rental value is a material issue, shall be based upon competent appraisal evidence);

(ii) The rights and remedies provided by California Civil Code, Section 1951.4, that allows Landlord to continue this Lease in effect and to enforce all of its rights and remedies under this Lease, including the right to recover Rent, Additional Charges and Additional Rent as they become due, for so long as Landlord does not terminate Tenant's right to possession; provided, however, if Landlord elects to exercise its remedies described in this Section 21(b)(ii) and Landlord does not terminate this Lease, Tenant shall continue to have the right to Assign or Sublease in accordance with all of the provisions of Section 10. Acts of maintenance or preservation, efforts to relet the Premises or the appointment of a receiver upon Landlord's initiative to protect its interest under this Lease shall not constitute a termination of Tenant's rights to possession;

(iii) The right to terminate this Lease by giving notice to Tenant in accordance with applicable law; and

(iv) If Landlord elects to terminate this Lease, the right and power to enter the Premises and remove therefrom all persons and property and, to store such property in a public warehouse or elsewhere at the cost of and for the account of Tenant pursuant to applicable California law.

(c) **Landlord's Defaults.** Landlord shall have a period of thirty (30) days from the date of written notice from Tenant within which to cure any default under this Lease; provided, however, that with respect to any default that cannot reasonably be cured within thirty (30) days, the default shall not be deemed to be uncured if Landlord commences to cure within thirty (30) days from Tenant's notice and continues to prosecute diligently the curing thereof. Tenant agrees to give any Mortgagee, by Registered Mail, a copy of any notice of default served upon the Landlord, provided that prior to such notice Tenant has been notified in writing (by way of Notice of Assignment of Rents and Leases, or otherwise) of the address of such Mortgagee. Tenant further agrees that if Landlord shall have failed to cure such default within the time provided for in this Lease, then the Mortgagee shall have an additional thirty (30) days (provided that Tenant notifies Mortgagee concurrently with Tenant's notice to Landlord at the beginning of Landlord's thirty (30) day period; otherwise Mortgagee shall have sixty (60) days from

the date on which it is noticed) within which to cure such default or if such default cannot be cured within that time, then such additional time as may be necessary to cure such default shall be granted if within such applicable period Mortgagee has commenced pursuing the remedies necessary to cure such default (including commencement of foreclosure proceedings, if necessary to effect such cure) and thereafter diligently and in good faith pursues such remedies to completion (in which event this Lease shall not be terminated while such remedies are being so diligently pursued); provided, however, if such default causes a material interference with Tenant's use of and enjoyment of the Premises, such additional time for Mortgagee shall be limited to an additional thirty (30) days.

(d) **Tenant's Remedies.** If any default hereunder by Landlord is not cured within the applicable cure period provided in Section 21 (c), except as otherwise provided herein, Tenant's exclusive remedies shall be an action for specific performance or action for actual damages. Tenant hereby waives the benefit of any Laws granting it (i) the right to perform Landlord's obligation, or (B) the right to terminate this Lease or withhold Base Rent, Additional Charges or Additional Rent on account of any Landlord default. Tenant shall look solely to Landlord's interest in the Project for the recovery of any judgment from Landlord. Landlord, or if Landlord is a partnership, its partners whether general or limited, or if Landlord is a limited liability company, its managers and members, or if Landlord is a corporation, its directors, officers or shareholders, shall never be personally liable for any such judgment. Landlord's interest in the Project shall include rental income, any proceeds received by Landlord upon any sale, exchange or conveyance of all or any interest in the Project, any insurance proceeds received by Landlord to the extent that such proceeds are available to Landlord, any condemnation awards paid to Landlord, any payments by Tenant for Real Estate Taxes and Expenses which were not applied to the payment of said Real Estate Taxes and Expenses, and any rights of indemnity owed to Landlord by any insurance company. In no event shall the proceeds available to Tenant include the proceeds of any loan or other borrowing. The provisions of this Section 21 (d) shall not apply to Landlord's obligation to fund the Tenant Allowance pursuant to the Work Letter.

22. DAMAGE AND DESTRUCTION.

(a) **Notice of Casualty.** If the Premises is damaged by fire, earthquake or other event (a "Casualty"), Tenant shall give Landlord prompt written notice thereof. If (i) neither Landlord nor Tenant has the right to terminate this Lease in accordance with the provisions of this Section 22, or (ii) neither Landlord nor Tenant exercises any right it may have to terminate this Lease in accordance with the provisions of this Section 22, then (i) Landlord shall promptly and diligently repair such damage and restore the Project (but not Tenant's Work, any Alterations, or Tenant's personal property or trade fixtures) to substantially the same condition as existed before the Casualty, subject to modifications required by building codes and other Laws (the work which is Landlord's responsibility being referred to herein as the "Restoration Work"), and (ii) Tenant shall promptly and diligently repair any damage to and restore Tenant's Work, any Alterations, any other improvements installed in the Premises by or on behalf of Tenant and Tenant's personal property and trade fixtures to substantially the same condition as existed before the Casualty, subject to modifications required by building codes and other Laws. Within sixty (60) days after the date of the Casualty, Landlord shall give Tenant written notice (the "Restoration Estimate Notice") of Landlord's good faith estimate of the time required to complete the Restoration Work (the "Estimated Restoration Period"). The Restoration Estimate Notice shall state, as applicable, Landlord's election to either undertake the Restoration Work or to terminate this Lease in accordance with the provisions of this Section 22.

(b) **Landlord's Right to Terminate.** Landlord may, in its sole discretion, elect either to terminate this Lease or to undertake the Restoration Work if either: (i) the Estimated Restoration Period exceeds eighteen (18) months from the date of the Casualty; (ii) the estimated cost of the Restoration Work, even though covered by insurance, exceeds fifty percent (50%) of the full replacement

cost; or (iii) Landlord does not reasonably expect to receive sufficient insurance proceeds (not taking into account the deductible portion of the insurance policy) to complete the Restoration Work, and such shortfall is not due to Landlord's failure to obtain the property insurance required by Section 11(g) or any intentionally wrongful act of Landlord or any Landlord Party that results in such insurance proceeds being unavailable.

(c) **Tenant's Right to Terminate.** If the Restoration Estimate Notice states that the Estimated Restoration Period exceeds eighteen (18) months from the date of Casualty, then Tenant may elect to terminate this Lease as to the portion of the Premises which cannot be restored within such eighteen (18) month period and any other portion of the Premises which will be rendered unusable during the entirety of such eighteen (18) month period as a result of the damage or destruction, by providing written notice ("Tenant's Termination Notice") to Landlord within thirty (30) days after receiving the Restoration Estimate Notice. If Tenant does not elect to terminate within this thirty (30) day period, then Tenant shall be considered to have waived the option to terminate pursuant to this Section 22(c). Additionally, if Landlord fails to restore the Premises (including reasonable means of access thereto) on or before the date which is twelve (12) months after the last day of the Estimated Restoration Period set forth in Landlord's Restoration Estimate Notice, then Tenant may terminate this Lease by delivering written notice to Landlord of such termination at any time between the last day of such twelve (12) month period and the earlier of (i) Landlord's restoration of the Premises (including reasonable means of access thereto) or (ii) the date which is sixty (60) days after the last day of such twelve (12) month period.

(d) **Rent Abatement.** If either Landlord or Tenant terminates this Lease pursuant to the provisions of this Section 22, then the termination shall be effective thirty (30) days after deliver of the notice of such election. Tenant shall pay Rent, properly apportioned, up to the date of the Casualty. After the effective date of the termination, Landlord and Tenant shall be discharged from all future obligations under this Lease, except those provisions that, by their express terms, survive the expiration or earlier termination of this Lease. If neither Landlord nor Tenant terminates this Lease pursuant to the provisions of this Section 22 and any portion of the Premises is rendered unusable as the result of a Casualty, the Rent shall be abated in proportion to the rentable square footage of the Premises rendered unusable until Landlord completes the Restoration Work. Subject to Section 22(c), the Rent abatement provided in this Section 22(d) shall be Tenant's sole remedy due to the occurrence of the Casualty. Except as otherwise expressly provided in this Section 22(d), Rent shall not be reduced or abated by reason of any damage to or destruction of the Premises, and Landlord shall be entitled to all proceeds of the insurance maintained by it. Landlord shall not be liable for any inconvenience or annoyance to Tenant or its visitors, or injury to Tenant's business (including, without limitation, loss of business, profits or goodwill), resulting in any way from any damage or the repair thereof. In no event shall Landlord have any liability for, nor shall it be required to repair or restore, any injury or damage to any of Tenant's Work, any Alterations or Tenant's personal property or to any other personal property of others in or upon the Premises or the Project.

(e) **Casualty at End of Term.** Notwithstanding any other provision of this Section 22, if the Project is damaged or destroyed by a Casualty during the last twelve (12) months of the Term that cannot be repaired within sixty (60) days after the Casualty, then Landlord and Tenant shall each have the option to terminate this Lease by giving written notice to the other of the exercise of that option within thirty (30) days after the date of the Casualty.

(f) **Insurance Proceeds.** The proceeds from any insurance paid by reason of damage to or destruction of the Buildings or any part thereof, Landlord's Work or any other element, component or property insured by Landlord shall belong to and be paid to Landlord subject to the rights of any Mortgagee. If this Lease is terminated by either party as a consequence of a casualty in accordance with any of the provisions of this Section 22: (i) all proceeds of insurance required to be maintained by

Landlord shall be paid to Landlord subject to the rights of any Mortgagee; (ii) Landlord (subject to the rights of any Mortgagee) and Tenant each shall be paid its respective share (described below) of the proceeds actually recovered under the policy of property insurance maintained by Tenant under this Lease on account of any damage to or destruction of Tenant's Work; and (iii) Tenant shall be paid all proceeds of the policy of property insurance maintained by Tenant under this Lease paid on account of any damage to or destruction of any Alterations and Tenant's trade fixtures, furnishings, equipment and all other items of personal property of Tenant. For the purposes of item (ii) of the immediately preceding sentence: (i) Landlord's share of recovered proceeds shall be equal to the total of (A) the Tenant Allowance plus (B) the balance of the recovered proceeds (if any) in excess of the Tenant Allowance multiplied by a fraction, the numerator of which number of days between Commencement Date and the date on which the Lease is terminated and the denominator of which is number of days in the Initial Term; and (ii) Tenant's share of recovered proceeds shall be equal to the balance of the recovered proceeds (if any) in excess of the Tenant Allowance multiplied by a fraction, the numerator of which number of days (if any) between the date on which the Lease is terminated and last day of the Initial Term and the denominator of which is number of days in the Initial Term. Notwithstanding anything to the contrary contained herein, in the case of such a termination, and if Tenant has failed to maintain any policy of property insurance required under this Lease, then Tenant shall pay to Landlord on demand an amount equal to proceeds that Landlord would have received or is entitled to receive pursuant to this Section 22(f) had Tenant maintained all of the required policies of property insurance.

(g) **Waiver of Statutory Provisions.** Landlord and Tenant each hereby expressly waive any rights to terminate this Lease upon damage or destruction to the Premises pursuant to the provisions of Section 1932, Subdivisions 1 and 2 and Section 1933, Subdivision 4, of the California Civil Code, as amended from time to time, and the provisions of any similar law hereinafter enacted any rights. Additionally, Tenant hereby waives the provisions of Section 1932.2, and Section 1933.4, of the Civil Code of California, or any similar laws now or hereafter in effect, that would relieve Tenant from any obligation to pay Rent under this Lease due to any damage or destruction.

23. **EMINENT DOMAIN.**

(a) **Total Condemnation.** If the entire Premises or the portions of the Buildings or the Project required for reasonable access to, or the reasonable use of, all of the Premises shall be permanently taken or appropriated under the power of eminent domain at any time during the Term (whether by exercise of governmental power or the sale or transfer by Landlord to any condemnor under threat of condemnation or while proceedings for condemnation are pending), then this Lease shall terminate as of the earlier of (a) the date on which title vests in the condemnor, or (b) the date Tenant is dispossessed of the entire Premises (or such access rights) by the condemnor. Upon such condemnation, all Rent shall be paid up to the date of the termination of this Lease.

(b) **Partial Condemnation.** Except as otherwise provided in this Section 23(b), if less than all of the Premises is taken by condemnation during the Term (whether by exercise of governmental power or the sale or transfer by Landlord to any condemnor under threat of condemnation or while proceedings for condemnation are pending), then this Lease shall remain in full force and effect and the Rent reserved herein shall be prorated on the basis of the rentable area of the portion of the Premises not taken by the condemning authority in proportion to the rentable area of the Premises immediately prior to the partial taking. Notwithstanding the foregoing, if fifteen percent (15%) or more of the rentable area of the Premises is taken and if the Premises remaining after such condemnation and any repairs by Landlord would render the remaining portion of the Premises unsuitable for the use being made of the Premises immediately prior the partial taking, then Landlord and Tenant both shall have shall have the right to terminate this Lease by written notice to the other party given within the period which begins on the date effective title vests in the condemning party and ends thirty (30) days thereafter. If Tenant's

continued use of the Premises requires alterations or repair by reason of a partial taking, all such alterations and repair shall be made by Landlord at Landlord's expense. Tenant waives all rights it may have under California Code of Civil Procedure Section 1265.130 or otherwise, to terminate this Lease based on partial condemnation.

(c) **Temporary Taking.** Notwithstanding anything to the contrary contained in this Section 23, if the temporary use or occupancy of any part of the Premises shall be taken or appropriated under power of eminent domain (or threat thereof) during the Term, (i) this Lease shall be and remain unaffected by such taking or appropriation, (ii) Tenant shall continue to pay in full all Rent payable hereunder by Tenant during the Term, (iii) Tenant shall be entitled to receive that portion of any award which represents compensation for the use of or occupancy of the Premises during the period of such temporary taking, and (iv) Landlord shall be entitled to the remainder of the award (including without limitation that portion of any award which represents the cost of restoration of the Premises and the use and occupancy of the Premises after the end of the Term). If any such taking extends for a period of more than eighteen (18) consecutive calendar months, such taking shall not be considered to be a temporary taking and shall be classified as either a Total Condemnation or a Partial Condemnation on the basis of definitions set forth in Sections 23(a) and 23(b) above.

(d) **Taking of Parking.** If a portion of the parking areas of the Project is taken such that the remaining portion of the parking area will not provide Project parking at a ratio of at least 2.5 spaces per 1,000 rentable square feet of the Project, then Tenant shall have the right to terminate this Lease by written notice to Landlord given within the period which begins on the date effective title vests in the condemning party and ends thirty (30) days thereafter; provided, however, that Tenant's right to terminate shall be void if either: (i) Landlord builds a parking structure to restore the parking ratio for the Project to at least 2.5 spaces per 1,000 rentable square feet of the Project within four (4) months after the taking; or (ii) if such a parking structure cannot be built within said four (4) month period, Landlord agrees in writing within such four (4) month period to build such a parking structure within twelve (12) months after the taking and provides valet parking during Business Hours (defined below), at no cost or expense to Tenant, for the number of cars which is equal to the number of parking spaces necessary to restore the parking ratio for the Project to 2.5 spaces per 1,000 rentable square feet of the Project, and if Landlord agrees to so build a parking structure it shall promptly commence and diligently pursue the building of such parking structure to completion.

(e) **Award to Tenant.** If any condemnation (whether total or partial) occurs, the entire condemnation award shall belong to Landlord (including, without limitation, any "bonus value" of the leasehold estate or amount attributable to any excess of the market value of the Premises for the remainder of the Term over the then present value of the Rent payable for the remainder of the Term), and Tenant shall have no right to recover from Landlord or from the condemning authority for any claims arising out of such taking; provided, however, notwithstanding the foregoing, as long as the award payable to Landlord is not reduced thereby, Tenant shall have the right to make a separate claim in the condemnation proceeding for, and to recover from the condemning authority, such compensation as may be separately awarded or recoverable by Tenant for (a) loss of Tenant's business fixtures, or equipment belonging to Tenant immediately prior to the condemnation, (b) the taking of the unamortized value (using the Term as the amortization period) of any Tenant Improvements paid for by Tenant which are not removed by Tenant, and (c) Tenant's moving expenses. Tenant shall have the right to claim and recover from the condemning authority such compensation as may be separately awarded or recoverable by Tenant for loss of Tenant's business fixtures, or equipment belonging to Tenant immediately prior to the condemnation.

24. SALE BY LANDLORD.

If Landlord sells or otherwise conveys its interest in the Premises, Landlord shall be relieved of its obligations under this Lease which arise from and after the date of sale or conveyance (including the obligations of Landlord under Section 36).

25. RIGHT OF LANDLORD TO PERFORM.

All covenants and agreements to be performed by Tenant under any of the terms of this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any abatement of Rent, except as expressly provided for in Sections 22 and 23. If Tenant shall fail to perform any act or pay any amount on its part to be performed or paid hereunder, and such failure shall continue beyond the cure periods as noted in Section 21, Landlord may, but shall not be obligated so to do, and without waiving or releasing Tenant from any obligations of Tenant, make any such payment or perform any such act on Tenant's part to be made or performed as provided in this Lease. All sums so paid by Landlord and all necessary incidental costs together with interest thereon at the Interest Rate identified in Section 3, from the date of such payment by Landlord shall be payable as Additional Rent to Landlord on demand.

26. SURRENDER OF PREMISES.

(a) At the end of the Term or any renewal thereof or other sooner termination of this Lease, Tenant will peaceably deliver to Landlord possession of the Premises, together with all improvements or additions upon or belonging to Landlord, by whomsoever made, in the same condition as received, or first installed, subject to the terms of Sections 23 and 36, subject to Normal Wear and Tear and the rights and obligation of Tenant concerning casualty damage pursuant to Section 22, damage by fire, earthquake, Act of God, or the elements alone excepted, and subject to any items which are the obligation of Landlord to repair or replace pursuant to the terms of this Lease (provided, however, Landlord shall be entitled to charge Tenant for such repairs and replacements to the extent provided in Section 3). Tenant shall, at Tenant's sole cost upon the expiration of the Term or sooner termination of this Lease, remove all trade fixtures, equipment, IT/cabling, movable furniture, furniture partitions, furnishings, or other personal property belonging to Tenant and repair any damage caused by such removal. Property not so removed shall be deemed abandoned by Tenant, and title to the same shall thereupon, at Landlord's option, pass to Landlord. Upon request by Landlord, but only if Landlord is entitled to require such removal pursuant to the provisions of Section 6, Tenant shall remove, at Tenant's sole cost, any or all Alterations to the Premises installed by or at the expense of Tenant and all movable furniture and equipment belonging to Tenant which may be left by Tenant and repair any damage resulting from such removal. Tenant's Work up to the amount of Tenant Allowance shall become the property of Landlord upon the lien free completion of Tenant's Work, and the balance of Tenant's Work shall be surrendered to and become the property of Landlord on the Expiration Date or sooner termination of this Lease.

(b) The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Landlord, terminate all or any existing subleases or subtenancies, or may, at the option of Landlord, operate as an assignment to it of any or all such subleases or subtenancies.

27. WAIVER.

If either Landlord or Tenant waives the performance of any term, covenant or condition contained in this Lease, such waiver shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant or condition contained herein. Furthermore, the acceptance of Rent by Landlord

shall not constitute a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, regardless of Landlord's knowledge of such preceding breach at the time Landlord accepted such Rent. Failure by Landlord to enforce any of the terms, covenants or conditions of this Lease for any length of time shall not be deemed to waive or to decrease the right of Landlord to insist thereafter upon strict performance by Tenant. Waiver by Landlord of any term, covenant or condition contained in this Lease may only be made by a written document signed by Landlord.

28. NOTICES.

Except as otherwise expressly provided in this Lease, any bills, statements, notices, demands, requests or other communications given or required to be given under this Lease shall be effective only if rendered or given in writing, sent by (a) certified mail, return receipt requested, (b) reputable overnight carrier, (c) e-mail (with a copy of the communication and a copy of the transmittal e-mail sent the same Business Day by reputable overnight carrier or delivered personally the following Business Day), or (d) delivered personally, (i) to Tenant at Tenant's address set forth in the Basic Lease Information; or (ii) to Landlord at Landlord's address set forth in the Basic Lease Information; or (iii) to such other address as either Landlord or Tenant may designate as its new address for such purpose by notice given to the other in accordance with the provisions of this Section 28. Both parties shall and all times maintain two (2) or more e-mail addresses to which such communication can be sent.

Any such notice or other communication shall be deemed to have been rendered or given on the date the return receipt indicates delivery of or refusal of delivery if sent by certified mail, the day upon which recipient accepts and signs for delivery from a reputable overnight carrier, on the date a reputable overnight carrier indicates refusal of delivery, upon the date the e-mail is transmitted if transmitted between the hours of 8:30 a.m. and 5:00 p.m. Pacific time on a Business Day ("Business Hours") or on the next Business Day if the e-mail is transmitted outside of Business Hours (provided a copy of the communication and a copy of the transmittal e-mail is by reputable overnight carrier or delivered personally as specified above), or upon the date personal delivery is made. If no one is present in the Premises when any notice is delivered to the Premises (provided that such delivery is made during Business Hours) or the recipient refuses to accept delivery, such delivery shall nevertheless be deemed to be successfully made. If Tenant is notified in writing of the identity and address of any Mortgagee or ground or underlying lessor, Tenant shall give to such Mortgagee or ground or underlying lessor notice of any default by Landlord under the terms of this Lease in writing sent by registered or certified mail, and such Mortgagee or ground or underlying lessor shall be given the opportunity to cure such default (as provided in Section 21(c)) prior to Tenant exercising any remedy or termination available to it.

29. SUCCESSORS AND ASSIGNS.

Subject to the provisions of Section 10, the terms, covenants and conditions contained herein shall be binding upon and inure to the benefit of the parties hereto and their respective legal and personal representatives, successors and assigns.

30. ATTORNEY'S FEES.

If Tenant or Landlord brings any action for any relief against the other, declaratory or otherwise, arising out of this Lease, including any suit by Landlord for the recovery of Rent or possession of the Premises, the losing party shall pay to the prevailing party a reasonable sum for attorney's fees, which shall be deemed to have accrued on the commencement of such action and shall be paid whether or not the action is prosecuted to judgment.

31. **LIGHT AND AIR.**

Tenant covenants and agrees that no diminution of light, air or view by any structure which may hereafter be erected (whether or not by Landlord) shall entitle Tenant to any reduction of rent under this Lease, result in any liability of Landlord to Tenant, or in any other way affect this Lease or Tenant's obligations hereunder.

32. **SECURITY DEPOSIT.**

(a) **Security Deposit Required.** Tenant shall deliver to Landlord an unconditional, irrevocable, transferable letter of credit (the "Letter of Credit"), in an amount equal to eight (8) months of Base Rent calculated at the initial Base Rent rate of Three and 15/10 Dollars (\$3.15) per rentable square foot per month (i.e., \$8,591,008) (as such amount may be increased from time to time pursuant to the provisions of the next two sentences of this Section 32, the "LC Amount"), satisfying the requirements set forth below in this Section 32 and substantially in the form attached hereto as Exhibit G, which delivery shall be made no later than day immediately following the earliest of (i) the date of Tenant's irrevocable waiver of its option to purchase the Project (the "Purchase Option") pursuant to that certain Option Agreement between Landlord and Tenant and dated of even date herewith (the "Option Agreement"), (ii) the expiration of the First Option Term (as that term is defined in the Option Agreement) without Tenant having exercised the Purchase Option, or (iii) if Tenant exercises the Purchase Option, the deadline for the closing of Tenant's purchase of the Project pursuant to the Option Agreement (if the closing does not occur). If the rentable square footage of the Premises increases pursuant to the provisions of Section 3(c), the LC Amount shall be increased, within fifteen (15) days after the amount of the increase in square footage is determined, by an amount equal to eight (8) times the amount by which the monthly Base Rent increases as of the Rent Commencement Date pursuant to Section 3(c). Additionally, if, at any time prior to the return of the Letter of Credit to Tenant as provided below, Tenant's cash and equivalents ("Cash and Equivalents") drop below Three Hundred Million Dollars (\$300,000,000) (the "Credit Standard"), then the face amount of the Letter of Credit shall be increased by an amount equal to one (1) month's Base Rent (calculated at the Base Rent in effect on the Rent Commencement Date if such increase is due on or before the Rent Commencement Date and at the Base Rent rate in effect on date of such required increase in all other cases) for each Ten Million Dollars (\$10,000,000) which Tenant's Cash and Equivalents are then below the Credit Standard, provided, however, that in no event shall Tenant be required to increase the face amount of the Letter of Credit above an amount equal to twenty-four (24) months' Base Rent (calculated at the Base Rent rate in effect on the Rent Commencement Date if such increase is due on or before the Rent Commencement Date and at the Base Rent rate in effect on date of such required increase in all other cases). Cash and Equivalents held by Tenant as the result of borrowings by Tenant shall not be counted towards the Credit Standard and shall not be included with the definition of Cash and Equivalents, and Tenant hereby represents and warrants to Landlord that none of the credit agreements to which Tenant is now or hereafter after becomes a party prohibit or restrict Tenant from so increasing the face amount of the Letter of Credit if required by the provisions of this Section 32(a). Tenant shall not be obligated to make a cash security deposit; provided, however, all cash sums which Landlord may hold hereunder as a result of drawing upon the Letter of Credit shall be held, used and applied as a security deposit and the term "Security Deposit" as used herein, refers to both the Letter of Credit and such sums.

(b) **Use of Security Deposit.** Upon the occurrence of a Tenant Default, Landlord may use all or any portion of the Security Deposit for the payment of any Rent due hereunder, to pay any other sum to which Landlord may become obligated by reason of such Tenant Default, or to compensate Landlord for any loss or damages which Landlord may suffer as a result of such Tenant Default (including without limitation, amounts which Landlord may be entitled to recover pursuant to Section 1951.2 of the California Civil Code). Landlord may in its sole discretion (but shall not be required to) use the Security Deposit or any portion thereof to cure any failure by Tenant to perform any of its obligations hereunder or

to compensate Landlord for any damages Landlord incurs as a result of any Tenant Default, it being understood that any use of the Security Deposit shall not constitute a bar or defense to any of Landlord's remedies under this Lease or at law. If Landlord so uses all or any portion of the Security Deposit, then within five (5) Business Days after written notice from Landlord to Tenant specifying the amount of the Security Deposit so utilized by Landlord and the particular purpose for which such amount was applied, Tenant shall immediately deposit with Landlord an amount sufficient to return the Security Deposit to an amount equal to one hundred percent (100%) of the LC Amount (calculated at the Base Rent rate then in effect). Tenant's failure to make such payment to Landlord within five (5) Business Days of Landlord's notice shall constitute a Tenant Default under this Lease without the necessity of further notice, and Tenant hereby acknowledges that attachment will be a proper remedy by which Landlord may seek to recover the amount which Tenant has then failed to pay. Landlord shall have no obligation to segregate the Security Deposit from its general funds or to pay interest thereon.

(c) **Letter of Credit Requirements.** The Letter of Credit shall be issued by a financial institution, and in substantially the form attached hereto as Exhibit G or such other form and substance as may be acceptable to Landlord and any Mortgagee in their respective sole discretion, with an original term of no less than one year and automatic extensions through the end of the Term of this Lease and sixty (60) days thereafter. Landlord shall not unreasonably withhold its approval of such a financial institution if it is a national bank, or a bank branch located in the United States (with an office in Santa Clara County or San Mateo County allowing the Letter of Credit to be presented to and paid by such office pursuant to procedures acceptable to Landlord in its reasonable discretion) with assets of the issuing bank or bank branch in excess of Forty Billion Dollars (\$40,000,000,000). If Landlord determines at any time, in good faith, that either (A) the issuing bank or bank branch has assets of less than Forty Billion Dollars (\$40,000,000,000), (B) the issuing bank does not have, or ceases to have, a long term rating by Standard and Poors of at least A- or a long term rating by Moody's of at least A3, or (C) the issuing bank or bank branch has or intends to close or cease operations from the issuing bank branch, or if the Federal Deposit Insurance Corporation, an agency of the United States of America, or any other governmental agency with authority to do so, or any agent acting on behalf of any of them, repudiates, terminates, withdraws, extinguishes, refuses to honor or revokes the Letter of Credit prior to the scheduled expiry date thereof, then Tenant shall, promptly upon written notice from Landlord, replace the Letter of Credit with a Letter of Credit from a different financial institution acceptable to Landlord, in the reasonable exercise of its discretion, within fifteen (15) Business Days after Tenant's receipt of notice of such requirement from Landlord. The Letter of Credit shall (A) be a stand-by, at-sight, irrevocable letter of credit; (B) be payable to Landlord, its Mortgagee or their assignees (any of the foregoing, the "Beneficiary"); (C) require that any draw on the Letter of Credit shall be made only upon receipt by the issuer of a letter signed by a purported authorized representative of the Beneficiary certifying that the Beneficiary is entitled to draw on the Letter of Credit pursuant to this Lease; (D) allow partial and multiple draws; (E) be fully transferable by the Beneficiary; (F) provide that it is governed by the Uniform Customs and Practice for Documentary Credits (2007 revisions) International Chamber of Commerce Publication 600; (G) either provide for automatic annual extensions, without amendment (so-called "evergreen" provision) with a final expiry date no sooner than ninety (90) days after the Expiration Date or be cancelable if, and only if, the issuer delivers to Beneficiary no less than sixty (60) days advance written notice of Issuer's intent to cancel; and (H) require the issuer to make payment to the Beneficiary on the day of presentation by the Beneficiary. Tenant shall keep the Letter of Credit, at its expense, in full force and effect until the ninetieth (90th) day after the Expiration Date or other termination of this Lease, to insure the faithful performance by Tenant of all of the covenants, terms and conditions of this Lease, including, without limitation, Tenant's obligations to repair, replace or maintain the Premises. The Letter of Credit shall provide at least sixty (60) days' prior written notice to Landlord and the Beneficiary of cancellation or material change, or failure to extend the term thereof.

(d) **Draw Events.** At any time after a Draw Event (as defined below) occurs, the Beneficiary may present its written demand for payment of the entire face amount of the Letter of Credit (or, at the Beneficiary's sole election, for payment of a portion of the amount of the Letter of Credit as is required to compensate Landlord for damages incurred, with subsequent demands at the Beneficiary's sole election as Landlord incurs further damages) and the funds so obtained shall become due and payable to the Beneficiary. The Beneficiary may retain such funds to the extent required to compensate Landlord for damages incurred, or to reimburse Landlord as provided herein, in connection with any such default or other Draw Event, and any remaining funds shall be held as cash Security Deposit for Tenant's obligations hereunder. A "Draw Event" shall mean any of the following: (A) a Tenant Default occurs; (B) an event has occurred which, with the passage of time or giving of notice or both, would constitute a Tenant Default, where Landlord is prevented from, or delayed in, giving such notice because of an Insolvency Proceeding; (C) Tenant is the subject of an Insolvency Proceeding; (D) this Lease is terminated by Landlord due to a Tenant Default; (E) the Letter of Credit is not replaced with a Letter of Credit from a different financial institution if and when required by Section 32(c); and (F) the Letter of Credit is not extended by the date which is sixty (60) days prior to its expiration.

(e) **Replacement Letter of Credit.** If Landlord or the Beneficiary uses any portion of the Letter of Credit, or the cash Security Deposit resulting from a draw on the Letter of Credit, to cure any default by Tenant hereunder and/or for any other reason permitted or contemplated by this Section 32, Landlord may, at its election, so inform Tenant in writing and request that Tenant provide a replacement or supplemental Letter of Credit in the amount of the LC Amount in the form and content specified above for the original Letter of Credit. Within five (5) Business Days of the receipt by Tenant of such a notice from Landlord, Tenant shall provide a replacement Letter of Credit to Landlord. Tenant's failure to provide such replacement Letter of Credit shall constitute a Tenant Default without the necessity of further notice or opportunity to cure. Such replenishment obligation shall bear interest at the Default Rate hereunder from the end of said five (5) Business Day period until the replacement Letter of Credit is delivered to Landlord, and Tenant acknowledges that attachment will be a proper remedy by which Landlord may seek to recover the amount that Tenant has then failed to pay. Any cash proceeds resulting from a draw upon or replenishment of the Letter of Credit shall be treated as the Security Deposit described in this Section 32, and any cash proceeds that have not been applied by Landlord following a draw upon the Letter of Credit shall be returned to Tenant promptly following Tenant's satisfaction of its replenishment obligation as provided herein.

(f) **Assignment of Letter of Credit.** Landlord shall be entitled to assign the Letter of Credit and its rights thereto from time to time in connection with an assignment of this Lease to a Mortgagee as security for the obligations of Landlord to such Mortgagee, or in connection with a sale or other transfer of Landlord's interest in all or a portion of the Project. Tenant shall cooperate with Landlord in connection with any modifications of or amendments to the Letter of Credit that may be reasonably requested by any Mortgagee and/or in connection with any such assignment. At Landlord's sole election, Landlord may also direct Tenant to cause the Letter of Credit to directly name a Mortgagee as the sole beneficiary thereunder.

(g) **Return of Letter of Credit.** Provided that Tenant is not then in default under this Lease, the Letter of Credit or any portion of the Security Deposit, as applicable, then held by Landlord shall be returned to Tenant upon the earliest of: (i) the date on which title to the Project is conveyed to Tenant in the event of a sale of the Project to Tenant; (ii) the expiration of any three (3) year period which begins after the Commencement Date and during which there has been no Tenant Default under this Lease; or (iii) sixty (60) days after the Expiration Date or earlier termination of this Lease.

(h) **Transfer of Letter of Credit.** If Landlord conveys or transfers its interest in the Premises and, as a part of such conveyance or transfer, Landlord assigns its interest in this Lease: (i) the

Letter of Credit or Security Deposit (or any portion thereof not previously applied) shall be transferred to Landlord's successor; and (ii) Landlord shall be released and discharged from any further liability to Tenant with respect to the Letter of Credit or Security Deposit. In no event shall any Mortgagee, or any purchaser of all or any portion of the Project at a public or private foreclosure sale or exercise of a power of sale, have any liability or obligation whatsoever to Tenant or Tenant's successors or assigns for the return of the Letter of Credit or Security Deposit in the event any such Mortgagee or purchaser becomes a mortgagee in possession or succeeds to the interest of Landlord under this Lease unless, and then only to the extent that, such Mortgagee or purchaser has received all or any part of the Letter of Credit or Security Deposit. No trust relationship is created herein between Landlord and Tenant with respect to the Letter of Credit or Security Deposit. Tenant acknowledges that the Security Deposit or Letter of Credit is not an advance payment of any kind or a measure of Landlord's damages in the event of Tenant's default. Tenant hereby waives any rights that it may now or hereafter have under California Civil Code Section 1950.7 (except subsection (b) of Section 1950.7) and the provisions of any other law that are inconsistent with this Section 32.

(i) **Default Damages.** Landlord and Tenant acknowledge and agree that, if a Tenant Default occurs and Landlord elects to pursue its remedies under California Civil Code Section 1951.2 or under this Lease to terminate this Lease (any such event, a "Landlord Action"), (i) Landlord will incur certain damages, costs and expenses, including, without limitation, marketing costs, commissions, relocation costs, tenant improvement costs, and carrying costs in connection with releasing the Premises, in addition to the other damages, costs and expenses Landlord may incur as a result of such default and/or other defaults under this Lease (all of the foregoing collectively, "Default Damages"); (ii) Landlord has no assurance of a source of funds to cover such Default Damages other than the proceeds of the Security Deposit or Letter of Credit; and (iii) the proceeds of the Security Deposit or Letter of Credit should be available to Landlord to apply to Default Damages, even if the amount thereof exceeds that amount to which Landlord is ultimately determined to be entitled under this Lease and pursuant to applicable law as provided herein. Accordingly, at the sole election of the Beneficiary, the Beneficiary shall be entitled to draw the full amount of the Letter of Credit (or the full amount of the Security Deposit shall be released to the Landlord) which is then existing (after any previous application of funds and/or replenishment by Tenant pursuant to this Section 32), simultaneously with commencement of a Landlord Action or at any time thereafter until the entry of a judgment in such Landlord Action. All proceeds thereof in excess of the amounts awarded to Landlord by virtue of the judgment in the Landlord Action shall be deemed a loan from Tenant to Landlord (the "Default Loan"). The Default Loan shall be unsecured and shall not bear interest. Any sums to which Landlord from time to time becomes entitled hereunder and pursuant to law as a result of the Tenant Default which was the basis of Landlord's use of the Letter of Credit (or cash collateral) and any previous Tenant Defaults to which the Letter of Credit (or cash collateral) has not previously been applied pursuant to this Section 32 shall be offset against the principal balance of the Loan. The amount of the Default Loan remaining, if any, after such offset shall be referred to herein as the "Excess Amount." The Excess Amount shall be payable by Landlord to Tenant upon the satisfaction of any judgment entered in Landlord Action.

33. **CORPORATE AUTHORITY; FINANCIAL INFORMATION.**

Tenant warrants that each of the persons executing this Lease on behalf of Tenant is authorized to do so, that Tenant is a duly authorized and existing corporation, that Tenant has and is qualified to do business in California and, that the corporation has full right and authority to enter into this Lease. Upon Landlord's request, Tenant shall provide Landlord with evidence reasonably satisfactory to Landlord confirming the foregoing covenants and warranties. Landlord warrants that the person executing this Lease on behalf of Landlord is authorized to do so, that Landlord is a duly authorized and existing limited liability company, that Landlord has and is qualified to do business in California, and that the limited liability company has full right and authority to enter into this Lease. Upon Tenant's request, Landlord

shall provide Tenant with evidence reasonably satisfactory to Tenant confirming the foregoing covenants and warranties. At any time when the stock of Tenant is not publicly traded: (a) Tenant shall deliver Landlord a copy of the consolidated annual financial statements of Tenant, including balance sheets and statements of income and expenses for the most recent fiscal year, within ninety (90) days following the end of each fiscal year; (b) all such financial statements shall be certified as true and correct by the Tenant's chief financial officer; and (c) within thirty (30) days after the end of each quarter between delivery of the annual financial statements, Tenant shall deliver to Landlord a copy of the consolidated quarterly financial statements of Tenant, including balance sheets and statements of income and expenses for the most recent fiscal quarter, which quarterly financial statements shall be certified to Landlord by an officer of Tenant. Landlord shall maintain in confidence all such financial information; provided, however, (i) Landlord shall have the right to disclose such information to its attorneys, accountants, Mortgagee, prospective lenders, partners, prospective partners, investors, prospective investors and consultants and others with a business need to know, provided that Landlord shall inform all such persons of the confidentiality of such information and the requirements and limitations of this Section and shall use all reasonable efforts to cause such persons to retain such information in confidence, (ii) Landlord shall have the right to disclose such financial information to the extent required by applicable law or court order and to the extent the same is relevant in any dispute between Landlord and Tenant, and (iii) Landlord shall have the right to disclose such financial information to the extent the same is already publicly available information.

34. **PARKING.**

(a) **Tenant's Share of Parking.** Tenant shall have the right to use Tenant's Share of the parking situated on the Land. Prior to the Direct Lease Date, Tenant shall have exclusive use of the parking areas situated on the Land, subject only to applicable Law. The parking ratio is anticipated to be approximately 3.2 spaces per 1,000 rentable square feet of the Premises. Subject to Landlord's rights to be reimbursed for Expenses (including, but not limited to governmental fees) Landlord shall not charge Tenant for use of such parking by Tenant or by Tenant's employees or visitors during the Term. From and after the Direct Lease Date, Landlord shall have the right and option of reserving some or all of the parking spaces situated on the Land for the exclusive use of tenants (including Tenant) within the Buildings on a prorata basis.

(b) **Limitation on Vehicles.** Tenant shall not, at any time, park or permit to be parked any recreational vehicles, inoperative vehicles not being used in connection with the Premises (and then may only park such equipment on a short-term basis) in the Common Areas or on any portion of the Project. Tenant agrees to notify its employees and invitees of the parking provisions contained herein. If Tenant or its employees park any vehicle within the Project in violation of these provisions, then Landlord may, upon five (5) days' prior written notice to Tenant (or any applicable statutory notice period, if longer than five (5) days to remove such vehicle(s), in addition to any other remedies Landlord may have under this Lease, have the vehicle or equipment towed from the Project at Tenant's expense.

(c) **Off-Ramp Reconfiguration.** Landlord has informed Tenant of the possibility of a future taking of a portion of the Land for a freeway off-ramp (the "Off-Ramp Reconfiguration"). Landlord shall pursue commercially reasonable means to attempt to have the State of California Department of Transportation and the City of Mountain View elect to not construct said freeway off-ramp in a manner which would require such taking from occurring in the future or to minimize the scope of such taking. If (i) the taking for the Off-Ramp Reconfiguration occurs and such taking results in a material reduction in the number of parking spaces available within the Project, and (ii) Tenant does not have the right to terminate this Lease pursuant to the provisions of Section 23(d) or has the right but does not elect to terminate this Lease, then any compensation received by Landlord on account thereof shall first be used to pay for the cost of adding replacement parking (Landlord having no obligation to advance

or expend funds in excess of such compensation), provided, however, that if such taking occurs during the last twelve (12) months of the Term, then Landlord shall not be obligated to use the compensation received to pay for the cost of adding replacement parking.

35. **REAL ESTATE BROKERS.**

Each party represents that it has not had dealings with any real estate broker, finder or other person with respect to this Lease in any manner, except for the brokers named in the Basic Lease Information, whose fees or commission, if earned, shall be paid by the party specified in the Basic Lease Information in accordance with the terms of a separate written agreement. Each party shall hold harmless the other party from all damages resulting from any claims that may be asserted against the other party by any other broker, finder or other person with whom the other party has or purportedly has dealt.

36. **HAZARDOUS SUBSTANCE LIABILITY.**

(a) **Environmental Reports.** Tenant acknowledges that Landlord has provided Tenant with copies of the reports and documents listed in Section A of Exhibit H (all such reports and documents being collectively referred to herein as the “Environmental Reports”) and the environmental covenants, easements and agreements listed in Section B of Exhibit H (all such environmental covenants, easements and agreements being collectively referred to herein as the “HP Environmental Agreements”). Additionally, Landlord has made available for Tenant’s review copies of the Semi-Annual Groundwater Self-Monitoring Reports prepared by Stantec Consulting Corporation for periods prior to the June 30, 2011 report listed on Exhibit H. Tenant has reviewed, and is satisfied with, the Environmental Reports and the HP Environmental Agreements. Tenant further acknowledges that Landlord has provided notification of the presence of hazardous substances in accordance with California Health & Safety Code section 25359.7.

(b) **Definitions.** For the purpose of this Lease:

(i) “Environmental Laws” shall mean all statutes, regulations, court and administrative agency decisions, and other laws now or at any time hereafter in effect that govern or regulate Hazardous Substances.

(ii) “Hazardous Substances” shall mean, collectively, any (A) oil or other petrochemical hydrocarbons, flammable substances, explosives, radioactive materials, hazardous wastes or substances, toxic or contaminated wastes or substances or any other wastes, materials or pollutants which (I) pose a hazard to the Project or to persons on or about the Project or (II) cause the Project to be in violation of any Environmental Laws; (B) asbestos in any form, urea formaldehyde foam insulation, transformers or other equipment that contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (C) chemical, material or substance defined as or included in the definition of “hazardous substances”, “hazardous wastes”, “hazardous materials”, “extremely hazardous waste”, “restricted hazardous waste”, or “toxic substances” or words of similar import under any applicable local, state or federal law or under the regulations adopted or publications promulgated pursuant thereto, including the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. §9601, et seq.; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §6901 et seq.; the Superfund Amendments and Reauthorization Act of 1986, Public Law No. 99-499; the Hazardous Materials Transportation Uniform Safety Act, as amended, 49 U.S.C. §5101 et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. §2601 et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. §1251, et seq.; Sections 25115, 25117, 25122.7, 25140, 25249.8, 25281, 25316, 25501, and 25316 of the California Health and Safety Code; and

Article 9 or Article 11 of Title 22 of the Administrative Code, Division 4, Chapter 20; (D) other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or may or could pose a hazard to the health and safety of the occupants of the Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other person coming upon the Project or adjacent property; and (e) other chemicals, materials or substances which may or could pose a hazard to human health or the environment.

(iii) **"Permitted Hazardous Substances"** shall mean (A) Hazardous Substances which are contained in ordinary office supplies of a type and in quantities typically used in the ordinary course of business within offices of similar size and uses in the City of Mountain View, but only if and to the extent that such supplies are transported, stored and used in full compliance with all applicable Laws and otherwise in a safe and prudent manner, and (B) Hazardous Substances typically used in the course of operating a data center, including but not limited to diesel fuel for an emergency generator, but only if and to the extent such Hazardous Substances are transported, stored and used in full compliance with all applicable Laws and otherwise in a safe and prudent manner and, in the case of diesel fuel, are stored in an above-ground storage tank constructed and operated in compliance with all applicable Laws. Hazardous Substances which are contained in ordinary office supplies but which are transported, stored and used in a manner which is not in full compliance with all applicable laws, ordinances, orders, rules and regulations or which is not in any respect safe and prudent shall not be deemed to be "Permitted Hazardous Substances" for the purposes of this Lease.

(c) **Compliance.** Tenant shall comply with all Environmental Laws. Tenant shall also comply with the HP Environmental Agreements, shall perform all obligations thereunder which are imposed upon a tenant or occupant of the Project (such as, by way of example only, providing access to the Project to Hewlett-Packard (defined below) and other Entrants (as such term is defined in the HP Easement Agreement described in Section B of Exhibit H [herein, the "HP Easement Agreement"]]) pursuant to the HP Easement Agreement, and shall do nothing which would result in a breach or violation thereof or a default thereunder. Tenant acknowledges, as required by the HP Environmental Covenant described in Section B of Exhibit H (herein, the "HP Environmental Covenant"), that the restrictions set forth therein are incorporated herein by this reference and that the HP Environmental Covenant is binding on Tenant as an Occupant (as that term is defined in the HP Environmental Covenant).

(d) **Use of Hazardous Substances.** Tenant shall not cause or permit any Hazardous Substance to be brought upon, kept or used in or about the Premises by Tenant, its agents, employees, contractors, invitees or sublessees without the prior written consent of Landlord (which may be granted, conditioned or withheld in the sole discretion of Landlord), save and except only for Permitted Hazardous Substances, which Tenant may bring, store and use in reasonable quantities for their intended use in the Premises, but only in full compliance with all applicable laws, ordinances, orders, rules and regulations. On or before the expiration or earlier termination of this Lease, Tenant shall remove from the Premises all Hazardous Substances (including Permitted Hazardous Substances), regardless of whether such Hazardous Substances are present in concentrations which require removal under applicable laws, except to the extent that such Hazardous Substances were present in the Premises as of the Commencement Date and were not brought onto the Premises by Tenant, any assignee or any sublessee of Tenant, or any of their respective agents, employees or contractors. Tenant shall immediately advise Landlord in writing of (a) any and all enforcement, clean-up, remedial, removal, restoration or other governmental or regulatory actions instituted, completed, or threatened pursuant to any laws pertaining to Hazardous Substances relating to any Hazardous Substance affecting the Premises or the Project; and (b) all claims made or threatened by any third party against Tenant, Landlord, the Premises or the Project relating to damage, contribution, cost recovery, compensation, loss, or injury resulting from any Hazardous Substance on or about the Premises. Tenant shall promptly cure and satisfy all enforcement, cleanup, removal, remedial or

other governmental or regulatory actions, agreements or orders instituted pursuant to any laws pertaining to Hazardous Substances; and any claims made by any third party against Landlord, Tenant or the Project relating to damage, contribution, cost recovery compensation, loss or injury resulting from the presence, release or discharge of any Hazardous Substances arising out of or by reason of the activities or businesses of Tenant, its sublessees, or their respective agents, contractors or employees, provided, however, that Tenant shall not, without Landlord's prior written consent (which may be granted, conditioned or withheld in the sole discretion of Landlord), take any remedial action or enter into any agreements or settlements in response to the presence of any Hazardous Substances in, on, or about the Premises or the Project. Tenant shall not do anything or permit anything to be done in the Premises which creates, requires or causes imposition of any requirement by any public authority for structural or other upgrading of or improvement to the Project.

(e) **Hewlett-Packard Indemnity.** Landlord acquired the Land from Hewlett-Packard Company, a Delaware corporation ("Hewlett-Packard") in 2007. The Land was originally developed by Hewlett-Packard or its affiliated companies starting in the late 1960's and was used as a production facility associated with inkjet printers until the early 1980's and some contamination occurred during that time. Landlord acknowledges and agrees that Tenant is an indemnitee under, shall be entitled to the protection of, and shall have the non-exclusive right to enforce the HP Indemnity Agreement described in Section B of Exhibit H (the "HP Indemnity Agreement").

(f) **Tenant Indemnity.** Tenant releases Landlord and the other Landlord Parties from any liability for, waives all claims against Landlord and the other Landlord Parties and shall indemnify, defend and hold harmless Landlord and the other Landlord Parties against any and all claims, suits, loss, costs (including costs of investigation, clean up, monitoring, restoration and reasonably attorney fees), damage or liability, whether foreseeable or unforeseeable, by reason of property damage (including diminution in the value of the property of Landlord), personal injury or death directly arising from or related to Hazardous Substances released, manufactured, discharged, disposed, used or stored on, in, or under the Project or the Premises during the Term by Tenant, its assignees and sublessees, and their respective employees, agents or contractors, or matters subject to "Buyer's Environmental Indemnity" under Section 4 of the HP Indemnity Agreement as applicable to Tenant. The provisions of this Tenant Indemnity regarding Hazardous Substances shall survive the termination of this Lease.

(g) **Landlord Indemnity.** Landlord releases Tenant from any liability for, waives all claims against Tenant and shall indemnify, defend and hold harmless Tenant, its officers, employees, and agents to the extent of Landlord's interest in the Project, against (i) any and all actions by any governmental agency for clean up or remediation of Hazardous Substances existing on, in or under the Project or the Premises as of the date of this Lease or released, manufactured, discharged, disposed, used or stored on, in or under the Project by Landlord, its employees, its property manager or its property manager's employees (including any groundwater contamination) including costs of legal proceedings, investigation, clean up, monitoring, and restoration, including reasonable attorney fees, (ii) any and all actions for damages to property instituted by any third parties, if, and to the extent, in either case, arising from the presence of Hazardous Substances on, in or under the Project or Premises as of the date of this Lease or released, manufactured, discharged, disposed, used or stored on, in or under the Project by Landlord, its employees, its property manager, and its property manager's employees and (iii) any and all claims, suits, loss, costs (including costs of investigation, clean up, monitoring, restoration and reasonably attorney fees), damage or liability, whether foreseeable or unforeseeable, by reason of property damage (including diminution in the value of the property of Tenant), personal injury or death directly arising from or related to Hazardous Substances released, manufactured, discharged, disposed, used or stored on, in, or under the Project or Premises prior to the date of this Lease or at any time by Landlord, its employees, its property manager or its property manager's employees. Notwithstanding the foregoing, Tenant covenants and agrees that, with respect to matters fully covered by the HP Indemnity Agreement,

Tenant and Tenant's its officers, employees, and agents will look solely to Hewlett-Packard (and not to Landlord) for indemnification and defense and to be held harmless for so long as Hewlett-Packard is performing its obligations to Tenant under the HP Indemnity Agreement. For purposes of this provision, any Hazardous Substances described in the Environmental Reports listed in Section A of Exhibit H shall be considered existing as of the date of this Lease. The provisions of this Landlord Indemnity regarding Hazardous Substances shall survive the termination of this Lease. In the event of conflict between the terms of this Section 36(g) and the last sentence of Section 11(b) or Section 12, the terms of the last sentence of Section 11(b) or Section 12, as applicable, shall control.

37. **ARBITRATION OF DISPUTES.**

ANY CONTROVERSY OR CLAIM ARISING OUT OF THIS LEASE OR A BREACH OF THIS LEASE SOLELY BETWEEN LANDLORD AND TENANT RELATING TO A MONETARY DEFAULT IN AN AMOUNT OF LESS THAN TWENTY-FIVE THOUSAND DOLLARS (\$25,000), BUT NOT INCLUDING A DEFAULT WITH RESPECT TO THE TIMELY PAYMENT OF RENT AND ANY OTHER MATTER EXPRESSLY PROVIDED FOR IN THIS LEASE TO BE SETTLED BY ARBITRATION, SHALL BE SETTLED BY ARBITRATION BEFORE A SINGLE ARBITRATOR OF JAMS IN ACCORDANCE WITH JAMS' STREAMLINED ARBITRATION RULES AND PROCEDURES, AND JUDGMENT ON THE AWARD RENDERED BY THE ARBITRATOR(S) MAY BE ENTERED IN ANY COURT HAVING JURISDICTION.

NOTICE: BY INITIALLY IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION TO NEUTRAL ARBITRATION.

Consent to neutral arbitration by: _____ (Landlord): _____ (Tenant)

38. **SIGNAGE.**

Tenant shall have the right, at its sole cost and expense, to install and maintain Tenant's company name and/or logo (a) on the monument sign(s) for the Project and/or Buildings, and (b) at any time during which Tenant occupies or pays Base Rent for more than fifty percent (50%) of the rentable area of a Building, exclusive exterior signage on such Building, which may include eyebrow signage and Building top signage located at the parapet on the façade at the top of such Building (the "Exterior Building Signage"). All costs and expenses in any way associated or incurred in connection with any such signage shall be borne by Tenant. The design, location, size and color of all such signs shall be subject to the approval of Landlord and all applicable governmental authorities. Provided that Tenant is then entitled to Exterior Building Signage as described above, Tenant may extend such right to sublessees or assignees

provided that the name of such sublessee or assignee is not an Objectionable Name. As used herein, the term "Objectionable Name" shall mean any name which relates to an entity which is of a character or reputation, or is associated with a political orientation or faction, which is inconsistent with the quality of the Buildings or the Project, as determined by Landlord in its sole, reasonable discretion. Tenant, at Tenant's sole cost and expense, shall remove any Exterior Building Signage and repair any damage to the Buildings resulting therefrom (a) within thirty (30) days after written demand from Landlord made at any time when Tenant does not have the right to such Exterior Top Signage (as described above), or (b) prior to the Expiration Date.

39. OPTION TO RENEW.

Provided that no Tenant Default exists at either the time Tenant gives its Exercise Notice (defined below) for the First Extension Term or at the commencement of the First Extension Term, then Tenant shall have the right to extend the Term for the First Extension Term, and provided that Tenant effectively extends the Term for the First Extension Term and no Tenant Default exists at either the time of Tenant gives its Exercise Notice for the Second Extension Term or at the commencement of the Second Extension Term, then Tenant shall have the right to extend the Term for the Second Extension Term, (the First Extension Term and the Second Extension Term are sometimes referred to herein individually as an "Extension Term" and collectively as the "Extension Terms") following the initial Expiration Date, by giving written notice (an "Exercise Notice") to Landlord at least sixteen (16) months and no more than twenty four (24) months prior to the then applicable Expiration Date of the Term. If Tenant effectively exercises its option for the First Extension Term, all references herein to the "Term" shall include both the initial term provided for in Section 2(a) (the "Initial Term") and the First Extended Term; and if Tenant effectively exercises its option for the Second Extension Term, all references herein to the "Term" shall include the Initial Term, the First Extended Term and the Second Extension Term.

40. RENT DURING EXTENSION TERM.

The monthly Base Rent during the Extension Term(s) shall be the Fair Market Rental Value for the Premises as of the commencement of the Extension Term, as determined below:

(a) **Determination of Fair Market Rental Value.** Within thirty (30) days after receipt of Tenant's Exercise Notice, Landlord shall notify Tenant of Landlord's estimate of the Fair Market Rental Value for the Premises, as determined below, for determining monthly Base Rent during the ensuing Extension Term; provided, however, if Tenant's Exercise Notice is given more than nineteen (19) months before the Expiration Date, then Landlord may, at Landlord's sole discretion, defer giving its estimate of Fair Market Rental Value until any date which is at least eighteen (18) months before the Expiration Date. Within thirty (30) days after receipt of such notice from Landlord, Tenant shall notify Landlord in writing that it: (i) agrees with such rental rate; (ii) disagrees with such rental rate; or (iii) withdraws its Exercise Notice, provided, however, Tenant shall only have the right to withdraw its Exercise Notice after the earlier of (A) the date which is thirty (30) days after the date of Landlord's estimate of the Fair Market Rental Value, or (B) the date which is sixteen (16) months prior to the then applicable Expiration Date (which means that Tenant will have no right to revoke Tenant's Exercise Notice if Tenant's Exercise Notice is not given more than seventeen (17) months prior to the then applicable Expiration Date). Tenant's failure to respond within such thirty (30) day period shall constitute Tenant's disagreement with such rental rate. If Tenant disagrees with Landlord's estimate of Fair Market Rental Value for the Premises (either by timely written notice to Landlord or by failing to respond within the thirty (30) day period described above), then the parties shall meet and endeavor to agree within fifteen (15) days after (i) Landlord Tenant give notice that it disagrees with the rental rate or (ii) the expiration of the thirty (30) day period described above if Tenant fails to respond. If the parties cannot agree upon the Fair Market Rental Value within said fifteen (15) day period, then the parties shall submit

the matter to binding appraisal in accordance with the following procedure except that in any event neither party shall be obligated to start such procedure sooner than eighteen (18) months before the expiration of the Term. Within fifteen (15) days of the conclusion of the period during which the two parties fail to agree (but not sooner than eighteen (18) months before the expiration of the Term), the parties shall either (i) jointly appoint an appraiser for this purpose, in which case that single appraiser shall determine Fair Market Rental Value and the determination of that appraiser shall be binding and conclusive upon the parties; or (ii) failing this joint action, each separately designate a disinterested appraiser. No person shall be appointed or designated an appraiser unless such person has at least five (5) years experience immediately prior to the date in question in either (a) appraising major commercial property or (b) leasing commercial office space in Santa Clara County and is a member of a recognized society of real estate appraisers or brokers. If within thirty (30) days after the appointment, the two appraisers reach agreement on the Fair Market Rental Value for the Premises, that value shall be binding and conclusive upon the parties. If the two appraisers thus appointed cannot reach agreement on the Fair Market Rental Value for the Premises within thirty (30) days after their appointment, then the appraisers thus appointed shall appoint a third disinterested appraiser having like qualifications within five (5) days. If within thirty (30) days after the appointment of the third appraiser a majority of the appraisers agree on the Fair Market Rental Value of the Premises, that value shall be binding and conclusive upon the parties. If within thirty (30) days after the appointment of the third appraiser a majority of the appraisers cannot reach agreement on the Fair Market Rental Value for the Premises, then the three appraisers shall each simultaneously submit their independent appraisal to the parties, the appraisal farthest from the median of the three appraisals shall be disregarded, and the mean average of the remaining two appraisals shall be deemed to be the Fair Market Rental Value for the Premises and shall be binding and conclusive upon the parties. Each party shall pay the fees and expenses of the appraiser appointed by it and shall share equally the fees and expenses of the third appraiser. If the two appraisers appointed by the parties cannot agree on the appointment of the third appraiser, they or either of them shall give notice of such failure to agree to the parties and if the parties fail to agree upon the selection of such third appraiser within ten (10) days after the appraisers appointed by the parties give such notice, then either of the parties, upon notice to the other party, may request such appointment by the American Arbitration Association or, on its failure, refusal or inability to act, may apply for such appointment to the presiding judge of the Superior Court of Santa Clara County, California.

(b) **Fair Market Rental Value Defined.** Wherever used throughout this Section 40 the term “Fair Market Rental Value” shall mean the rental amount, including periodic increases, if any, that a willing, non-equity, non-renewal, non-expansion Tenant would pay and a willing, arms length Landlord would accept during the applicable Extension Term in the immediate Mountain View area (including without limitation the Shoreline/North Bayshore area) for comparable first-class office space in comparable condition (“as-is” condition), of comparable quality, as of the time that the applicable Extension Term commences, with appropriate adjustments regarding taxes, insurance, operating expenses and other costs payable by Tenant hereunder as necessary to ensure comparability to this Lease, as the case may be, and also taking into consideration amount and type of parking, location, proximity to transit, leasehold improvements, proposed term of lease, amount of space leased, extent of service provided or to be provided, and any other relevant terms or conditions (including consideration of whether or not the monthly base rent is fixed), and all concessions granted to tenants for such comparable properties including, but not limited to, free rent, parking, leasing commissions paid to Tenant's agent, tenant improvement allowances, lease assumptions, and moving or other allowances.

(c) **Appraisal Requirements.** In the event of a failure, refusal or inability of any appraiser to act, his successor shall be appointed by the party who originally appointed him, but in the case of the third appraiser, his successor shall be appointed in the same manner as provided for appointment of the third appraiser. The appraisers shall render their appraisals in writing with counterpart

copies to Landlord and Tenant. The appraisers shall have no power to modify the provisions of this Lease.

(d) **Delay in Appraisal Process.** To the extent that a binding appraisal has not been completed prior to the expiration of any preceding period for which monthly Base Rent has been determined, Tenant shall pay monthly Base Rent at the rate paid at the end of the preceding period, with an adjustment to be made once Fair Market Rental Value is ultimately determined by binding appraisal.

(e) **Applicability of Lease Terms.** From and after the commencement of the second Extension Term, all of the other terms, covenants and conditions of this Lease shall also apply; provided, however, that Tenant shall have no further rights to extend the Term.

41. SATELLITE ANTENNAE.

During the Term of this Lease, Tenant shall have the right, subject to relevant regulatory approvals and Landlord's consent, which consent shall not be unreasonably withheld, conditioned or delayed, to install one or more satellite or other antennae or related telecommunication and data facilities (collectively "Antennae") on the roof of the Building(s) in a location reasonably satisfactory to both Landlord and Tenant. Tenant shall not be charged any rent for roof space. Prior to submitting any plans to the City of Mountain View or proceeding with any installation of the Antennae, Tenant shall submit to Landlord elevations and specifications for the Antennae. Tenant shall install the Antennae at its sole expense and shall be responsible for any damage caused by the installation of the Antennae or related to the Antennae. At the end of the Term, Tenant shall remove the Antennae from its location and repair any damage caused by such removal. Notwithstanding anything herein to the contrary, Tenant shall have the exclusive right to install telecommunication and data facilities on the roof of any Building that is leased in its entirety by Tenant.

42. SUPPLEMENTAL HVAC UNITS.

Subject to Landlord's approval, which shall not be unreasonably withheld, conditioned or delayed, and subject to relevant regulatory approvals, Tenant shall have the right to install one or more supplemental HVAC units beyond those installed as part of Landlord's Work (each, a "Tenant HVAC Unit") on the roof of the Building(s). Tenant shall not be charged any rent for roof space for said Tenant HVAC Units. Tenant shall install and maintain any approved Tenant HVAC Units at its sole cost and expense and shall be responsible for any damage caused by the installation or removal of the Tenant HVAC Units or related to the Tenant HVAC Units. If requested by Landlord in writing, Tenant shall, at Tenant's sole cost and expense, remove any Tenant HVAC Units and repair any damage to the Buildings resulting therefrom prior to the Expiration Date.

43. FUTURE EXPANSION.

Except as required by Law, Landlord shall have no right to construct within the Project (i) any additional improvements which interfere in any material respect with Tenant's use of or access to the Premises, or (ii) any additional buildings (other than, if required, the parking structure described in Section 23(d)), in each case without Tenant's prior written consent. Landlord agrees that if Tenant desires to expand the Project in the future, it will work with Tenant in good faith on a mutually agreeable arrangement regarding such expansion (subject to obtaining all required governmental approvals).

44. **RIGHT OF FIRST OPPORTUNITY TO PURCHASE.**

(a) **Landlord's Notice.** If Landlord desires to sell the Project or any portion thereof (the "Sale Property"), at any time prior to the Expiration Date or sooner termination of this Lease, Landlord shall first shall give Tenant written notice of its intent to sell the Sale Property (the "Intent to Sell Notice"), which Intent to Sell Notice shall specify the price (the "Offer Price") at which Landlord intends to sell the Sale Property.

(b) **Tenant's Response.** If Landlord gives an Intent to Sell Notice pursuant to the provisions of this Section 44, Landlord and Tenant shall have until 5:00 p.m. Pacific time on the date which is fifteen (15) Business Days after Landlord gives its Intent to Sell Notice (the "ROFO Response Period") within which to negotiate (in their respective sole discretion) and execute a binding purchase and sale agreement which would provide, among other things, for Tenant's purchase of the Sale Property at the Offer Price and Tenant's deposit of cash in an amount equal to five percent (5.0%) of the Offer Price.

(c) **Landlord's Right to Sell.** If the parties are unable to agree upon the terms and conditions of a mutually acceptable purchase and sale agreement pursuant to Section 44(b) and execute such agreement prior to the expiration of the ROFO Response Period, then Landlord shall be free to sell the Sale Property to a third party provided that (i) such a sale closes within one (1) year after Landlord gives the Intent to Sell Notice, and (ii) the price at which Landlord sells the Sale Property is not less than ninety-five percent (95%) of the Offer Price. If Landlord closes a sale within such one (1) year period at or above ninety-five percent (95%) of the Offer Price, Tenant's right to purchase the Sale Property pursuant to this Section 44 shall terminate permanently. If Landlord does not transfer title to the Sale Property within such one (1) year period, then Landlord shall be required to give a new Intent to Sell Notice prior to selling all or any portion of the Project. Additionally, if within one (1) year after Landlord gives an Intent to Sell Notice, Landlord desires to sell the Sale Property at a price which is less than ninety-five percent (95%) of the Offer Price set forth in Landlord's Intent to Sell Notice, Landlord may give Tenant a new Intent to Sell Notice containing a new Offer Price (the "New Offer Price"), in which event the provisions of this Section 44 shall apply with respect to such new Intent to Sell Notice, except that the ROFO Response Period shall be five (5) Business Days.

(d) **Limitations on Tenant's Right.** Notwithstanding any other provision of this Section 44:

(i) If a Tenant Default exists at the time Landlord gives Tenant an Intent to Sell Notice (A) Tenant shall not have the right to purchase the Sale Property pursuant to this Section 44 and (B) Landlord shall be free to sell the Sale Property at any price to a third party within one (1) year after Landlord gives the Intent to Sell Notice to Tenant; and

(ii) The provisions of this Section 44 shall not apply to, and Tenant shall not have the right to purchase all or any portion of the Project in connection with: (A) bona fide transfers of direct or indirect ownership interests in Landlord, the purpose of which was not to circumvent the provisions of this Section 44; (B) the bona fide sale or transfer of all or any portion of the Project to a partnership, corporation, limited liability company, or trust in which Landlord has a material direct or indirect interest, the purpose of which was not to circumvent the provisions of this Section 44; or (C) a transfer or sale of all or any portion of the Project through a judicial or non-judicial sale under a Mortgage or a deed in lieu thereof.

(e) **Termination of Lease.** This Lease shall terminate upon transfer of title to the entire Project to Tenant pursuant to this Section 44.

45. POTENTIAL INCREASE IN PROJECT SQUARE FOOTAGE.

Tenant desires to assess the feasibility and cost of increasing the aggregate square footage of the buildings to be constructed on the Land up to approximately four hundred forty thousand (440,000) square feet while keeping the buildings to a maximum height of five (5) stories, with no structured parking within the Project (however, Tenant might consider a parking structure if it is necessary to meet its aforementioned desired height restriction). Tenant understands that such expansion can only be accomplished by obtaining any necessary approvals from the City of Mountain View for such expansion and may require the acquisition of additional land adjacent to the Land. Landlord and Tenant agree to work together to mutually identify and purchase adjacent land if required for the expansion, to develop the revised size, scope, and design of the improvements to be constructed on the Land and the adjacent land, if applicable, to obtain any necessary approvals from the City of Mountain View for such revised size, scope and design, and agree upon the terms of an amendment to this Lease for the increased square footage, including, but not limited to, adjustments to the Penalty Dates. Notwithstanding anything herein to the contrary, Landlord shall have no obligation to purchase or enter into a contract to purchase any expansion land if Landlord determines in its sole and absolute discretion that, by purchasing or entering into a contract to purchase such expansion land, (i) Landlord may expose itself or any of the other Landlord Parties to material adverse liability under applicable environmental Laws, or (ii) would have a negative tax impact on any direct or indirect owner of Landlord due to its status as a real estate investment trust under Section 856 of the Internal Revenue Code of 1986. The building permits issued by the City of Mountain View for the construction of the Buildings and related improvements ("Existing Building Permits") will expire on or about February 16, 2012 unless pulled and paid for by Landlord prior to such date and the TOD Permit and other existing entitlements which authorize the development of the Project described in the Basic Lease Information (the "Existing Entitlements") will expire on or about April 22, 2012. Tenant understands that Landlord will be required to spend substantial sums of money prior to said deadlines in order to prevent the Existing Building Permits and Existing Entitlements from expiring. Landlord agrees to use reasonable efforts to obtain extensions of said expiration dates from the City of Mountain View; Tenant understands that such extensions do not exist as a matter of right but instead are within the absolute discretion of the City of Mountain View. If, despite their efforts, Landlord and Tenant are unable to mutually agree upon the size, scope and design of such increased square footage, reach an agreement upon the terms of an amendment to this Lease for the increased square footage, including, but not limited to, adjustments to the Penalty Dates, acquire any adjacent land required for such expansion, or obtain all required City approvals, by the earliest of (a) the date (as the same may have been extended by the City of Mountain View) upon which the Existing Entitlements expire, (b) the date (as the same may have been extended by the City of Mountain View) upon which the Existing Building Permits expire, or (c) June 1, 2012, the parties shall at that time cease their efforts to increase the size of the Project and the Project will remain as described in the Basic Lease Information. The parties have no obligation (under the covenant of good faith and fair dealing or otherwise) to enter into an amendment to this Lease and factors which do not exist on the date of this Lease (including any funds spent by Landlord, in its sole and absolute discretion, in attempting to prevent the Existing Building Permits and the Existing Entitlements from expiring) may be taken into consideration by both parties in determining, in their sole and absolute discretion, whether or not to enter into such an amendment or the terms thereof.

46. NO LANDLORD LIEN

Notwithstanding anything herein to the contrary, Landlord waives any and all rights, title and interest Landlord now has, or hereafter may have, whether statutory or otherwise, to Tenant's inventory, equipment, furnishings, trade fixtures, fixtures, books and records, personal property, and tenant improvements owned or leased by Tenant located at the Premises (singly and/or collectively, the "Collateral"). Landlord acknowledges that Landlord has no lien, right, claim, interest or title in or to the Collateral. Landlord further agrees that Tenant shall have the right, at its discretion, to mortgage, pledge,

hypothecate or grant a security interest in the Collateral (or its leasehold interest therein) as security for its obligations under any equipment lease or other financing arrangement related to the conduct of Tenant's business at the Premises. Landlord further agrees to execute and deliver within fifteen (15) Business Days following any request therefor any UCC filing statement or other documentation with respect to any such lease or financing arrangement, and any real estate consent or waiver forms submitted by any vendors, equipment lessors, chattel mortgagees, lenders, or holders or owners of the Collateral ("Equipment Lessors") setting forth, *inter-alia* that Landlord waives, in favor of such party any superior lien, claim, interest or other right therein, provided that in each instance such documentation is acceptable to Landlord in its reasonable discretion. The Collateral shall not become the property of Landlord or a part of the realty no matter how affixed to the Premises and may be removed by Tenant or any Equipment Lessors or lenders at any time and from time to time during the Term. The right to remove such property shall be conditioned on Tenant or other party removing such property carrying the insurance specified in Section 11(d) and promptly repairing all damage to the Premises resulting from such removal and in any event before the Expiration Date or earlier termination of this Lease.

47. **MISCELLANEOUS.**

(a) **Interpretation.** The Section headings herein are for convenience of reference and shall in no way define, increase, limit or describe the scope or intent of any provision of this Lease. The term "Landlord" shall include Landlord and its successors and assigns. In any case where there is more than one Tenant or Tenant consists of more than one party or entity, the obligations hereunder of Tenant shall be joint and several among all such parties or entities. The term "Tenant" or any pronoun used in place thereof shall indicate and include the masculine or feminine, the singular or plural number, individuals, firms or corporations, and each of their respective successors, executors, administrators, and permitted assigns, according to the context hereof. As used herein, the term "including" shall not be exclusive and shall be construed to mean "including, without limitation."

(b) **Time of the Essence.** Time is of the essence of this Lease and all of its provisions. This Lease shall in all respects be governed by the laws of the State of California. This Lease, together with its exhibits, contains all the agreements of the parties hereto and supersedes any previous negotiations. As used herein, the term "Business Day" shall mean any day other than a Saturday, Sunday or day on which banks in the state of California are authorized to be closed for business.

(c) **No Representations.** There have been no representations made by the Landlord or understandings made between the parties other than those set forth in this Lease and its exhibits.

(d) **Modification.** This Lease may not be modified except by a written instrument by the parties hereto.

(e) **Severability.** If for any reason whatsoever any of the provisions hereof shall be unenforceable or ineffective, all of the other provisions shall be and remain in full force and effect.

(f) **Quiet Enjoyment.** Upon Tenant paying the Rent, Base Additional Charges and Additional Rent and, so long as no Tenant Default exists, Tenant may peacefully and quietly enjoy the Premises during the Term as against all persons or entities lawfully claiming by or through Landlord; subject, however, to the provisions of this Lease.

(g) **Counterparts.** This Lease may be executed in counterparts, each of which shall be an original, but all of which shall constitute one (1) instrument. The parties agree that if the signature of Landlord and/or Tenant on this Lease is not an original, but is a digital, mechanical, or electronic reproduction (such as, but not limited to, a photocopy, fax, e-mail, PDF, Adobe image, jpeg, or telecopy),

then such digital, mechanical, or electronic reproduction shall be as enforceable, valid, and binding as, and the legal equivalent to, an authentic and traditional ink-on-paper original wet signature penned manually by its signatory.

48. **LEASE EFFECTIVE DATE; RIGHT TO TERMINATE.**

(a) **No Option.** Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for lease, and it is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

(b) **Financing Contingency.** Landlord shall have the right to terminate this Lease by giving Tenant written notice, on or before the Financing Deadline (defined below) that it has been unable to obtain additional capital, debt financing and/or equity financing acceptable (in amount, on terms, and in all other respects) to Landlord in Landlord's sole and absolute discretion in order to pay the costs which Landlord will incur prior to the Commencement Date and to fund the Tenant Allowance and stating its election to so terminate this Lease. As used herein, the "Financing Deadline" shall mean the later to occur of (i) ninety (90) days following date of full execution of this Lease, or (ii) sixty (60) days after the earliest to occur of (A) Tenant's irrevocable waiver of the Purchase Option pursuant to the Option Agreement, (B) the expiration of the First Option Term (as that term is defined in the Option Agreement) without Tenant having exercised the Purchase Option, or (C) if Tenant exercises the Purchase Option, the deadline for the closing of Tenant's purchase of the Project pursuant to the Option Agreement (if the closing does not occur), provided, however, that notwithstanding anything to the contrary contained in this Lease or the Option Agreement, and without limiting Landlord's other rights and remedies contained in this Lease or the Option Agreement, the Financing Deadline shall be extended day-for-day for each day that Tenant is in default of one or more of its obligations under the Option Agreement. Additionally, if Landlord has not, on or before June 1, 2013, commenced the construction of Landlord's Work (which, for the purpose of this Section 48(b) shall include the execution of one or more binding contracts for the acquisition of steel or other similar long lead items required for the construction of Landlord's Work or paying for and pulling a building permit for the construction of the Buildings), Tenant may terminate this Agreement by written notice to Landlord given at any time between June 1, 2013 and the earlier to occur of (i) July 31, 2013 and (ii) the date on which Landlord commences Landlord's Work; provided, however, that Tenant's right to terminate this Lease pursuant to this Section 48(b) shall terminate and be of no further force or effect at such time as Landlord has obtained bona fide written commitments for additional capital, debt financing and/or equity financing sufficient to pay the costs which Landlord estimates it will incur prior to the Commencement Date and to fund the Tenant Allowance or has provided Tenant with other evidence reasonably acceptable to Tenant establishing that such financing is available to Landlord.

[Signatures Begin On Next Page]

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the date first above written.

LANDLORD:

690 E. MIDDLEFIELD ROAD FEE, LLC,
a Delaware limited liability company

By: DDC Rock 690 E. Middlefield, LLC,
a Delaware limited liability company,
its Sole Member

By: DDC Rock 690 E. Middlefield, Associates, LLC,
a Delaware limited liability company,
its Manager

By: /s/ Mollie Ricker
Name: Mollie Ricker
Its: Authorized Representative

TENANT:

SYNOPSYS, INC.,
a Delaware corporation

By: /s/ Janet S. Collinson
Name: Janet S. Collinson
Its: Senior Vice President, H.R. and Facilities

Glossary of Defined Terms

Defined Term	Location
Accounting Standard	Section 3(d)(i)(C)
Additional Charges	Section 3(d)(i)(A)
Additional Charges for Expenses	Section 3(d)(iv)
Additional Insurance	Section 11(g)
Additional Rent	Section 3(f)
Affiliate	Section 10(f)
Alterations	Section 6(a)
Antennae	Section 41
Assignment	Section 10(a)
Assignment or Sublease Profits	Section 10(d)
Base Rent	Section 3(a)
Beneficiary	Section 32(c)
Building(s)	Second Paragraph of Lease
Building Hours	Section 13(b)
Business Day	Section 47(b)
Business Hours	Section 28
Capital Expense Threshold	Section 3(d)(i)(B)
Capital Expenses	Section 3(d)(i)(C)
Cash and Equivalents	Section 32(a)
Casualty	Section 22(a)
Collateral	Section 46
Commencement Date	Section 2(a)
Commencement Date Memorandum	Section 2(f)
Common Area	Second Paragraph of Lease
Credit Standard	Section 32(a)
Default Damages	Section 32(i)
Default Loan	Section 32(i)
Default Rate	Section 3(e)
Delay in Tenant's Work Caused by Landlord	Section 2(d)
Delay Notice	Section 2(d)
Direct Lease Date	Section 3(d)(ii)
Draw Event	Section 32(d)
Early Occupancy Period	Section 2(b)
Emergency Repair	Section 7(a)
Environmental Laws	Section 36(b)(i)
Environmental Reports	Section 36(a)
Equipment Lessors	Section 46
Estimated Restoration Period	Section 22(a)
Excess Amount	Section 32(i)
Excess Rent	Section 32(i)
Excess Wear and Tear	Section 7(h)
Excluded R&M Items	Section 7(c))
Exercise Notice	Section 39
Existing Building Permits	Section 45

Defined Term	Location
Existing Entitlements	Section 45
Expense Year	Section 3(d)(i)(E)
Expenses	Section 3(d)(i)(D)
Expiration Date	Section 2(a)
Extension Term(s)	Section 39
Exterior Top Signage	Section 38
Fair Market Rental Value	Section 40(b)
Financing Deadline	Section 48(b)
First Extension Term	Basic Lease Information
Force Majeure Delays	Section 2(c)(i)
Hazardous Substances	Section 36(b)(ii)
Hewlett Packard	Section 36(e)
HP Easement Agreement	Section 36(c)
HP Environmental Agreements	Section 36(a)
HP Environmental Covenant	Section 36(c)
HP Indemnity Agreement	Section 36(e)
Intent to Sell Notice	Section 44(a)
Interest Rate	Section 3(d)(vii)
Initial Term	Section 39
Land	Basic Lease Information
Landlord	First Paragraph of Lease
Landlord Action	Section 32(i)
Landlord Delay	Section 2(c)(ii)
Landlord Parties	Section 11(b)
Landlord's Broker	Basic Lease Information
Landlord's Expense Statement	Section 3(d)(iv)
Landlord's Plans	Section 5(b)
Landlord's Tax Statement	Section 3(d)(iii)
Landlord's Work	Section 2(a)
Laws	Section 5(a)
LC Amount	Section 32(a)
LEED	Section 18
LEED Conditions	Section 18(a)
Letter of Credit	Section 32(a)
Management Fee	Section 3(d)(i)(D)
Management Standard	Section 3(d)(i)(D)
Minimum Work	Section 2(c)(i)
Mortgage	Section 3(d)(i)(D)
Mortgagee	Section 3(d)(vi)
New Offer Price	Section 44(c)
Normal Wear and Tear	Section 7(h)
Objectionable Name	Section 38
Off Ramp Configuration	Section 34(c)
Offer Price	Section 44(a)
Option Agreement	Section 32(a)
Penalty Date	Section 2(c)(i)
Permitted Alterations	Section 6(b)

Defined Term	Location
Permitted Hazardous Substances	Section 36(b)(iii)
Permitted Transfer	Section 10(f)
Premises	Second Paragraph of Lease
Prime Rate	Section 3(d)(vii)
Profits Threshold Date	Section 10(d)
Purchase Option	Section 32(a)
R&M Tenant Assumption Notice	Section 7(c)
R&M Landlord Assumption Notice	Section 7(e)
Real Estate Taxes	Section 3(d)(i)(F)
Recapture Option	Section 10(d)
Remaining Proceeds	Section 32(i)
Rent	Section 3(f)
Request for Advice Regarding Removal	Section 6(d)
Restoration Estimate Notice	Section 22(a)
Restoration Work	Section 22(a)
ROFO Response Period	Section 44(b)
Rules and Regulations	Section 17
Sale Property	Section 44(a)
Security Deposit	Section 32(a)
Second Extension Term	Basic Lease Information
Short Term Sublease	Section 10(d)
Sky Bridge	Section 3(c)
SNDA	Section 16(b)
Sublease	Section 10(a)
Sublease Premises	Section 10(c)
Substantial Completion	Section 2(a)
Substantial Completion of Tenant's Work	Section 2(d)
Substantially Complete	Section 2(a)
Tax Year	Section 3(d)(i)(G)
Tenant	First Paragraph of Lease
Tenant Credit	Section 2(c)(i)
Tenant Default	Section 21(a)
Tenant Delays	Section 2(a)
Tenant HVAC Unit	Section 42
Tenant Improvement Minimum Building Standards	Section 6(c)
Tenant Parties	Section 7(g)
Tenant's Broker	Basic Lease Information
Tenant's Share	Section 3(d)(i)(H)
Tenant's Termination Notice	Section 22(c)
Tenant's Wear and Tear	Section 7(h)
Tenant's Work	Section 2(g)
Term	Section 2(a)
TOD Permit	Section 5(b)
Transfer Entity	Section 10(f)
Work Letter	Section 2(f)

EXHIBIT A-1

LAND

All that certain real property situated in the City of Mountain View, County of Santa Clara, State of California, described as follows:

PORTION OF LOT 6 and 6A, as shown upon that certain Map entitled, "Map of the Partition of that part of the Rancho Pastoria de Las Borregas Patented to Martin Murphy, Jr.", which Map was filed for record in the office of the Recorder of the County of Santa Clara, State of California, on April 29, 1893 in Book G of Maps at Pages 74 and 75, and more particularly described as follows: BEGINNING at the point of intersection of the center line of Mountain View-Alviso Road (60.00 feet in width), with the Southeasterly prolongation of the Northeasterly line of Middlefield Road, as said line was established by Deed from Ira M. Higgins et ux, to the City of Mountain View, a municipal corporation, dated January 18, 1961, recorded February 7, 1961 in Book 5066 Official Records, Page 212, Santa Clara County Records; thence from said point of beginning North 51° 48' East along said center line of Mountain View-Alviso Road for a distance of 59.56 feet to a granite monument No. 3; thence North 49° 12' East continuing along said center line of Mountain View-Alviso Road for a distance of 915.09 feet to an iron bar from which the granite monument No. 4 bears North 49° 12' East 3.05 1/2 chains to said iron bar being also the Southernmost corner of the 101.56 acre tract sold by George Swall to James Logue and wife, by Deed of November 16, 1905 and recorded in the office of the County Recorder of the County of Santa Clara in Book 301 of Deeds, Page 336; said point being the point of intersection of the said center line of Mountain View-Alviso Road, with the Southeasterly prolongation of the Southwesterly line of Lot 1, as said Lot is shown upon that certain Map entitled, "Tract No. 2917", which Map was filed for record in the office of the Recorder of the County of Santa Clara, State of California, on July 26, 1961 in Book 138 of Maps at Pages 24 and 25; thence North 50° 32' 40" West along said prolongation and the Southwesterly line of said Lot 1 for a distance of 1093.74 feet to the point of intersection thereof with the Southeasterly line of Logue Avenue, as said line was established by Deed from Ira M. Higgins et ux, to the City of Mountain View, a municipal corporation, dated May 3, 1962, recorded May 10, 1962 in Book 5570 Official Records, Page 520, Santa Clara County Records; thence along the said Southeasterly line of Logue Avenue for the following courses and distances: South 16° 18' West 666.31 feet; thence Southwesterly along an arc of a curve to the right, tangent to the preceding course, with a radius of 290.00 feet through a central angle of 34° 36' 21", for an arc distance of 175.16 feet; thence on a reverse curve to the left, with a radius of 35.00 feet, through a central angle of 89° 07' 06", for an arc distance of 54.44 feet to a point in the said Northeasterly line of Middlefield Road; thence South 38° 12' 45" East along said Northeasterly line of Middlefield and its Southeasterly prolongation thereof for a distance of 635.94 feet to the Point of Beginning.

EXCEPTING THEREFROM that portion of the above described lands conveyed to the State of California in the instrument recorded September 6, 1968 Book 8254, Page 160.

APN: 160-59-007

EXHIBIT A-2

SITE PLAN

Exhibit A-2 Page 1

EXHIBIT B

WORK LETTER

1. Landlord's Work. Landlord shall perform the work provided for in Paragraph 2 below at Landlord's sole cost and expense ("Landlord's Work"). The quantities, character and manner of installation of all of Landlord's Work shall be in compliance with and shall be subject to the limitations imposed by any applicable regulations, laws, ordinances, codes and rules in effect at the time of the issuance of the permit pursuant to which the particular work in question is being performed, including, without limitation, the applicable requirements of the Americans with Disabilities Act ("ADA"), Title 24 and seismic codes. All such work shall be constructed by or on behalf of Landlord in a good, first-class and workmanlike manner. Landlord shall be responsible, at its sole cost and expense, for obtaining all necessary governmental approvals and permits for the construction of Landlord's Work, including, without limitation, zoning approvals, grading permits and building permits and for payment of any and all impact fees or other similar governmental exactions relating to obtaining the permits required for the construction of Landlord's Work or otherwise required in connection with performance of Landlord's Work. Landlord shall use commercially reasonable efforts to commence (subject to Tenant Delays and Force Majeure Delays) Landlord's Work by the date established by Landlord, in its commercially reasonable discretion, as the date upon which such commencement should occur in order to Substantially Complete Landlord's Work by September 15, 2014, and shall thereafter diligently prosecute Landlord's Work to Substantial Completion (subject to Tenant Delays and Force Majeure Delays).

2. Scope of Landlord's Work:

(a) Landlord shall furnish each Building with shell and core improvements ("Base Building") and with exterior improvements and site work, all of which shall comply in all material respects with that component of Landlord's Plans (as defined below) identified in Item 1 of Schedule 2 (Construction Drawing Set) and shall be in substantial accordance with that component of Landlord's Plans identified in Item 2 of Schedule 2 (Design Build Specifications), as Landlord's Plans may be modified from time to time in accordance with the provisions of this Work Letter, and shall include the additional finishes and improvements as follows (references in this Paragraph 2(a) to any improvements or other work to be performed at Tenant's sole cost and expense shall be deemed subject to Landlord's obligation to provide the Tenant Allowance):

(i) Fire Sprinklers: Ordinary Hazard, Group 2, building fire sprinkler system riser and headers installed with distribution piping, shut-off valves and drains at each floor, ceiling sprinklers provided in core improved areas, density to meet code; sprinkler monitoring system connected to monitoring service; Capped T's provided for tenant improvements sprinklers; FACP to be a Honeywell FCI (Fire Control Instruments) E3 Series control panel;

(ii) HVAC: (A) Five (5) condenser water-cooled rooftop systems, 100 tons each (or alternative systems with minimum Energy Efficiency Ratio (E.E.R.) of twelve (12)); each unit will be set up to handle the cooling requirements of a single floor; (B) ductwork and controls, including the main vertical HVAC supply/return ductwork with fire dampers shall be installed to each floor, and horizontal supply distribution loop ductwork; (C) Two (2) 1800 MBH output gas fired high efficiency boilers and dual hot water circulation pumps located on the roof for heating; (D) hot water for space heating will be distributed to each floor through hot water risers and valved connections; (E) exhaust air will be provided at all restrooms and janitor's closets via a roof mounted exhaust fan; electrical rooms shall be ventilated; telecommunication

rooms shall be cooled by a Variable Refrigerant Flow system (or an equivalent technology of equal capacity), providing two (2) tons of cooling per room. The HVAC systems shall include a building-wide Direct Digital Control system (automated logic control ["ALC"]) that can monitor and manage individual floors and will allow for tenant-partitioned temperature control. The system shall have sufficient cooling and heating capacity to maintain an average inside temperature of 72f +/- 2 FDB during summer and 68 FDB during winter based on 99% ASHRAE standards for minimum/maximum exterior temperature and humidity;

(iii) Electrical: (A) Provide one (1) 4,000 amp service, 277/480 volt, three phase (in corner of each Building); (B) Provide one (1) 2,500 amp, 480 volt, 3 phase vertical bus riser, with provisions for tenant buss tap at each floor; (C) one (1) per floor—277/480 volt, 3 phase lighting panel with the capacity for 42 circuit breakers; (D) distribution to core areas (as defined as stairwells, toilet rooms, service lobbies, electrical room, elevator lobbies, janitorial), restrooms complete; (E) Two (2) electrical rooms per floor, each with ventilation and lighting; and (F) One (1) 150 KW diesel powered emergency generator and sound attenuating enclosure per Building. Landlord shall also install the following for Building 1: conduits running across the hard lid of the first floor lobby to allow for a 2,000 amp secondary distribution board to be installed at Tenant's sole cost and expense between gridlines 5 and 6, configuration of main electrical room to provide for a future 1,200 amp disconnect to support a potential future Tenant-installed data center. All additional work associated with installation of any data center(s) or other provisions not expressly indicated herein shall be at the Tenant's sole cost and expense;

(iv) Future Generator Preparation: Landlord shall also provide curbing, fencing, and landscaping and shall reasonably cooperate with Tenant to obtain necessary permits (including a fuel storage permit for 12 hour run time) sufficient for the installation of one (1) 2,000 KW generator for each Building. The location of the generator pad shall be submitted to the City of Mountain View as "parking reserve," with Tenant's election to install a generator in lieu of using such parking stalls. Installation of any or all of the generators to be at Tenant's sole cost and expense.

(v) Restrooms/Plumbing: (1) set of restrooms per floor. Each restroom shall be equipped with one (1) granite countertop, three (3) countertop lavatories, four (4) waterclosets for women's restrooms and three (3) waterclosets plus one (1) urinal for men's restrooms and one (1) floor drain, or shall be equipped to any higher standard shown on Landlord's Plans. The restrooms on the first floor of each Building shall also have two (2) showers. Additionally, the restrooms shall have accessories, tile (wet walls and floors), floor mounted partitions, lighting, finished, painted walls (though the tenant improvement side of the wall shall be unfinished and sanded drywall with fire tape), drywall and painted ceiling, and HVAC provided. Valved hot/cold water stubs for tenant coffee bars and wet plumbing stacks at each stair core. Water supply and condensate drains to HVAC equipment. Domestic hot water shall be provided to each toilet core by a central gas heated system located on the roof;

(vi) Elevators: Three (3) electric passenger elevators (2,500 lb. minimum); elevator equipment room on first floor provided;

(vii) Stairs: Two (2) metal staircases per Building; fully enclosed, finished, painted walls; code required emergency and convenience lighting provided;

(viii) First Floor Lobby: HVAC, lighting and fire sprinkler in first floor lobby; stone floors in first floor front lobby and carpet in the first floor rear lobby of each Building;

finished, painted ceiling and painted walls or wall coverings (one side of wall with drywall ceiling);

(ix) Upper Floor Elevator Lobbies: Two pairs of double door enclosures with electrified hardware, painted walls, lighting provided;

(x) Janitor room: One (1) janitor room per floor with floor sink and drain, hot/cold water, lighting, flooring, finished, painted walls and ceiling (one side of wall) except that first 4' of walls above finished floor to be FRP or equivalent water-resistant panels;

(xi) Telecommunications (IDF) Rooms: One (1) telecommunications room per floor, with dedicated cable pathway to utility inner-connect; lighting provided;

(xii) Door specifications: In core areas only (as defined as stairwells, toilet rooms, service lobbies, electrical room, elevator lobbies, janitorial) and all other doors that open to the exterior of the Building core, solid wood core doors with wood veneer to match design;

(xiii) Roof: Roof screen to match Building facade; roof insulation; Two (2) rooftop pad locations per Building with sufficient structural support to allow for the installation of two (2) 200-ton air cooled chillers in support of a future tenant data center (to be confirmed by Tenant's structural engineer; actual installation of the data centers and/or the chillers to be at Tenant's sole cost and expense); A rooftop area of approximately 6,500 square feet will be available for potential future tenant improvements installed at Tenant's sole cost and expense such as, for example, a helipad, solar voltaic power, solar hot water heater, up to a total additional estimated load of 22,000 lbs. in the designated area (specifications and verification of loads, etc. to be confirmed by Tenant's structural engineer and subject to Landlord approval);

(xiv) Insulation: Supply insulation for exterior walls stacked on each floor;

(xv) Monument signage: One (1) project monument sign to be installed with address of the Project indicated. Two (2) monument sign bases to be installed at major entrances to the Project; and one (1) monument sign base per Building to be installed along the visitor entrance driveway as shown on Landlord's Plans or as approved by applicable regulatory bodies. Tenant to install at Tenant's sole cost and expense its sign on applicable monument bases subject to approval by Landlord and applicable regulatory bodies; and

(xvi) Site Work: Site plan layout as shown on Exhibit A-2, including parking, parking lot lighting striping, curb cuts, ramps, sidewalks (if required by the City of Mountain View), underground storm drains, and main entries to the Buildings to be in compliance with the applicable ADA requirements.

(b) **Specific Exclusions from Base Building.** Landlord's Work shall expressly exclude, among other things: (i) telephone room power and low voltage wiring; (ii) Tenant Building signage and monument signage not expressly included in Landlord's Work above; (iii) electrical distribution from bus riser on each floor to tenant improvements; (iv) sprinklers drops outside of core area; (v) HVAC hydronic piping; (vi) window coverings (which shall be subject to Landlord's review and approval of Tenant's window coverings specification and compliance with Tenant Improvement Minimum Building Standards attached hereto as Schedule 1 (as the same may be reasonably adjusted by Landlord from time to time in a manner consistent with Tenant Improvement Minimum Building Standards to reflect current conditions (such as, by way of example only, the discontinuance of specified materials and the renaming of specified colors) "Tenant Improvement Minimum Building Standards"),

such approval not to be unreasonably withheld, conditioned or delayed); (vii) security systems beyond floor mounted shear locks for exterior lobby doors; (viii) flooring in upper floor elevator lobbies; (ix) data and communications cabling; (x) LEED commissioning of Building systems or other tasks relating to Landlord's potential LEED certification, if applicable; and (xi) the Sky Bridge (as defined below).

(c) **Operating Lease.** Landlord acknowledges that Tenant desires to meet the requirements necessary to cause this Lease to be treated as an operating lease. In that regard, Landlord agrees to consider in good faith any reasonable modifications (as determined by Landlord in its sole discretion) to the Scope of Landlord's Work, including Change Orders requested by Tenant under Paragraph 13 below, in order to obtain such treatment. The cost to Landlord of any such modifications would be incurred by Landlord and would be passed on to Tenant through an adjustment in Base Rent or the Tenant Allowance, based on mutual discussions of the parties. Tenant acknowledges that Landlord makes no representation regarding qualification of the Lease as an operating lease or any other accounting treatment hereof, Landlord shall not be liable to Tenant in any manner whatsoever if the Lease should not qualify as an operating lease for any reason, and Landlord shall not be obligated to agree to any such modification.

(d) **Conflicts.** If there is any conflict between Landlord's Plans and the description of Landlord's Work set forth in Paragraphs 2(a)(i) through 2(a)(xvi), Paragraphs 2(a)(i) through 2(a)(xvi) shall govern and control. If there is any conflict between the first component of the Landlord's Plans consisting of the Construction Drawing Set identified in Item 1 of Schedule 2 and the second component of the Landlord's Plans consisting of the Design Build Specifications identified in Item 2 of Schedule 2, the Construction Drawing Set (which was prepared subsequent to the Design Build Specifications) shall govern and control.

3. Sky Bridge: If (a) at any time prior to June 1, 2012, Tenant requests that Landlord seek to obtain design approval from the City of Mountain View for a sky bridge (the "Sky Bridge") between the Buildings at the third or fourth floor of the Buildings, as mutually agreed upon by Landlord and Tenant, and (ii) Landlord obtains all approvals from the City of Mountain View required for the construction of the Sky Bridge within one (1) year following Tenant's request, then Landlord shall construct such the Sky Bridge as approved by the City of Mountain View at its sole cost and expense, subject to the provisions of Section 3(c) of the Lease. The Sky Bridge shall not, however, be a part of Landlord's Work. If Landlord is required to construct the Sky Bridge, (i) the design of the Sky Bridge shall be consistent and harmonious with the Buildings, (ii) Landlord's Plans shall be appropriately adjusted in Landlord's reasonable discretion to reflect the ongoing or future construction of the Sky Bridge (for example, the exterior walls of the Buildings at the location where the Sky Bridge will be constructed may be appropriately safed off rather than installing the exterior windows previously shown on Landlord's Plans to be constructed in the absence of any Sky Bridge), (iii) Landlord shall diligently pursue the construction of the Sky Bridge to completion, (iv) the Substantial Completion of Landlord's Work shall be determined without regard to the status of construction of the Sky Bridge (and, therefore, no Tenant Credit shall be given on account of Landlord's failure to Substantially Complete the Sky Bridge prior to the applicable Penalty Date(s) pursuant to Section 2(c)(i) of the Lease), and (v) any delay in completion of Landlord's Work as resulting from design, approval or construction of the Sky Bridge shall be considered a Tenant Delay, provided that Landlord shall use commercially reasonable efforts to avoid any such delay. Any provision of the Lease to the contrary notwithstanding, if the Sky Bridge is not Substantially Complete prior to the Rent Commencement Date, Tenant shall not be obligated to pay the Base Rent associated with rentable square footage of the Sky Bridge as described in Section 3(c) of the Lease until the Sky Bridge is Substantially Complete. Landlord agrees to use commercially reasonable, good faith efforts to obtain all governmental approvals. Tenant acknowledges that Landlord has made no representations or warranties that such approvals can be obtained

4. Landlord's Plans.

(a) Tenant has approved the plans and specifications for Landlord's Work described on Schedule 2 hereto ("Landlord's Plans").

(b) Subject to the provisions of this Paragraph 4, Landlord shall have the right to change Landlord's Plans from time to time (whether before or after commencement of construction of Landlord's Work), including changes which would alter the scope of Landlord's Work. Landlord shall use commercially reasonable efforts to (i) keep Tenant informed of such changes, and (ii) minimize the impact, if any, which any such changes will have on the quality of Landlord's Work. Tenant shall have no right to approve, and Landlord shall not be required to seek Tenant's approval, of any changes to Landlord's Plans which are being made to satisfy any requirements of the City of Mountain View or other applicable authority. Other than changes to Landlord's Plans described in the immediately preceding sentence: (i) Landlord shall not make any change to Landlord's Plans which would alter the scope of Landlord's Work described in Paragraphs 2(a)(i) through 2(a)(xvi), inclusive, unless it has first obtained Tenant's written approval, which approval may be given or withheld in Tenant's sole discretion; and (ii) Landlord shall not make any change to Landlord's Plans which would materially change (A) the footprint of the Building(s) or the configuration of any floorplate thereof, (B) the appearance of the exterior of the Building(s), (C) any major building systems including the HVAC systems, (D) the roof structure, (E) the load capacity, or (F) the amount of Tenant's parking, without Tenant's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed. Other than changes to Landlord's Plans described in the immediately preceding sentence, Tenant shall have no right to approve any change to Landlord's Plans. Any change to Landlord's Plans requiring Tenant's review and approval is referred to herein as a "Proposed Revision to Landlord's Plans"). Tenant must notify Landlord in writing of its approval or disapproval of any Proposed Revision to Landlord's Plans within two (2) Business Days following delivery of such Proposed Revision to Landlord's Plans to Tenant, unless such Proposed Revision to Landlord's Plans includes new detailed mechanical, electrical or plumbing drawings or substantial revisions thereto, in which case, Tenant shall have ten (10) Business Days to notify Landlord in writing of its approval or disapproval. Any written notice containing Tenant's disapproval shall also include the specific reasons for disapproval. If Tenant fails to notify Landlord of any approval or disapproval within the applicable time period provided above, and if such failure continues for three (3) Business Days following a second notice from Landlord given following the expiration of the applicable time period (which notice must contain the caption "**NOTICE OF DEEMED APPROVAL OF PROPOSED REVISION TO LANDLORD'S PLANS**" in bold face, 12-point type), then Tenant shall be deemed to have approved the Proposed Revision to Landlord's Plans.

(c) If Tenant timely notifies Landlord of its disapproval of any Proposed Revision to Landlord's Plans, Landlord and Tenant shall attempt to resolve the dispute within five (5) Business Days after Tenant's notice to Landlord. With respect to any Proposed Revision to Landlord's Plans that Tenant is required to be reasonable in approving as set forth above, if the parties are unable to resolve the dispute within such three (3) Business Day period, the parties agree to designate an architect who has at least ten (10) years experience immediately prior to the date in question in the Mountain View, California area in designing buildings and projects similar to the Building and Project but who has not been engaged by either Landlord or Tenant during such 10-year period ("Selected Architect") and shall ask the Selected Architect to resolve the dispute with respect to the applicable plans and specifications within ten (10) Business Days after his/her designation. The Selected Architect shall deliver written notice of such resolution concurrently to Landlord and Tenant. If the parties are unable to agree on the Selected Architect within such five (5) business day period, the parties hereby agree to promptly submit a request to the local chapter of the American Institute of Architects ("AIA") for designation of the Selected Architect. Resolution of the dispute by the Selected Architect (and the designation of any Selected Architect by the AIA, if necessary) shall be final and binding upon both Landlord and Tenant and shall be

treated in the same manner as an arbitration award pursuant to Section 37 of the Lease. (The foregoing dispute resolution process is referred to herein as the "Selected Architect Dispute Resolution Process".)

5. Warranties. Landlord hereby assigns to Tenant (to the extent assignable) the right, in common with Landlord, to enforce all warranties received by Landlord in connection with Landlord's Work to Tenant and which relate, at the time of enforcement, to repair, maintenance or replacement obligations of Tenant under the Lease, provided, however, that (a) Tenant shall not have the right to enforce such warranties at any time a Tenant Default under the Lease exists, and (b) Tenant shall not be entitled to enforce such warranties that apply to a repair, maintenance or replacement obligation of Landlord pursuant to the Lease. To the extent any such warranties are not assignable or are not subject to assignment pursuant to the preceding sentence, Landlord hereby agrees to use commercially reasonable efforts to enforce them for the benefit of Tenant. Upon Tenant's written request, Landlord shall use commercially reasonable, good faith efforts to obtain, at Tenant's sole cost and expense, extended warranties with respect to Landlord's Work (or designated components thereof) as are designated by Tenant in writing. Within a reasonable period of time after full completion of Landlord's Work (including any the completion of any "punchlist" or similar corrective work), Landlord shall deliver to Tenant the following: (a) a copy of the "as-built" plans and specifications for Landlord's Work; (b) copies of all warranties with respect to Landlord's Work; (c) final punch list signed off by Landlord and/or its architect; (d) written certification from Landlord's Contractor or architect that Landlord's Work is complete and meets all applicable building codes.

6. Tenant's Work. All work beyond the scope of Landlord's Work which is required to complete the entire Premises and obtain a final certificate of occupancy or its equivalent for the Premises will be the responsibility of Tenant ("Tenant's Work"). Subject to Landlord's obligation to provide the Tenant Allowance (as defined below), Tenant shall bear the full cost of Tenant's Work and any costs required under Paragraph 13 below. Additionally, any cable TV connections, security systems, telephone equipment and wiring, and office equipment and wiring shall be the responsibility of Tenant. Separate and apart from the Tenant Allowance, Landlord shall split the actual cost of preliminary "test – fit" drawings with Tenant on a 50%/50% basis with a maximum contribution by Landlord of Ten Thousand Dollars (\$10,000) (the "Space Plan Allowance"). Landlord shall reimburse Tenant with the Space Plan Allowance within thirty (30) days following receipt of an invoice from Tenant evidencing the total cost actually paid by Tenant for such "test – fit" drawings and the applicable amount payable by Landlord. Subject to Landlord's obligation to provide the Tenant Allowance and the Space Plan Allowance, the cost of space planning and preparing the working drawings (including the drawings noted in Paragraph 7 below) for Tenant's Work or any changes thereto shall be paid by Tenant. Tenant shall contract directly with a unionized general contractor for the construction of Tenant's Work ("Tenant's Contractor"), which contractor shall be subject to Landlord's prior written approval, which will not be unreasonably withheld, conditioned or delayed. Tenant's construction contract with Tenant's Contractor shall include appropriate provisions to allow Landlord to assume Tenant's rights and responsibilities under the contract in the event of a material default by Tenant under the contract. Landlord shall not charge a fee for said review.

7. Tenant's Plans.

(a) Prior to September 30, 2012, Tenant shall deliver to Landlord four (4) copies signed by Tenant of its proposed space plan for the Premises (the "Proposed Space Plan") before any architectural working drawings or engineering drawings have been commenced. The Proposed Space Plan shall be prepared by Tenant's architectural services or by another architect mutually acceptable to Landlord and Tenant. Landlord may request clarification or more specific drawings for special use items not included in the Proposed Space Plan. Landlord shall deliver written notice to Tenant within twenty (20) Business Days after Landlord's receipt of the Proposed Space Plan specifying whether the submitted Proposed Space Plan is unsatisfactory or incomplete in any respect and providing a reasonably detailed

explanation for any disapproval. If Landlord objects to any aspect of the Proposed Space Plan, Tenant shall cause the Proposed Space Plan to be revised to correct any deficiencies or other matters Landlord may reasonably require and submit the revised space plan to Landlord for its approval no later than ten (10) Business Days after Landlord delivers its advice. Within five (5) Business Days after Landlord receives the revised space plan, Landlord shall approve or disapprove such revised space plan by written notice to Tenant. This procedure shall be repeated until Tenant's space plan is finally approved by Landlord and written approval has been delivered to Tenant. If Landlord fails to notify Tenant of any approval or disapproval of the Proposed Space Plan within the applicable time period provided above, and if such failure continues for three (3) Business Days following a second notice from Tenant given following the expiration of the applicable time period (which notice must contain the caption "**NOTICE OF DEEMED APPROVAL OF TENANT'S PROPOSED SPACE PLAN**" in bold face, 12-point type), then Landlord shall be deemed to have approved the Proposed Space Plan. The approved space plan is referred to herein as the "Final Space Plan". Once approved by Landlord, no material changes shall be made to the Final Space Plan without the prior written approval of Landlord, in Landlord's reasonable discretion. Tenant acknowledges that if Tenant's Cash and Equivalents are below the Credit Standard at the time Landlord's approval is requested, it would be reasonable for Landlord to condition its approval with respect to any part of Tenant's Work which Landlord requires to be removed and restored pursuant to Paragraph 8 below upon an increase in the LC Amount by an amount equal to Landlord's reasonable estimate of the cost of removing the improvements contemplated by the requested change and restoring the Premises.

(b) Within four (4) months after the Final Space Plan has been approved by Landlord, Tenant's architect and/or engineers shall submit to Landlord, for Landlord's review and approval in its reasonable discretion, complete architectural, mechanical, electrical, plumbing, and other plans, specifications and working drawings for the Premises, together with a pallet of interior colors and finishes, in conformity with the Final Space Plan and in compliance with Tenant Improvement Minimum Building Standards. The plans, specifications and working drawings shall be prepared by Tenant's architectural services or by another architect mutually acceptable to Landlord and Tenant and shall comply with Landlord's Plans, including, without limitation, those elements included therein which are tenant improvements hereunder (e.g. roof screens, placement of bathroom cores, elevators, lobbies and mechanical outside air supply ducts). Within twenty (20) Business Days after Tenant's submission of such materials to Landlord, Landlord shall either approve or disapprove such items by written notice to Tenant, which written notice shall provide a reasonably detailed explanation for any disapproval. Tenant shall make any changes necessary in order to correct any item identified by Landlord as grounds for its disapproval, and shall resubmit the corrected space plan, supporting drawings and specifications and pallet to Landlord. Within ten (10) Business Days after Landlord receives the revised items, Landlord shall approve or disapprove them by written notice to Tenant. This procedure shall be repeated until the plans, specifications, working drawings and pallet of interior colors and finishes are finally approved by Landlord and written approval has been delivered to Tenant. If Landlord fails to notify Tenant of any approval or disapproval of the proposed plans, drawings, specifications and pallet of interior colors and finishes within the applicable time period provided above, and if such failure continues for three (3) Business Days following a second notice from Tenant given following the expiration of the applicable time period (which notice must contain the caption "**NOTICE OF DEEMED APPROVAL OF TENANT'S PROPOSED PLANS, DRAWINGS, SPECIFICATIONS AND PALLET OF INTERIOR COLORS AND FINISHES**" in bold face, 12-point type), then Landlord shall be deemed to have approved the proposed plans, drawings, specifications and pallet of interior colors and finishes. The plans, drawings, specifications and pallet of interior colors and finishes for Tenant's Work which are approved by Landlord pursuant to this Paragraph 7 are referred to herein collectively as "Tenant's Plans". Once approved by Landlord, no material changes shall be made to Tenant's Plans without the prior written approval of Landlord, in Landlord's reasonable discretion. Tenant shall include provisions in its contracts with its design professionals which expressly allow Landlord to use any and all of the plans and

specifications for Tenant's Work without any additional cost or payment if the Lease is terminated subject to Landlord agreeing to indemnify the design professional in question if Landlord elects to use the plans and specifications without retaining such design professional to complete the plans and specifications for that portion of the Tenant's Work covered by the contract in question.

(c) All requests, responses, plans, specifications and other materials submitted by Tenant or Landlord to the other pursuant to this Paragraph 7 shall be submitted in both hard copy and reasonably acceptable reproducible, electronic format.

8. Election to Remove Tenant Improvements. In connection with its approval of the Final Space Plan or any future proposed changes thereto, Landlord shall designate in writing which portions of Tenant's Work, if any, must be removed upon the expiration or sooner termination of the Lease and which may remain on the Premises. Landlord shall be deemed to have elected to allow those portions of Tenant's Work as to which it does not make such written designation to remain on the Premises upon the expiration or sooner termination of the Lease. It is the intention of Landlord and Tenant to work together in good faith to attempt to mutually agree upon a space plan which will not necessitate any of Tenant's Work to be removed upon the expiration or sooner termination of the Lease. For illustrative purposes only, attached hereto as Schedule 3 is a sample tenant improvement layout for Building 1 (the "Sample TI Layout") to illustrate the generic guidelines of a space plan as to which Landlord would not require any restoration. Such Sample TI Layout is not intended to constitute the only layout that would not be subject to restoration obligations, and Landlord acknowledges that other similar layouts of office space that contain substantially similar ratios of private offices to open space shall not be subject to any restoration provisions.

9. Construction of Tenant's Work. After receipt of Landlord's approval of Tenant's Plans and Substantial Completion of Landlord's Work (as defined below in Paragraph 17), Tenant shall administer and diligently prosecute the construction of Tenant's Work in accordance with Tenant's Plans (such period of construction hereinafter referred to as the "Tenant Work Period") to completion. Tenant's access to and use of the Premises during the Tenant Work Period shall be subject to all of the terms and conditions of the Lease, provided, however, that Tenant will not be obligated to pay Base Rent or Expenses. Tenant's Work and any improvements constructed by Tenant or its contractors shall comply with all applicable building regulations which are in effect at the time permits for the construction of such work are obtained, including but not limited to, ADA, Title 24 and seismic codes. All subcontractors and material suppliers performing any portion of Tenant's Work shall be subject to the reasonable administrative supervision of Tenant's Contractor and reasonable rules of the site. Tenant's Contractor and any subcontractors performing any portion of Tenant's Work shall employ labor to ensure, so far as may be possible, the progress of the work without interruption on account of strikes, work stoppage or similar causes for delay. To the extent any portions of Landlord's Work are damaged by Tenant, Tenant's Contractor, or any of Tenant's contractors, subcontractors or vendors, Tenant shall cause such damage to be appropriately repaired or restored at Tenant's sole cost and expense. Tenant shall not be required to pay Landlord any supervisory fee, profit, or other compensation in connection with the performance of Tenant's Work.

10. Landlord's Right to Inspect and Stop Work. Upon reasonable prior notice to Tenant (written or verbal), and provided that Landlord uses commercially reasonable efforts to avoid significant interference with the progress or performance of Tenant's Work, Landlord and its agents may inspect Tenant's Work during the Tenant Work Period and upon completion of Tenant's Work. Landlord shall have the right to object to any material deviation from Tenant's Plans unless such material deviation has been approved by Landlord in accordance with this Work Letter, and if Landlord so objects, Tenant shall cause such material deviation to be corrected. If Tenant contests any such objection, it shall give Landlord written notice of such objection within five (5) Business Days after Landlord notifies Tenant in

writing of Landlord's objection. Such written notice from Tenant's shall also include the specific reasons for Tenant's contest. If Tenant fails to notify Landlord of any contest within such (5) Business Day period, and if Tenant does not contest Landlord's objection within three (3) Business Days following a second notice from Landlord given following the expiration of the initial (5) Business Days period (which notice must contain the caption **"NOTICE OF DEEMED AGREEMENT WITH LANDLORD'S OBJECTIONS"** in bold face, 12-point type), then Tenant shall be deemed to have agreed with Landlord's objection. If Tenant timely notifies Landlord of its objection, Landlord and Tenant shall attempt to resolve the dispute within five (5) Business Days after Tenant's notice to Landlord. If the parties are unable to resolve the dispute within such five (5) Business Day period, such dispute shall be resolved using the Selected Architect Dispute Resolution Process. If, in Landlord's reasonable judgment, the material deviation will have a material adverse affect on Landlord's Work or the Base Building, Landlord shall have the authority, without liability to Tenant (except as expressly stated otherwise herein), to stop that portion of the work relating to the deviation. If the dispute resolution process is resolved in favor of Tenant and Tenant incurs additional costs or delay in connection with the performance of Tenant's Work as a direct result of such work stoppage, then (a) Landlord shall reimburse Tenant on demand for such additional costs (which reimbursement shall be separate from and in addition to the Tenant Allowance), and (b) any such delay shall be deemed a Landlord Delay (as defined below). If the deviation is not corrected by Tenant and either Tenant did not timely contest Landlord's objection or if Tenant does timely contest Landlord's objection but such dispute is not resolved in favor of Tenant through the dispute resolution process, Landlord may cause such deviation to be remedied, at Tenant's expense.

11. Tenant's Access to Premises. Subject to the provisions of Paragraph 9 above, Landlord shall provide Tenant and its architect, engineers and contractors with access to the Project site and Premises from and after Substantial Completion of Landlord's Work. If Tenant elects to use Landlord's Contractor for the performance of Tenant's Work, Landlord shall work with Tenant to allow access to the Project and Premises prior to the Substantial Completion of Landlord's Work but only to the extent that any such access or performance of any aspects of Tenant's Work occurring prior to Substantial Completion of Landlord's Work shall not interfere or in any way delay the performance or Substantial Completion of Landlord's Work. Tenant's or Tenant's Contractor's access, parking and construction staging areas shall be mutually agreed upon in advance of site mobilization between the Tenant and Landlord. Tenant shall pay for all utility costs associated with the construction of Tenant's Work. If elevators are used during the Tenant Work Period, Tenant or Tenant's Contractor shall employ and pay for an engineering operator until the elevators can receive a final operation permit. All hoisting provisions shall be Tenant's sole cost and responsibility. Landlord shall not charge Tenant any supplementary fees or profit for any parking, use of freight elevators or loading docks, for connecting supplemental air conditioning, sprinklers, etc. that are required for construction of Tenant's Work, provided that the actual costs of any of Tenant's use thereof shall be borne by Tenant. Landlord shall not restrict the hours of operation of these services for Tenant's use, provided that Tenant complies with any municipal or other governmental rules or regulations regarding the allowable hours of construction.

12. Construction Meetings. Landlord and Tenant shall hold weekly construction meetings during the course of construction of Landlord's Work and Tenant's Work. Such meetings will be attended by representatives of Landlord and Tenant, their respective construction managers, their respective architects and/or engineers, their respective contractors and Landlord's building engineer (as appropriate for the meeting in question). Tenant shall reimburse Landlord, promptly following its receipt of Landlord's written invoice, for the cost of Landlord's building engineer (at a rate not to exceed \$160 per hour) to attend construction meetings during the Tenant Work Period.

13. Tenant Requests for Changes to Landlord's Plans.

(a) Any revisions or changes to Landlord's Plans or to the design or construction of Landlord's Work that are (i) requested by Tenant (other than to cause Landlord's Work to comply with the requirements of this Work Letter) or (ii) necessitated by applicable legal requirements due to Tenant's Plans) before or after Tenant's Plans have been approved by Landlord in accordance with the terms hereof (each, a "Change Order"), shall be subject to the prior written approval of Landlord, in its sole discretion, provided that any Change Orders requested by Tenant by March 31, 2012 shall be subject to the prior written approval of Landlord in its reasonable discretion (Tenant acknowledges that it shall be deemed reasonable for Landlord to withhold its consent for any Change Orders that it anticipates in its sole discretion may adversely affect Landlord's Contractor's construction schedule or otherwise delay the completion of Landlord's Work). Tenant shall be responsible for all costs and delays resulting from any and all Change Orders, including construction management, architectural and engineering charges, and any special permits or fees attributed to a Change Order, provided, however, that Tenant shall not be responsible for the costs or delays resulting from the Change Order if the revision or change to Landlord's Plans or to the design or construction of Landlord's Work is necessary because of the requirement of any Law and no general office layout or design whatsoever could have been built on the floor or floors in question without such revision or change. Before any such design and/or construction changes are made, if the Improvements Costs (as hereinafter defined) exceed the available Tenant Allowance at the time the Change Order is approved, Tenant shall pay to Landlord, in the manner set forth below in Paragraph 13(c) hereof, the full costs to be incurred by Landlord in connection with such Change Order attributable thereto, otherwise, Tenant shall be permitted to pay for the cost of Change Order from the available Tenant Allowance to the extent then available and to the extent not otherwise prohibited by the provisions hereof.

(b) Landlord and Tenant shall cooperate in good faith during the weekly meetings to be held pursuant to Paragraph 12 above to review and adjudicate Change Orders. With respect to each Change Order approved by Landlord, Landlord shall cause the general contractor performing Landlord's Work ("Landlord's Contractor") to determine the additional cost or savings from such Change Order and estimate any expected delay in Substantial Completion of Landlord's Work resulting therefrom, and Landlord shall promptly provide written notice thereof to Tenant, which notice shall include supporting documentation in reasonable detail (including, without limitation, detailed trade cost breakdowns and schedule modifications prepared by Landlord's Contractor). Tenant shall, within five (5) Business Days after receipt of such notice from Landlord, inform Landlord in writing whether or not Tenant desires to proceed with such Change Order. If Tenant fails to inform Landlord in writing within such five (5) Business Day period that Tenant desires to proceed with such Change Order, Landlord shall not make any changes(s) to Landlord's Work included in such Change Order. If Tenant informs Landlord in writing within such five (5) Business Day period that Tenant does wish to proceed with the proposed Change Order, the proposed Change Order shall be incorporated in Landlord's Work as applicable, Landlord's Contractor shall proceed with the work covered by the Change Order and Tenant shall be responsible for all costs and expenses incurred in connection therewith as , without additional profit or mark-up or by Landlord beyond that which is charged to Landlord. All Change Orders shall be in writing, signed by both Landlord and Landlord's Contractor and shall be on such AIA or other form as required by Landlord and/or Landlord's Contractor. Tenant shall evidence in writing its approval of such Change Order prior to Landlord's approval of same.

(c) If Change Orders are approved as provided above, Tenant shall pay to Landlord all amounts payable by Tenant within thirty (30) days after billing by Landlord, which billing shall be accompanied by supporting documentation in reasonable detail as provided to Landlord by Landlord's Contractor. Bills may be rendered to Tenant in connection with Change Orders during the progress of the work that is the subject of such Change Order, based on the extent to which such work is completed

14. Tenant Allowance.

(a) Landlord shall provide Tenant an allowance in an amount equal to Twenty-One Million Two Hundred Forty-Nine Thousand One Hundred Fifty Dollars (\$21,249,150.00) (which equates to approximately Sixty-Two and 33/100 Dollars (\$62.33) per rentable square foot of the Buildings) (the "Tenant Allowance") to be applied toward the cost of the following items in respect of Tenant's Work: architectural and engineering fees, building permits and other governmental fees, and the cost of labor, materials, contractors' fees and overhead, and other charges included in the construction contract for construction of Tenant's Work. Notwithstanding the above, no more than One Million Seven Hundred Thousand Six Hundred Fifty-Five Dollars (\$1,704,655.00) of the Tenant Allowance shall be used to reimburse the cost of architectural and engineering fees. The Tenant Allowance shall not be used for moving expenses or Tenant's trade fixtures, equipment, IT/cabling, security systems furniture, furniture partitions, furnishings, or other personal property.

(b) To the extent that the cost of Tenant's Work is anticipated to exceed the Tenant Allowance and so long as Tenant's Cash And Equivalents exceed the Credit Standard (as such terms are defined in the Lease): (i) if the cost of Tenant's Work is anticipated to be an amount equal to or less than Forty-Four Million Three Hundred Twenty-One Thousand Thirty Dollars (\$44,321,030.00), the costs of Tenant's Work that are allowed to be funded by the Tenant Allowance will be paid 50% by Tenant from its own funds and 50% from the Tenant Allowance until Tenant has paid the total cost of Tenant's Work in excess of the Tenant Allowance, and thereafter the remainder of the cost of Tenant's Work shall be paid from the Tenant Allowance; and (ii) if the cost of Tenant's Work exceeds Forty-Four Million Three Hundred Twenty-One Thousand Thirty Dollars (\$44,321,030.00), the cost of Tenant's Work allowed to be funded by the Tenant Allowance will be paid 50% by Tenant from its own funds and 50% from the Tenant Allowance until the Tenant Allowance has been fully expended, and thereafter the remainder of the cost of Tenant's Work shall be paid by Tenant. If Tenant's Cash and Equivalents are or fall below the Credit Standard, then the cost of Tenant's Work in excess of the Tenant Allowance will be paid by Tenant before any portion of the Tenant Allowance is expended. In any event, a reconciliation will be made following completion of Tenant's Work to ensure Tenant receives the full amount of the Tenant Allowance.

(c) From time to time throughout the course of design and construction of Tenant's Work (but no more frequently than once per month), and provided that no Tenant Default then exists, Tenant shall have the right to request disbursement of the Tenant Allowance. Each request submitted by Tenant for disbursement of the Tenant Allowance shall include the following items: (i) copy of contract (each contract need be submitted only once); (iii) an invoice or application for payment reflecting architectural or engineering fees incurred to date and/or costs of construction, provided that construction costs shall include no more than the portion of the cost of Tenant's Work which has been completed less a 10% holdback/retention; (iv) conditional lien releases from Tenant's Contractor and any subcontractors with contracts valued at greater than \$100,000 for the current invoice; and (v) unconditional lien releases from Tenant's Contractor and any subcontractors with contracts valued at greater than \$100,000 for the prior invoice. Landlord shall disburse the applicable portion of the Tenant Allowance to Tenant within thirty (30) days following Landlord's receipt of the foregoing documentation (or within such time period as may be reasonably required by Landlord's construction lender), provided, however, that Landlord shall have the right to retain the final \$1,000,000 of the Tenant Allowance until Tenant has delivered the following items to Landlord: (A) "as-built" drawings, in reproducible, electronic format reasonably acceptable to Landlord and in hard copy signed by either Tenant's architect or Tenant's Contractor; (B) final punch list signed off by both Tenant and Landlord and/or their architects; (C) written certification from Tenant's architect and/or contractor that Tenant's Work is complete and meets all applicable building codes; (D) a copy of the certificate of occupancy or its equivalent as issued by the City of Mountain View; and (E) final conditional lien releases from Tenant's contractors and subcontractors reflecting the final amounts due in an aggregate amount not to exceed the amount to be paid by Landlord (items (A) through (E) hereinafter being referred to as the "Final Disbursement Documentation"). Landlord shall disburse the remainder of the Tenant Allowance not previously paid

within thirty (30) days following its receipt of all of the Final Disbursement Documentation. If requested by Tenant, Landlord will make any or all payments of the Tenant Allowance directly to Tenant's Contractor.

(d) If Landlord fails to timely disburse any portion of the Tenant Allowance which has qualified for disbursement pursuant to this Paragraph 14, Tenant shall be entitled to deliver written notice of Landlord's failure (the "Payment Notice") to Landlord (which notice must contain the caption "**NOTICE OF LANDLORD'S FAILURE TO DISBURSE TENANT ALLOWANCE**" in bold face, 12-point type). Landlord shall have ten (10) Business Day after its receipt of Tenant's Payment Notice to give Tenant written notice that Landlord disputes Tenant's claim, which written notice shall set forth in reasonable detail the basis upon which Landlord believes that the amounts described in Tenant's Payment Notice are not due and payable by Landlord ("Dispute Notice"). If Landlord does not give a Dispute Notice within ten (10) Business Days after its receipt of Tenant's Payment Notice, or if Landlord gives a Dispute Notice within such ten (10) Business Day period but does not pay to Tenant any portion of the payment specified in the Payment Notice which Landlord does not dispute, then Tenant shall be entitled to pay the amount not in dispute to Tenant's Contractor and deduct the amount thereof from the Rent next due and owing under the Lease, together with interest at the Interest Rate from the date such the amount not in dispute was so paid by Tenant until the earlier of the date of offset or the date Landlord pays the undisputed amount and such interest thereon to Tenant. Notwithstanding the foregoing, if, within the ten (10) Business Day period set forth above, Landlord delivers a Dispute Notice, Tenant shall have no right to offset the amounts in dispute against Rent, but Tenant may institute legal proceedings to recover such amounts from Landlord. If Tenant prevails in any such action, the award shall include interest at the Interest Rate calculated from the date of funding by Tenant, if any, or the date such amount was otherwise due to Tenant, as the case may be, and Tenant shall be entitled, automatically, to offset the amount of such award against the Rent next coming due under the Lease.

15. Insurance Requirements for Tenant's Work.

(a) Tenant's Contractor, all subcontractors, vendors and agents shall carry (i) worker's compensation insurance (Statutory), (ii) employers liability coverage at a limit of liability of \$5,000,000 for Tenant's Contractor, \$1,000,000 for all subcontractors and \$1,000,000 for all vendors, (iii) automobile liability coverage for owned, hired and non-owned automobiles at a limit of \$1,000,000 each occurrence, and (iv) commercial general liability insurance, providing coverage for third party claims for bodily injury and property damage including products completed operations coverage, contractual liability coverage and broad form property damage coverage. All such insurance shall have such limits, be in such form and be with such companies as are required to be carried by Tenant's contractors as set forth in Section 11 of the Lease, except that Tenant's Contractor's commercial general liability policy shall include completed operations coverage in an amount not less than \$5,000,000 per occurrence, \$5,000,000 in the aggregate, which coverage shall be maintained for a period of four (4) years following Substantial Completion of Tenant's Work; provided, however, that such completed operations coverage (whether by endorsement ISO GG 2010 11 85 or otherwise) shall not be required unless the same is generally available in the insurance marketplace at commercially reasonable premiums. The insurance specified in clauses (iii) and (iv) of this Paragraph 15(a) shall name Landlord and Managing Agent, and their respective officers, partners, members and employees as additional insured with the primary wording. Any potential exceptions for contractors with insurance limits less than those set forth in Section 11 of the Lease shall be subject to Landlord's prior written approval. Commercial general liability limits required above \$1,000,000 per occurrence / \$2,000,000 aggregate may be satisfied by an Umbrella policy that follows form and provides the same coverage as the commercial general liability.

(b) Tenant shall carry "Builder's All Risk" insurance on a "special causes of loss" form in an amount equal to 100% of the replacement cost of Tenant's Work (as reasonably approved by

Landlord but in no event to exceed the cost of Tenant's Work) covering the construction of Tenant's Work, it being understood and agreed that Tenant's Work shall be insured by Tenant pursuant to Section 11 of the Lease immediately upon completion thereof. Such "Builder's All Risk" insurance shall insure Landlord and Tenant, as their interests may appear, as well as Tenant's contractors. Tenant shall also carry such other insurance as Landlord may reasonably require. Such insurance shall include coverage for business income / extra expense and the policy shall contain a Waiver of Subrogation provision in favor of Landlord. The general contractor and all sub-contractors shall be responsible for insuring their equipment.

(c) Certificates for all insurance carried pursuant to this Paragraph 15 shall be delivered to Landlord before the commencement of construction of Tenant's Work and before Tenant's Contractor's equipment is moved onto the Project. Tenant shall use commercially reasonable efforts to cause the insurer to provide Landlord with thirty (30) days' written notice prior to any cancellation or lapse of the effective date or any reduction in the amounts of such insurance. If the new Tenant's Work (as opposed to Landlord's Work) is damaged by any cause during the course of the construction thereof, Tenant shall promptly repair the same at Tenant's sole cost and expense. Tenant shall maintain all of the foregoing insurance coverage in force throughout the Tenant Work Period until Tenant's Work is fully completed and accepted by Landlord, except for any Products and Completed Operation Coverage insurance required by Landlord, which is to be maintained for four (4) years following Substantial Completion of Tenant's Work. All policies carried under this Paragraph 15, except Workers' Compensation, shall insure Landlord and Tenant, as their interests may appear. All insurance, except workers' compensation, maintained by Tenant's Agents shall preclude subrogation claims by the insurer against anyone insured thereunder. Such insurance shall provide that it is primary insurance as respects the Landlord and that any other insurance maintained by Landlord is excess and noncontributing with the insurance required hereunder. The requirements for the foregoing insurance shall not derogate from the provisions for indemnification of Landlord by Tenant under Section 11 of the Lease. If Tenant's Work (as opposed to Landlord's Work) is damaged by any cause during the course of construction thereof, Tenant shall be responsible for the costs of repairing the same.

16. LEED Certification Requirements. The Project has achieved precertification from the U.S. Green Building Council's Leadership in Energy and Environmental Design for core & shell development gold level. Landlord has previously delivered to Tenant a copy of the LEED for Core and Shell v2.0 Registered Project Checklist and accompanying materials which were submitted to the Council by KEMA, the Council's LEED-CS Version 2.0 Final Pre-Certification Review for the core and shell, and the pre-certification certificate for the core and shell issued by the Council). As more fully provided in the Lease, Landlord has the right (but not the obligation) to construct Landlord's Work and operate the Buildings or Project in accordance with the U.S. Green Building Council's Leadership in Energy and Environmental Design program's standards, as the same may be amended, supplemented, or replaced from time to time, or, at Landlord's option, any similar standards (hereinafter referred to as "LEED"). Tenant agrees that in designing and performing Tenant's Work Tenant shall do nothing which would preclude or interfere with Landlord's ability to satisfy the requirements (the "LEED Certification Requirements") promulgated by the U.S. Green Building Council for the certification of Buildings and/or Project as "Leadership in Energy and Environmental Design for Core and Shell (LEED-CS)" with at least a silver rating (and any revisions, supplements or successor plans thereto). Tenant's failure to so comply will expose Landlord to possible penalties and damages to which Tenant's indemnity obligations under the Lease shall apply, provided that Tenant shall not be responsible for penalties or damages arising from Tenant's completion of Tenant's Work in accordance with Tenant's Plans as approved by Landlord. If Landlord elects, in its sole discretion, to apply for LEED certification, Tenant shall cooperate with Landlord and Landlord's designated LEED consultant (at no material cost, expense or liability to Tenant), to assist Landlord in obtaining such LEED certification for the Buildings and/or Project. If Tenant elects,

in its sole discretion, to apply for LEED "Commercial Interiors" certification, Landlord shall reasonably cooperate with Tenant.

17. Substantial Completion. For purposes of this Work Letter and the Lease, Landlord's Work shall be deemed "Substantially Complete", and "Substantial Completion" shall be deemed to have occurred, at such time as Landlord has completed Landlord's Work in accordance with Landlord's Plans and in compliance with all legal requirements applicable thereto at the time the permits were obtained for the construction thereof, subject only to the completion of "punchlist" items or similar corrective work. No portion of any work to be performed by Tenant shall be taken into account in determining whether or not Landlord's Work is Substantially Complete. However, if Substantial Completion of Landlord's Work is delayed as a result of a Tenant Delay (defined below), Landlord's Work shall be deemed to be Substantially Complete on the date that Landlord could reasonably have been expected to Substantially Complete Landlord's Work absent any Tenant Delay. Promptly following the completion of Landlord's Work, Landlord shall cause Landlord's Contractor to inspect Landlord's Work with representatives of both Landlord and Tenant and compile a list of "punchlist" items in connection with Landlord's Work which are required to be corrected or completed by Landlord. Such "punchlist" items shall be completed or corrected by Landlord within sixty (60) days, provided, however, that as to any "punchlist" items which cannot be completed by Landlord within said sixty (60) days, Landlord shall promptly commence the correction or completion of such "punchlist" item and thereafter diligently pursue the same to completion.

18. Tenant Delay. As used herein, the term "Tenant Delay" shall mean any delays to the Substantial Completion of Landlord's Work arising as a result of any of the following (collectively, "Tenant Delays"): (a) Tenant's failure to comply with Tenant's obligations under the Lease or this Work Letter, including Tenant's failure to act on any items required by this Work Letter, within the applicable time period(s) provided in the Lease or this Work Letter; (b) Change Orders; (c) Tenant's failure to comply with, or interference with, Landlord's Contractor's schedule; (d) the acts or omissions of Tenant, or the Tenant Parties (including, without limitation, failure to comply with its obligations under the Lease and this Work Letter within the time periods set forth herein, and failure to make any monetary deposit (or increase in the Letter of Credit) within the time required hereunder for such deposit); (e) the performance of Tenant's Work (or installation of cabling or furniture pursuant to the Lease) while Landlord's Work is being performed; (f) Tenant's failure to respond to any request for consent or approval of any change in Landlord's Plans or Landlord's Work or to any change in any plans and specifications therefor resulting from any requirement of the City of Mountain View or from any change thereto requested by Tenant, or to otherwise act within the time provided for herein for such consent, approval, response or action, or, if no such time is provided for herein, within two (2) Business Days after receipt of Landlord's request, or (g) construction of the Sky Bridge, to the extent Landlord has used commercially reasonable, good faith efforts to avoid such delay in Landlord's Work related to the Sky Bridge. Any period of Tenant Delay shall begin on (i) the date specified in Landlord's written request for consent or approval provided such request contains the caption "**TENANT'S FAILURE TO RESPOND WITHIN _____ () BUSINESS DAYS SHALL RESULT IN THE COMMENCEMENT OF A PERIOD OF TENANT DELAY**" in bold face, 12-point type and with the applicable number of Business Days inserted, or (ii) as to any other Tenant Delay not covered by request specified in clause (i), the date on which Landlord gives Tenant written notice that a Tenant Delay has occurred (which notice must contain the caption "**NOTICE OF TENANT DELAY**" in bold face, 12-point type).

19. Representatives. Promptly following mutual execution of the Lease, Landlord and Tenant shall each designate an individual as its sole representative with respect to the matters set forth in this Work Letter, who, until further notice, shall have full authority and responsibility to act on behalf of the designating party as required in this Work Letter.

SCHEDULE 1 TO WORK LETTER

TENANT IMPROVEMENT MINIMUM BUILDING STANDARDS

A) FLOORING:

- 1) CARPET: 28 oz. level loop carpet tiles, or as mutually agreed upon by Landlord and Tenant during design and approval process of Tenant's Plans (the intent being that the carpet spec/design approved as part of Tenant's Work will become the building standard thereafter).
- 2) CARPET BASE: 2.5" or 4" high rubber carpet base.
- 3) ROLL GOODS LINOLEUM: Forbo Marmoleum, 2.5" or 4" high rubber top set base.
- 4) VCT: Armstrong 12"x12"x1/8" or approved equivalent

B) WALL FINISH:

- 1) PAINT/WALL FINISH: Latex enamel paint, 2 coats over prime coat. Smooth level 4 finish.

C) OFFICE AND CONFERENCE ROOM WALLS:

- 1) Walls for offices, conference rooms, lunch rooms and copy/fax rooms substantially similar to and in substantially similar ratios to the Sample TI Layout: Full height walls permitted, 2.5" metal studs at 24" OC with 1 layer 5/8" gypsum board both sides.
- 2) Remainder of walls: 3 5/8" (gauge per mfr's span table) metal studs at 24" OC with 5/8 gypsum board both sides. T-Bar ceiling grid shall pass through walls over top track, gypsum board shall notch around ceiling grid and extend up 4" minimum.
- 3) Walls between adjacent enclosed spaces shall be acoustically insulated.
- 4) All perimeter walls falling within 12" of a mullion shall be offset to align with center of mullion. False mullions are otherwise allowed.

D) ACOUSTICAL WALLS (where approved by Landlord):

- 1) Full height walls 3 5/8" (gauge per mfr's span table) metal studs at 24" OC with 1 layer 5/8" gypsum board both sides. Sound insulate with R-13 batt insulation to structure above. Provide transfer sound boot.
- 2) All rain water leaders to be furred in with metal studs and insulation and sound attenuation per acoustical engineer's specification.

E) RATED WALLS:

- 1) Full height walls to underside of structure, 3 5/8" metal studs (gauge per mfr's span table) at 24" OC with 1 layer 5/8" type "X" gypsum board both sides. (insulation as required for acoustics). Provide fire smoke dampers where required for air return.

F) ACOUSTICAL INSULATION

- 1) Walls between adjacent enclosed spaces shall be acoustically insulated.
- 2) Walls of enclosed break rooms shall be acoustically insulated.
- 3) Batt insulation on top of suspended ceilings shall not be used.

G) CEILING:

- 1) 2' x 4' or 2' by 2' Suspended T-Bar in 9/16" flat white grid with Armstrong Cirrus Second Look II lay in tiles. White finish. Install with compression struts and seismic tiles as required by code. Ceiling height at 10'-0" AFF minimum. 1st floor ceiling height at 12'-0" AFF, or, if 1st floor ceiling height is installed at 10'10", all ceiling infrastructure to be installed tight to structure above in order to accommodate future 12' ceilings.

H) DOORS:

- 1) DOORS AND FRAMES:
 - a) 3'-0" x 8'-10" plain sliced maple veneer with clear factory finish in extruded clear anodized aluminum frames.
- 2) DOOR HARDWARE:
 - a) Schlage L Series Mortise hardware with Sparta levers, 626 finish brushed chrome, or as mutually agreed upon by Landlord and Tenant during design and approval process of Tenant's Plans (the intent being that the hardware spec/design approved as part of Tenant's Work will become the building standard thereafter).
 - b) Dust pockets shall be provided with strike plates
 - c) Door stops shall be floor mounted domes.
- 3) SIDELIGHTS:
 - a) For offices and conference rooms, minimum 2'-0" wide x 9'-0" high tempered clear glass in integral extruded clear anodized aluminum frames.
 - b) HOLLOW METAL DOORS & FRAMES: Semi gloss enamel 2 coats.
 - c) CARD ACCESS HARDWARE shall be electrified latch with electric hinge, or as alternate established standard per Tenant's Plans.

I) WINDOW COVERINGS:

- 1) Mini Blinds 1" wide metal finish to match standard mutually agreed upon by Landlord and Tenant during design and approval of Tenant's Plans.

J) CASEWORK:

- 1) BASE CABINETS: WIC custom grade flush overlay construction, plastic laminate at all exposed surfaces, drawers over doors, 6" drawer fronts, one melamine adjustable shelf on 32 mm pins, 4" recessed plywood base, locking rail behind face frame between doors and drawers, brushed chrome wire pulls, hinges adjustable with 170 degree opening. ADA height, with ADA access under sink per code.
- 2) UPPER CABINETS: WIC custom grade flush overlay, construction laminate exterior surfaces, seal top with backing material, 2 melamine shelves adjustable on 32 mm pins, 2" apron at the bottom, brushed chrome wire pulls, hinges adjustable with 170 degree opening.
- 3) COUNTERTOPS: WIC custom grade plastic laminate with 1 1/2" edge and 4" backsplash at back and ends, or higher quality standard as mutually agreed upon by Landlord and Tenant during design and approval of Tenant's Plans.

K) HEAVY FLOOR LOADING:

- 1) Specialty designs such as server rooms, labs & etc. shall require an engineered design subject to review and approval by owner.

L) FIRE EXTINGUISHER CABINETS:

- 1) Shall be semi-recessed, painted to match wall.

M) FIRE SPRINKLERS:

- 1) Ordinary hazard sprinkler coverage.

- 2) Semi recessed chrome heads with flat white escutcheons installed in center of 2' x 2' ceiling tile.
- 3) Fully recessed heads with flat white concealed cover at gypsum board ceilings.

N) PLUMBING:

- 1) All domestic plumbing, hot and cold, shall be in copper.
- 2) All waste drains shall be cast iron.
- 3) Coffee bars: Stainless steel one compartment sinks (Elkay model #LRAD2219) with single handle ADA faucet (Elkay model #LKE4121) or approved equivalent.
- 4) Hot water supply from main hot water loop.
- 5) Gravity Drains, no pumped system.
- 6) Hot and cold water lines extended from core shall have shut off valves.

O) HVAC:

- 1) Design Temperature Set Points
 - a) The HVAC design should be based on a cooling supply air temperature set point of 55 degrees.
 - b) The HVAC design should allow for a space temperature set point for of 72 degrees +/- 2 degrees
 - c) There are no humidity control requirements.
- 2) Ductwork and Hot Water Pipe Sizing
 - a) The medium pressure main ductwork shall be designed in either a loop or "H" pattern, constructed of galvanized sheet metal per SMACNA standards.
 - b) The core system has been designed to maintain an operating static pressure of 1.7" at 1/3 the distance from the farthest end of the duct main.
 - c) All duct mains should be sized for a maximum velocity of 1800fpm.
 - d) The low pressure ductwork shall incorporate pre-insulated aluminum flex or spiral flex duct sized at a maximum 0.10" / 100 ft pressure drop.
 - e) Pre-insulated duct should extend from the VAV box plenum to 6 feet from the associated diffuser.
 - f) One piece of acoustical flex duct to be installed prior to all supply diffusers.
 - g) All return registers are to have a 6 foot acoustical flex discharging into the return air plenum.
 - h) The main horizontal hot water piping should follow the main duct mains in parallel fashion. The horizontal copper piping should be sized to a maximum of 2.0 ft /100ft pressure drop. Lateral runs shall be isolated from main by shut off valves.
 - i) The hot water reheat system shall incorporate bypass and 3-way valves to allow for sufficient hot water flow.
- 3) Variable Air Volume (VAV) Zone Sizing
 - a) All VAV zones to be pressure independent.
 - b) Reheat zones are required for all perimeter zones in addition to all interior conference rooms or high density meeting rooms.
 - c) All perimeter reheat zones to be a maximum of 15' from the perimeter as long as the air distribution is sized for the correct throw and noise criteria.
 - d) Each corner office shall receive a dedicated reheat zone.
 - e) All perimeter reheat zones shall serve a maximum of 1,000 SQFT.
 - f) All interior zones shall serve a maximum of 2,000 SQFT.
 - g) Zones shall serve no more than 4 enclosed offices.
 - h) All zone controls shall be electronic to be integrated with the BMS.
 - i) Typical thermostat placement shall be clustered with light switches at the end of an open door.

- 4) Air Distribution Design Criteria
 - a) All supply air distribution to be "Titus", "MetalAire", or approved equivalent plaque style diffusers set up for a 2' T-bar ceiling system. Where required by the user, linear style diffusers may be incorporated. All air distribution to be sized for adequate air flow and appropriate throw patterns.
- 5) Noise Criteria
 - a) All Conference rooms, Private offices, and Open offices shall be designed with a maximum noise criteria of NC 35. All Corridors and non sensitive areas to be designed based on a maximum sound criteria of NC 45.
- 6) Balance and Commissioning
 - a) After installation, all systems are to be balanced by a NEBB certified agent.

P) LIGHT FIXTURES:

- 1) 2' x 4' Recessed indirect light 2 lamp fixtures 3500k Lithonia "Avante" T5 lamps with electronic ballasts or approved equivalent. Dual switched on occupancy sensor. 45 FC light level in open office. Minimum light fixture standard to be revised if/as mutually agreed upon by Tenant and Landlord during design and approval of Tenant's Plans.

Q) ELECTRICAL:

- 1) All distribution wiring to be copper.
- 2) All panel boards and breakers to be "CUTLER HAMMER", door in door faces, maintaining same A.I.C rating as base building design.
- 3) Transformers are to be 155degrees C and K-rated.
- 4) Typical minimum power at office: (2) Duplex 110V outlet, and (2) 1-telephone/data face plate.
- 5) Telephone and data outlets ring with pull wire to ceiling only. No conduits, white face plates, plenum rated cable.
- 6) Electrical Trim: "white".
- 7) Modular furniture to be fed with power poles or base feeds. Floor monuments/feeder to be reviewed as an exception and a standard for exceptions may be revised if mutually agreed upon by Tenant and Landlord during design and approval of Tenant's Plans.
- 8) Floor monuments to be powered from that floor not floor below.
- 9) Floor poke throughs or monuments to be fed through conduits to adjacent walls. No open cabling below.
- 10) MC Cable acceptable at lighting, EMT at walls.
- 11) Lighting control thru occupancy sensors and dual switching.
- 12) Typical light switch placement shall be within 12" of the end of the open door.
- 13) Open plan lighting shall be circuited to interface with base building lighting control system.
- 14) 20% of code required night lighting shall be battery ballast/generator-supported.
- 13) Exit lights edge-lit green acrylic exit lights.

R) FIRE ALARM AND DEVICES:

- 1) All tenant fire alarm components and design shall be consistent with Base Building system.

SCHEDULE 2 TO WORK LETTER

LANDLORD'S PLANS

1. Construction Drawing Set prepared by Devcon Construction, Inc. dated and submitted to the City of Mountain View on July 25, 2011; and
2. Design Build Specifications prepared by Devcon Construction, Inc. in April and September of 2008 and subsequently reprinted on August 12, 2011.

SCHEDULE 3 TO WORK LETTER

SAMPLE TI LAYOUT

Exhibit B Page 20

EXHIBIT C

ACKNOWLEDGEMENT OF COMMENCEMENT OF TERM

_____, 2015

690 E. Middlefield Road Fee, LLC

Attn: _____

Re: Acknowledgement and Confirmation of Commencement Date under the 690 E. Middlefield Road Lease Agreement between 690 E. Middlefield Road Fee, LLC ("Landlord") and Synopsys, Inc. ("Tenant"), dated as of October 14, 2011 (the "Lease")

Ladies and Gentlemen:

This letter will confirm that:

1. The Commencement Date under (and as defined in) the Lease is _____;
2. The Rent Commencement Date under (and as defined in) the Lease is _____;
3. The Expiration Date under (and as defined in) the Lease is _____;
4. Tenant has accepted delivery of the Premises;
5. Landlord's Work is complete and to Tenant's knowledge the condition of the Buildings (including Landlord's Work) complies with Landlord's obligations under the Lease and the Work Letter attached thereto as Exhibit B except as follows _____
[if none, insert "None" or "N/A"];
6. The provisions of Section 45 of the Lease (regarding the possible increase in the rentable square footage of the Premises) have terminated, and the rentable square footage of the Premises [excluding the Sky Bridge] is 340,913 [and the rentable square footage of the Sky Bridge is _____]; and
7. The Option Agreement between Landlord and Tenant and dated of even date with the Lease has terminated without Tenant exercising its right to purchase the Project, and Tenant has no further right to purchase the Project pursuant thereto.

Please acknowledge your receipt of this letter and confirmation of and agreement with the foregoing by signing and returning a copy to the undersigned.

Very truly yours,

By: DDC Rock 690 E. Middlefield, LLC,
a Delaware limited liability company,
its Sole Member

By: DDC 690 E. Middlefield Associates, LLC,
a Delaware limited liability company,
its Manager

By: _____
Name: _____
Its: _____

Acknowledged and Agreed:

Synopsys, Inc.
a Delaware corporation

By: _____
Name: _____
Its: _____

EXHIBIT D-1
FORM OF ESTOPPEL CERTIFICATE
(From Tenant)

TENANT: Synopsys, Inc.
DATE OF LEASE: October 14, 2011
PREMISES: 690 E. Middlefield Road, Mountain View, California

ESTOPPEL CERTIFICATE

To: _____

Re: Lease dated October 14, 2011 between 690 E. Middlefield Road Fee, LLC, a Delaware limited liability company ("Landlord") and Synopsys, Inc., a Delaware corporation ("Tenant")

The undersigned hereby certifies to _____ as follows:

1. The undersigned is the "Tenant" under the above referenced lease covering the above-referenced Premises ("Premises"). A true, correct and complete copy of said lease (including all addenda, riders, amendments, modifications and supplements thereto) is attached as Exhibit 1 and each such document is listed below:

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

Said lease and the addenda, riders, amendments, modifications and supplements listed above are collectively referred to herein as the "Lease".

2. The Lease constitutes the entire agreement between Landlord and Tenant with respect to the Premises and the Lease has not been modified, changed, altered or amended in any respect except as set forth above.

3. The term of the Lease commenced on _____, _____, and, taking into account any previously exercised options, will expire on _____, _____.

4. The Rent Commencement Date was _____.

5. Tenant has accepted possession of the Premises and is the actual occupant in possession and has not sublet, assigned or hypothecated Tenant's leasehold interest except _____ [if none, insert "None" or "N/A"]. All improvements to be constructed on the Premises by Landlord have been completed and accepted by Tenant and Landlord has paid in full all construction allowances and any allowances and inducements due and payable to Tenant except _____ [if none, insert "None" or "N/A"].

6. As of the date of this Estoppel Certificate (a) there exists no breach or default, nor state of facts which, with notice, the passage of time, or both, would result in a breach or default on the part of Tenant except _____ [if none, insert "None" or "N/A"], (b) to the best knowledge of Tenant there exists no breach or default, nor state of facts which, with notice, the passage of time, or both, would result in a breach or default on the part of Landlord except _____ [if none, insert "None" or "N/A"], and (c) there is no ongoing dispute between Tenant and Landlord except _____ [if none, insert "None" or "N/A"].

7. Tenant is currently obligated to pay Base Rent in monthly installments of \$_____ per month (taking into account all adjustments pursuant to the terms of the Lease).

8. Tenant is also obligated to pay its proportionate share (____%) of Additional Charges for Expenses and Additional Charges for Real Estate Taxes.

9. Tenant's current monthly installment of Base Rent, in the amount of \$_____, has been paid through _____, 20___. Tenant's current share of estimated Additional Charges for Expenses of \$_____ has been paid through _____, 20___. Tenant's last payment of its share of Additional Charges for Real Estate Taxes of \$_____ was paid on or about _____, 201__ on account of the _____ installment of Real Estate Taxes for the 20__-20___ fiscal year. No other Rent has been paid in advance and Tenant has no claim or defense against Landlord under the Lease and is asserting no offsets or credits against either the rent or Landlord except _____ [if none, insert "None" or "N/A"].

10. No security or similar deposit has been made under the Lease, except for the sum of \$_____ [if none, insert "None" or "N/A"] which has been deposited by Tenant with Landlord pursuant to the terms of the Lease. Said security deposit is in the form of [cash][a letter of credit issued by _____ with an expiry date of _____].

11. Tenant has no option or preferential right to purchase all or any part of the Premises (or the real property of which the Premises are a part) nor any right or interest with respect to the Premises other than as Tenant under the Lease except as set forth in Section 44 of the Lease.

12. Tenant has no option, right of first offer or right of first refusal to lease or occupy any other space within the property of which the Premises are a part, except _____. Tenant has no right to renew or extend the terms of the Lease except as expressly set forth in Section 39 of the Lease and except _____ [if none, insert "None" or "N/A"].

13. Tenant has no preferential right to parking spaces or storage area except _____ [if none, insert "None" or "N/A"].

14. Tenant has made no agreement with Landlord or any agent, representative or employee of Landlord concerning free rent, partial rent, rebate of rental payments or any other type of rental or other concession except _____ [if none, insert "None" or "N/A"].

15. There has not been filed by or against Tenant a petition in bankruptcy, voluntary or otherwise, any assignment for the benefit of creditors, any petition seeking reorganization or arrangement under the bankruptcy laws of the United States, or any state thereof, or any other action brought under said bankruptcy laws with respect to Tenant.

16. All insurance required of Tenant by the Lease has been provided by the Tenant and all premiums paid.

17. No commission or other payment is due any real estate broker by Tenant in connection with the leasing of the Premises to Tenant, and there are no agreements, oral or written, under which any real estate broker is entitled to any future payment or commission by Tenant in connection with the leasing of the Premises to Tenant or any extension or renewal of the Lease, except _____.

18. Tenant has not assigned, sublet, transferred, hypothecated or otherwise disposed of its interest in the Lease and/or the Premises, or any part thereof except _____.

19. Neither the Lease nor any obligations of Tenant thereunder have been guaranteed by any person or entity.

20. No Hazardous Substances (as defined in the Lease), other than Permitted Hazardous Substances (as defined in the Lease) are being generated, used, handled, stored or disposed of by Tenant on the Premises or on the Project.

[Tenant understands and acknowledges that you are about to make a loan to Landlord and receive as part of the security for such loan a _____ (the "Deed of Trust"), and that you (and persons or entities to whom the Deed of Trust may subsequently be assigned or who may acquire an interest therein) are relying upon the representations and warranties contained herein in making such loan. Further, Tenant has received notice that the Lease and the rent and all other sums due thereunder have been assigned or are to be assigned to you as security for the said loan. If you (or any person or entity to whom the Deed of Trust may subsequently be assigned) notify Tenant of a default under the Deed of Trust and demand that Tenant pay its rent and all other sums due under the Lease to you (or such future lender), Tenant shall honor such demand without inquiry and pay its rent and all other sums due under the Lease directly to you (or such future lender) or as otherwise required pursuant to such notice and shall not thereby incur any obligation or liability to Landlord.] [Tenant understands and acknowledges that you or your assignee are considering purchasing the real property containing the Premises and that you (and your assignee) are relying upon the representations and warranties contained herein in purchasing said real property and that your lender (or your assignee's lender) will be relying upon the representations and warranties contained herein in making a loan for the purchase of acquiring said property] [The undersigned understands and acknowledges that you are relying upon the representations and warranties contained herein.]

Dated as of _____, 20____. "TENANT"

EXHIBIT D-2
FORM OF ESTOPPEL CERTIFICATE
(From Landlord)

TENANT: Synopsys, Inc.
DATE OF LEASE: October 14, 2011
PREMISES: 690 E. Middlefield Road, Mountain View, California

ESTOPPEL CERTIFICATE

To: _____

Re: Lease dated October 14, 2011 between 690 E. Middlefield Road Fee, LLC, a Delaware limited liability company ("Landlord") and Synopsys, Inc., a Delaware corporation ("Tenant")

The undersigned hereby certifies to _____ as follows:

1. The undersigned is the "Landlord" under the above referenced lease covering the above-referenced Premises ("Premises"). A true, correct and complete copy of said lease (including all addenda, riders, amendments, modifications and supplements thereto) is attached as Exhibit 1 and each such document is listed below:

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

Said lease and the addenda, riders, amendments, modifications and supplements listed above are collectively referred to herein as the "Lease".

2. The Lease constitutes the entire agreement between Landlord and Tenant with respect to the Premises and the Lease has not been modified, changed, altered or amended in any respect except as set forth above.

3. The term of the Lease commenced on _____, _____, and, taking into account any previously exercised options, will expire on _____, _____.

4. The Rent Commencement Date was _____.

5. Tenant has accepted possession of the Premises and is the actual occupant in possession. All improvements to be constructed on the Premises by Landlord have been completed and accepted by Tenant and Landlord has paid in full all construction allowances and any allowances and inducements due and payable to Tenant except _____ [if none, insert "None" or "N/A"].

6. As of the date of this Estoppel Certificate (a) there exists no breach or default, nor state of facts which, with notice, the passage of time, or both, would result in a breach or default on the part of Landlord, except _____ [if none, insert "None" or "N/A"], (b) to the best knowledge of Landlord there exists no breach or default, nor state of facts which, with notice, the passage of time, or both, would result in a breach or default on the part of Tenant except _____ [if none, insert "None" or "N/A"], and (b) there is no ongoing dispute between Tenant and Landlord except _____ [if none, insert "None" or "N/A"].

7. Tenant is currently obligated to pay Base Rent in monthly installments of \$_____ per month (taking into account all adjustments pursuant to the terms of the Lease).

8. Tenant is also obligated to pay its proportionate share (_____%) of Additional Charges for Expenses and Additional Charges for Real Estate Taxes.

9. Tenant's current monthly installment of Base Rent, in the amount of \$_____, has been paid through _____, 20____. Tenant's current share of estimated Additional Charges for Expenses of \$_____ has been paid through _____, 20____. Tenant's last payment of its share of Additional Charges for Real Estate Taxes of \$_____ was paid on or about _____, 201__ on account of the _____ installment of Real Estate Taxes for the 20__-20____ fiscal year. No other Rent has been paid in advance and Tenant is asserting no offsets or credits against either the rent or Landlord except _____ [if none, insert "None" or "N/A"].

10. No security or similar deposit has been made under the Lease, except for the sum of \$_____ [if none, insert "None" or "N/A"] which has been deposited by Tenant with Landlord pursuant to the terms of the Lease. Said security deposit is in the form of [cash][a letter of credit issued by _____ with an expiry date of _____].

11. There has not been filed by or against Landlord a petition in bankruptcy, voluntary or otherwise, any assignment for the benefit of creditors, any petition seeking reorganization or arrangement under the bankruptcy laws of the United States, or any state thereof, or any other action brought under said bankruptcy laws with respect to Tenant.

12. All insurance required of Landlord by the Lease has been provided by Landlord and all premiums paid.

The undersigned understands and acknowledges that you are relying upon the representations and warranties contained herein.

Dated as of _____, 20____. "LANDLORD"

EXHIBIT E
FORM OF SNDA

RECORDING REQUESTED BY)
AND WHEN RECORDED MAIL TO:)
)
)
)
)
)
Attn.:)
)

Space above for Recorder's Use

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENMENT AGREEMENT

NOTICE: THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENMENT AGREEMENT RESULTS IN YOUR LEASEHOLD ESTATE BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY AGREEMENT.

This Subordination, Non-disturbance and Attornment Agreement (this "Agreement") is entered into as of _____ (the "Effective Date"), between, _____, a _____ whose address is _____ ("Lender"), and _____, a _____, whose address is _____ ("Tenant"), _____, a _____, whose address is _____ ("Landlord"), with reference to the following facts:

A. _____, a _____, whose address is _____ ("Landlord"), owns the real property located at 690 E. Middlefield Road, Mountain View, California (the "Land"), as more particularly described in Exhibit A attached hereto and incorporated herein by this reference. (The Land, together with all buildings, improvements, structures and fixtures now or hereafter located thereon is referred to as the "Landlord's Premises"),

B. Lender has made or is about to make a loan to Landlord in the maximum principal amount of \$ _____ (the "Loan"), all as provided in and subject to the terms and conditions set forth in the Loan Documents (as hereinafter defined).

C. To secure the Loan, Landlord has encumbered Landlord's Premises by entering into that certain [Construction] Deed of Trust, Assignment, Security Agreement and Fixture Filing, dated _____, in favor of _____, as Trustee, for the benefit of Lender as Beneficiary (as amended, increased, renewed, extended, spread, consolidated, severed, restated, or otherwise changed from time to time, the "Deed of Trust") [to be] recorded [on _____, as Instrument No. _____,] in the Official Records of the County of Santa Clara County, State of California (the "Official Records").

D. Pursuant to that certain 690 E. Middlefield Road Lease Agreement dated as of October 14, 2011 [as amended on _____ and _____] (the "Lease"), Landlord has leased to Tenant the entirety of [all][both] buildings (the "Buildings") situated on the Land the ("Tenant's Premises"), as more particularly described in the Lease.

F. The parties desire to agree upon the relative priorities of their interests in Landlord's Premises and their rights and obligations if certain events occur.

NOW, THEREFORE, for good and sufficient consideration, Tenant and Lender agree:

1. Definitions.

The following terms shall have the following meanings for purposes of this Agreement.

1.1 Construction-Related Obligation. A "Construction-Related Obligation" means any obligation of Landlord under the Lease to make, pay for, or reimburse Tenant for any alterations, demolition, or other improvements or work at Landlord's Premises, including Tenant's Premises. "Construction-Related Obligations" shall not include: (a) reconstruction or repair following fire, casualty or condemnation, whether or not required by the Lease to be undertaken by Landlord; or (b) ordinary maintenance and repairs.

1.2 Foreclosure Event. A "Foreclosure Event" means: (a) foreclosure under the Deed of Trust, whether by judicial action or pursuant to nonjudicial proceedings; (b) any other exercise by Lender of rights and remedies (whether under the Deed of Trust or under applicable law, including bankruptcy law) as holder of the Loan and/or as beneficiary under the Deed of Trust, as a result of which any Successor Landlord becomes owner of Landlord's Premises; or (c) delivery by Landlord to Lender (or its designee or nominee) of a deed or other conveyance of Landlord's interest in Landlord's Premises in lieu of any of the foregoing.

1.3 Former Landlord. A "Former Landlord" means the original Landlord named in the Lease and any other party that has become the landlord under the Lease at any time before the occurrence of any attornment under this Agreement.

1.4 Loan Documents. The "Loan Documents" mean the Deed of Trust and any other document now or hereafter evidencing, governing, securing or otherwise executed in connection with the Loan, including any promissory note and/or loan agreement, pertaining to the repayment or use of the Loan proceeds or to any of the real or personal property, or interests therein, securing the Loan, as such documents or any of them may have been or may be from time to time hereafter renewed, extended, supplemented, increased or modified. This Agreement is a Loan Document.

1.5 Offset Right. An "Offset Right" means any right or alleged right of Tenant to any offset, defense (other than one arising from actual payment and performance, which payment and performance would bind a Successor Landlord pursuant to this Agreement), claim, counterclaim, reduction, deduction, or abatement against Tenant's payment of Rent or performance of Tenant's other obligations under the Lease, arising (whether under the Lease or other applicable law) from Landlord's breach or default under the Lease.

1.6 Rent. The "Rent" means any fixed rent, base rent, additional rent or percentage rent at any time becoming due or owing by Tenant under the Lease.

1.7 Successor Landlord. A "Successor Landlord" means any party that becomes owner of Landlord's Premises as the result of a Foreclosure Event.

1.8 Tenant Concession. A "Tenant Concession" means any agreement or undertaking by any Former Landlord which is provided to Tenant or any affiliate of Tenant in connection with the execution by Tenant of the Lease or the occupancy by Tenant of Tenant's Premises and which is not expressly set forth in the Lease, including free or reduced rent, early termination rights or options, assumption of any other lease obligations of Tenant or any affiliate of Tenant relating to property other than Landlord's Premises, payment of moving or relocation costs, construction or installation of improvements to or alterations of Tenant's Premises or Landlord's Premises or the premises of any affiliate of Tenant, or any other economic, financial or contractual benefit to Tenant or any affiliate of Tenant of any type or nature that is provided by Landlord as an inducement to Tenant to enter into the Lease or to commence Tenant's occupancy of Tenant's Premises.

1.9 Termination Right. A "Termination Right" means any right of Tenant to cancel or terminate the Lease or to claim a partial or total eviction arising (whether under the Lease or under applicable law) from Landlord's breach or default under the Lease but shall exclude any right to cancel or terminate the Lease in connection with (a) a fire or other casualty as and to the extent provided in Section 22 of the Lease, (b) any taking by eminent domain as and to the extent provided in Section 23 of the Lease, (iii) Tenant's right to terminate the Lease for failure of Landlord to Substantially Complete Landlord's Work as and to the extent provided in Section 2(c) of the Lease, or (d) Tenant's right to terminate the Lease as provided in Section 48(b) of the Lease.

2. Subordination.

The Lease shall be, and shall at all times remain, subject and subordinate to the Deed of Trust, the lien imposed by the Deed of Trust, and all advances made under the Loan Documents. Tenant hereby intentionally and unconditionally subordinates the Lease and all of Tenant's right, title and interest thereunder and in and to Landlord's Premises (including Tenant's right, title and interest in connection with any insurance proceeds or eminent domain awards or compensation relating to Landlord's Premises except as expressly set forth in Sections 22 and 23 of the Lease), to the lien of the Deed of Trust and all of Lender's rights and remedies thereunder, and agrees that the Deed of Trust shall unconditionally be and shall at all times remain a lien on Landlord's Premises prior and superior to the Lease.

3. Non-Disturbance, Recognition and Attornment.

3.1 No Exercise of Deed of Trust Remedies Against Tenant. So long as the Lease has not been terminated on account of Tenant's default that has continued beyond applicable cure periods (an "Event of Default"), Lender shall not name or join Tenant as a defendant in any judicial action or proceeding that is commenced pursuant to the exercise of Lender's rights and remedies arising upon a default by Landlord under the Deed of Trust, including a judicial foreclosure proceeding, unless (a) applicable law requires Tenant to be made a party thereto as a condition to proceeding against Landlord or in order to prosecute or otherwise fully enforce such rights and remedies; or (b) such joinder of Tenant is required for the recovery by Lender of any Rent at any time owing by Tenant under the Lease, whether pursuant to the assignment of rents set forth in the Deed of Trust or otherwise; or (c) such joinder is required in order to enforce any right of Lender to enter Landlord's Premises for the purpose of making any inspection or assessment, or in order to protect the value of Lender's security provided by the Deed of Trust. In any instance in which Lender is permitted to join Tenant as a defendant as provided above, Lender agrees not to terminate the Lease or otherwise adversely affect Tenant's rights under the Lease or this Agreement in or pursuant to such action or proceeding, unless an Event of Default by Tenant has occurred and is continuing. The foregoing provisions of this Section 3.1 shall not be construed in any

manner that would prevent Lender from (i) carrying out any nonjudicial foreclosure proceeding under the Deed of Trust, (ii) exercising Lender's rights under the provisions of California Civil Code Section 2938 with respect to the enforcement against Tenant of any assignment of rents made by Landlord to Lender in connection with the Loan, or (iii) obtaining the appointment of a receiver for the Landlord's Premises as and when permitted under applicable law.

3.2 Non-Disturbance and Attornment. Notwithstanding the provisions of Section 2 above, if the Lease has not been terminated on account of an Event of Default by Tenant, then, when Successor Landlord acquires title to Landlord's Premises: (a) Successor Landlord shall not terminate or disturb Tenant's possession of Tenant's Premises under the Lease, except in accordance with the terms of the Lease and this Agreement; (b) Successor Landlord shall be bound to Tenant under all the terms and conditions of the Lease (except as provided in this Agreement); (c) Tenant shall recognize and attorn to Successor Landlord as Tenant's direct landlord under the Lease as affected by this Agreement; and (d) the Lease shall continue in full force and effect as a direct lease, in accordance with its terms (except as provided in this Agreement), between Successor Landlord and Tenant.

3.3 Acknowledgment. Tenant acknowledges that Lender would not make the Loan without this Agreement and the subordination of the Lease to the lien of the Deed of Trust as set forth herein, and that in reliance upon, and in consideration of, this subordination, specific monetary and other obligations are being and will be entered into by Lender which would not be made or entered into but for reliance upon this Agreement and such subordination of the Lease. This Agreement is and shall be the sole and only agreement with regard to the subordination of the Lease to the lien of the Deed of Trust and shall supersede and cancel, but only insofar as would affect the priority between the Deed of Trust and the Lease, any prior agreement as to such subordination, including those provisions, if any, contained in the Lease which provide for the subordination of the Lease to a present or future deed or deeds of trust or to a present or future mortgage or mortgages.

3.4 Use of Proceeds. Lender, in making any advances of the Loan pursuant to any of the Loan Documents, shall be under no obligation or duty to, nor has Lender represented to Tenant that it will, see to the application of such proceeds by the person or persons to whom Lender disburses such advances, and any application or use of such proceeds for purposes other than those provided for in any Loan Document shall not defeat Tenant's agreement to subordinate the Lease in whole or in part as set forth in this Agreement.

3.5 Turnover of Rent. Tenant shall pay to Lender all Rent otherwise payable to Landlord under the Lease upon written demand from Lender (a "Rent Payment Notice"), and Tenant shall not have the right to contest or question the validity of any such Rent Payment Notice or the extent to which Lender may properly exercise its rights to collect rents from Landlord's Premises pursuant to the provisions of the Loan Documents. Landlord hereby expressly and irrevocably directs and authorizes Tenant to comply with any Rent Payment Notice, notwithstanding any contrary instruction, direction or assertion of Landlord or any third party, and Landlord hereby releases and discharges Tenant of and from any liability to Landlord on account of any such payments. Tenant shall be entitled to full credit under the Lease for any Rent paid in accordance with the Rent Payment Notice to the same extent as if such Rent were paid directly to Landlord.

3.6 Bankruptcy Rights. In the event the Lease is rejected or deemed rejected in any bankruptcy proceeding with respect to Landlord, Tenant shall not exercise its option to treat the Lease as terminated under 11 U.S.C. § 365(h), as amended, or any successor or similar statute.

3.7 Further Documentation. The provisions of this Article 3 shall be effective and self-operative without any need for Successor Landlord or Tenant to execute any further documents. Tenant and Successor Landlord shall, however, confirm the provisions of this Article 3 in writing upon request by either of them.

4. Protection of Successor Landlord.

Notwithstanding anything to the contrary in the Lease or the Deed of Trust, Successor Landlord shall not be liable for or bound by any of the following matters:

4.1 Claims Against Former Landlord. [Except as provided in Section 5, any] [Any] Offset Right that Tenant may have against any Former Landlord relating to any event or occurrence before the date of attornment, including any claim for damages of any kind whatsoever as the result of any breach by Former Landlord that occurred before the date of attornment. The foregoing shall not limit either (a) Tenant's right to exercise against Successor Landlord any Offset Right otherwise available to Tenant because of events occurring or continuing after the date of attornment, or (b) Successor Landlord's obligation to correct any conditions that existed as of the date of attornment and that violate Successor Landlord's obligations as landlord under the Lease.

4.2 Prepayments. Any payment of Rent that Tenant may have made to Former Landlord more than one (1) month prior before the date such Rent was first due and payable under the Lease with respect to any period after the date of attornment, other than, and only to the extent of, prepayments expressly required under the Lease.

4.3 Security Deposit. Any obligation (a) to pay Tenant any sum(s) that any Former Landlord owed to Tenant, or (b) with respect to any security deposited with Former Landlord, except to the extent that such security was actually delivered to Lender by Former Landlord and Lender has the legal right to use or apply such security for the purposes provided in the Lease [; provided, however the foregoing shall in no event be deemed to limit any Offset Right otherwise available to Tenant as a result of Former Landlord's failure to fund the Tenant Allowance as provided in Section 5].

4.4 Modification, Amendment, or Waiver. Any modification or amendment of the Lease, or any waiver of any terms of the Lease, made without Lender's written consent, except for amendments or modifications (a) which do not require the consent of Lender pursuant to the Loan Documents, or (b) are made to solely for purposes of documenting the exercise of rights expressly set forth in the Lease.

4.5 Surrender, Etc. Any consensual or negotiated surrender, cancellation, or termination of the Lease, in whole or in part, agreed upon between Landlord and Tenant, unless effected unilaterally by Tenant pursuant to the express terms of the Lease.

5. Construction Obligations. [Upon any Foreclosure Event Lender will (at it's sole option exercised within thirty (30) days following such Foreclosure Event) either (a) complete construction of Landlord's Work as described and provided for in the Work Letter attached as Exhibit B to the Lease (the "Work Letter"), or (b), grant Tenant the right to complete Landlord's Work in accordance with Landlord's Plans and the right to offset the cost reasonably incurred by Tenant in completing Landlord's Work in accordance with Landlord's Plans. In the event such election is not made by Lender within such thirty (30) day period, then Lender shall be deemed to have elected to proceed under clause [(a)][(b)] above. Additionally, notwithstanding anything in this Agreement to the contrary, nothing contained herein shall be deemed to limit or modify, and Tenant shall expressly retain, the offset right provided for in Paragraph 14(d) of the Work Letter regarding any unfunded amount of the Tenant Allowance.]

6. Exculpation of Successor Landlord.

Notwithstanding anything to the contrary in this Agreement or the Lease, upon any attornment pursuant to this Agreement, (a) the Lease shall be deemed to have been automatically amended to provide that Successor Landlord's obligations and liability under the Lease shall never extend beyond Successor Landlord's (or its successors' or assigns') interest, if any, in Landlord's Premises from time to time, including insurance and condemnation proceeds, Successor Landlord's interest in the Lease, and the proceeds from any sale or other disposition of Landlord's Premises by Successor Landlord (provided that Tenant shall have no interest in or right to participate in (i) any payments made under any promissory note received by Successor Landlord in connection with any such sale or other disposition, or (ii) any collateral held by Successor Landlord to secure such payments) (collectively, "Successor Landlord's Interest"), and Tenant shall look exclusively to Successor Landlord's Interest (or that of its successors and assigns) for payment or discharge of any obligations of Successor Landlord under the Lease as affected by this Agreement, and (b) the obligations under the Lease of Lender or any affiliate of Lender which becomes a Successor Landlord shall terminate upon the transfer by such Successor Landlord of its interest in Landlord's Premises, and thereupon Tenant shall look solely to the transferee for the performance of all obligations of the landlord under the Lease which accrue or otherwise become performable following the date of such transfer. If Tenant obtains any money judgment against Successor Landlord with respect to the Lease or the relationship between Successor Landlord and Tenant, then Tenant shall look solely to Successor Landlord's Interest (or that of its successors and assigns) to collect such judgment. Tenant shall not collect or attempt to collect any such judgment out of any other assets of Successor Landlord. Nothing herein shall be construed to grant Tenant any right to seek any recovery from any Former Landlord or Successor Landlord to the extent that such recovery is not permitted under or is restricted by the provisions of the Lease.

7. Lender's Right to Cure.

7.1 Notice to Lender. Notwithstanding anything to the contrary in the Lease or this Agreement, before exercising any Termination Right, Tenant shall provide Lender with notice of the breach or default by Landlord giving rise to same (the "Default Notice") and, thereafter, the opportunity to cure such breach or default as provided for below.

7.2 Lender's Cure Period. After Lender receives a Default Notice, Lender shall have a period of thirty (30) days beyond the time available to Landlord under the Lease in which to cure the breach or default by Landlord. Lender shall have no obligation to cure (and shall have no liability or obligation for not curing) any breach or default by Landlord, except to the extent that Lender agrees or undertakes otherwise in writing.

7.3 Extended Cure Period. In addition, as to any breach or default by Landlord the cure of which requires possession and control of Landlord's Premises, provided only that Lender undertakes to Tenant by written notice to Tenant within thirty (30) days after receipt of the Default Notice to exercise reasonable efforts to cure or cause to be cured by a receiver such breach or default within the period permitted by this Section 7.3, Lender's cure period shall continue for such additional time (the "Extended Cure Period") as Lender may reasonably require to either (a) obtain possession and control of Landlord's Premises and thereafter cure the breach or default with reasonable diligence and continuity or (b) obtain the appointment of a receiver and give such receiver a reasonable period of time in which to cure the default.

8. Miscellaneous.

8.1 Notices. All notices or other communications required or permitted under this Agreement shall be in writing and given by certified mail (return receipt requested) or by nationally recognized overnight courier service that regularly maintains records of items delivered. Each party's address is as set forth in the opening paragraph of this Agreement, subject to change by notice under this Section 8.1. Notices shall be effective the next business day after being sent by overnight courier service, and five business days after being sent by certified mail (return receipt requested).

8.2 Successors and Assigns. This Agreement shall bind and benefit the parties, their successors and assigns, any Successor Landlord, and its successors and assigns. If Lender assigns the Deed of Trust, then upon delivery to Tenant of written notice thereof accompanied by the assignee's written assumption of all obligations under this Agreement, all liability of the assignor shall terminate.

8.3 Entire Agreement. This Agreement constitutes the entire agreement between Lender, Tenant and Landlord regarding the subordination of the Lease to the Deed of Trust and the rights and obligations of Tenant, Lender and Landlord as to the subject matter of this Agreement.

8.4 Interaction with Lease and with Deed of Trust; Severability. If this Agreement conflicts with the Lease, then this Agreement shall govern as between the parties and any Successor Landlord, including upon any attornment pursuant to this Agreement. This Agreement supersedes, and constitutes full compliance with, any provisions in the Lease that provide for subordination of the Lease to, or for delivery of non-disturbance agreements by the beneficiary of, the Deed of Trust. Lender confirms that Lender has consented to Landlord's entering into the Lease. If any provision of this Agreement is determined to be invalid, illegal or unenforceable, such provision shall be considered severed from the rest of this Agreement and the remaining provisions shall continue in full force and effect as if such provision had not been included.

8.5 Lender's Rights and Obligations. Except as expressly provided for in this Agreement, Lender shall have no obligations to Tenant with respect to the Lease. If an attornment occurs pursuant to this Agreement, then all rights and obligations of Lender thereafter accruing under this Agreement shall terminate, without thereby affecting in any way the rights and obligations of Successor Landlord provided for in this Agreement.

8.6 Interpretation; Governing Law. The interpretation, validity and enforcement of this Agreement shall be governed by and construed under the internal laws of the State of California, excluding its principles of conflict of laws. The words "include" and "including" shall be interpreted as if followed by the words "without limitation."

8.7 Amendments. This Agreement may be amended, discharged or terminated, or any of its provisions waived, only by written instrument executed by the party to be charged.

8.8 Execution. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

8.9 Costs and Attorneys' Fees. In the event of any claim or dispute arising out of or in connection with the interpretation or enforcement of this Agreement, the party that substantially prevails shall be awarded, in addition to all other relief, all attorneys' fees and other costs and expenses incurred in connection with such claim or dispute; including those fees, costs, and expenses incurred before or after suit, and in any arbitration, and any appeal, any proceedings under any present or future bankruptcy act or state receivership, and any post-judgment proceedings.

8.10 Lender's Representation. Lender represents that Lender has full authority to enter into this Agreement, and Lender's entry into this Agreement has been duly authorized by all necessary actions.

IN WITNESS WHEREOF, this Agreement has been duly executed by Lender and Tenant as of the Effective Date.

LENDER:

TENANT:

LANDLORD:

EXHIBIT F
RULES AND REGULATIONS

1. Sidewalks, exits, entrances and stairways shall not be obstructed by Tenant or used by Tenant for any purpose other than for ingress to and egress from the Premises or, in the case of the interior areas of the Buildings, to perform its repair and maintenance obligations under the Lease. Tenant, and Tenant's employees or invitees, shall not go upon the roof of any of the Buildings without Landlord's prior written consent except as required to properly perform Tenant's maintenance and repair responsibilities.

2. Except as expressly permitted by the Lease, no sign, placard, picture, name, advertisement or notice visible from the exterior of the Premises shall be inscribed, painted, affixed, installed or otherwise displayed by Tenant either on the Premises or any part of any of the Buildings without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Canvassing, soliciting, distribution of handbills or any other written material outside of the Premises is prohibited.

3. Any curtains, draperies, blinds, shutters, shades, screens or other coverings, awnings, hangings or decorations attached to, hung or placed in, or used in connection with, any window, door or patio on the Premises shall be done in accordance with the Tenant Improvement Minimum Building Standards or as otherwise required to maintain a uniform, "class A" appearance from the exterior of the Buildings in accordance with the Management Standard.

4. Tenant, upon the termination of the tenancy, shall deliver to Landlord all the keys or access devices for the Buildings, offices, rooms and toilet rooms which shall have been furnished to Tenant or which Tenant shall have had made.

5. The toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein, and the expense of any breakage, stoppage or damage resulting from the violation of this rule by Tenant or Tenant's employees or invitees shall be borne by Tenant.

6. Tenant shall not use, keep or permit to be used or kept in the Premises any foul or noxious gas or substance or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord, nor shall any animals or birds be brought or kept in or about the Premises or the Project other than service animals.

7. Except as allowed by, and then in accordance with, the express provisions of the Lease (such as, for example, Section 41 regarding Antennae permitted to be installed by Tenant), Tenant shall not install any radio or television antenna, loudspeaker or any other device on the exterior walls or the roof of any of the Buildings. Tenant shall not interfere with radio or television broadcasting or reception from or in the Buildings or elsewhere.

8. Tenant shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry and which is allowed by Law.

9. Any damage to the walls caused by molly bolts, or like hanging materials, shall be repaired by Tenant. Landlord shall have the right to require Tenant, at its sole cost and expense, to (a) remove white boards and bulletin boards at the expiration or sooner termination of the Lease and

restore the Premises to its original condition as of the Commencement Date, subject to Normal Wear and Tear and the rights and obligations of Tenant concerning casualty damage pursuant to Section 22 of the Lease or (b) pay Landlord the reasonable estimated cost thereof.

10. Tenant shall store all trash and garbage within the interior of the Premises or in the appropriate trash collection areas outside of the Premises. No material shall be placed in the trash boxes or receptacles if such material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in the jurisdiction in which the Premises is located, without violation of any law or ordinance governing such disposal. All trash, garbage and refuse disposal shall be made only through entryways provided for such purposes.

11. Tenant assumes any and all responsibility for protecting the Premises from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Premises closed, unless caused by the gross negligence or willful misconduct of Landlord, its employees, its property manager or its property manager's employees.

12. Use of any of the exterior portions of the Project for any gathering, party, picnic or similar functions shall be conditioned upon Tenant indemnifying, defending and holding Landlord harmless against any personal injury, death or damages to the Project or any portion thereof or any other property of Landlord as a result of the function, and to paying to Landlord as Additional Rent any costs, if any, incurred by Landlord in connection with such event. Prior to any such gathering, party, picnic or similar function, Tenant shall provide Landlord with evidence of insurance, in the form and liability amounts reasonably required by Landlord, covering the foregoing indemnification obligations.

GENERAL PROVISIONS:

Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenant or tenants from and after the Direct Lease Date, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant or tenants, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all tenants of the Buildings or Project.

Landlord reserves the right to make such other and reasonable rules and regulations as in its judgment may from time to time be needed for safety and security, for care and cleanliness of the Buildings and Project and for the preservation of good order therein and/or as necessary to adapt these Rules and Regulations for multiple tenant from and after the Direct Lease Date, provided that no new rule or regulation shall be designed to discriminate solely against Tenant and that Landlord shall not enforce against Tenant any new rule or regulation which is contrary to Tenant's rights under the Lease.

Whenever Tenant is required by these Rules and Regulations to reimburse Landlord for a cost or expense, such obligation shall constitute Additional Rent.

Tenant agrees to abide by the foregoing Rules and Regulations and any permitted additional rules and regulations which may be adopted by Landlord. Tenant shall be responsible for the observance of all of the foregoing Rules and Regulations by Tenant's employees, agents, clients, customers, invitees and guests.

Where Landlord's consent is provided for in these Rules and Regulations, such consent shall not be unreasonably withheld, conditioned or delayed.

Unless otherwise defined, terms used in these Rules and Regulations shall have the same meaning as in the Lease.

EXHIBIT G
FORM OF LETTER OF CREDIT
IRREVOCABLE LETTER OF CREDIT

690 E. Middlefield Road Fee, LLC ("Beneficiary")
145 Addison Avenue
Palo Alto, CA 94301

Letter of Credit No. _____
Date: _____

Ladies and Gentlemen:

At the requests and for the account of Synopsys, Inc. ("Applicant"), 700 East Middlefield Road, Mountain View, CA 94043, we hereby establish our Irrevocable Letter of Credit in your favor in the amount of Eight Million Five Hundred Ninety-One Thousand Eight United States Dollars (US\$8,591,008.00) available with us at our above office by payment of your draft(s) in the form attached hereto as **Exhibit "A"** drawn on us at sight accompanied by your signed and dated statement worded as follows:

"The undersigned, being a duly authorized representative or officer of Beneficiary, hereby certifies that Beneficiary is entitled to draw on Wells Fargo Bank, N.A. Letter of Credit No. _____ pursuant to the Lease Agreement by and between 690 E. Middlefield Road Fee, LLC, as landlord, and Applicant, as tenant."

This Letter of Credit expires at our above office on _____, but shall be automatically extended, without written amendment, to _____ in each succeeding calendar year up to, but not beyond, _____, unless we have sent written notice to you at your address above by registered mail or express courier that we elect not to renew this Letter of Credit beyond the date specified in such notice (the "Expiration Date"), which Expiration Date will be _____, or any subsequent _____ occurring before _____, and be at least 60 calendar days after the date we send you such notice. Upon our sending you such notice of the nonrenewal of this Letter of Credit beyond the Expiration Date, you may also draw under this Letter of Credit by presentation to us at our above address, on or before the Expiration Date specified in such notice, of your draft drawn on us at sight accompanied by your signed and dated statement worded as follows:

"The undersigned, being a duly authorized representative or officer of Beneficiary, hereby certifies that Beneficiary has received written notification from Wells Fargo Bank, N.A. that Letter of Credit No. _____ will not be extended for any additional period and, as a result thereof, Beneficiary is entitled to draw on said Letter of Credit pursuant to the Lease Agreement by and between 690 E. Middlefield Road Fee, LLC, as landlord, and Applicant, as tenant."

The Lease Agreement mentioned above is for identification purposes only and it is not intended that said Lease Agreement be incorporated herein or form part of this Letter of Credit.

We agree that we shall have no duty or right to inquire as to the basis upon which Beneficiary has determined that the amount is due and owing or has determined to present to us any draft under this Letter of Credit, and the presentation of such Draft in strict compliance with the terms and conditions of this Letter of Credit, shall automatically result in payment to the Beneficiary.

Partial and multiple drawings are permitted under this Letter of Credit.

Each draft must be marked "Drawn under Wells Fargo Bank, N.A. Letter of Credit No. _____."

Each draft must also be accompanied by the original of this Letter of Credit for our endorsement of this Letter of Credit of our payment of such draft.

Payments under this Letter of Credit will be made on the date on which you present your drafts to us.

If any instructions accompanying a drawing under this Letter of Credit request the payment is to be made by transfer to an account with us or at another bank, we and/or such other bank may rely on an account number specified in such instructions even if the number identifies a person or entity different from the intended payee.

This Letter of Credit is transferable by Beneficiary, through us, the issuing bank, one or more times, but in each instance only to a single beneficiary as transferee and only up to the then available amount in favor of any nominated transferee that is the successor in interest to Beneficiary ("Transferee"), assuming such transfer to such transferee would be in compliance with then applicable law and regulation, including but not limited to the regulations of the U. S. Department of Treasury and U. S. Department of Commerce. At the time of transfer, the original Letter of Credit and original amendment(s), if any, must be surrendered to us at the Bank's office together with our letter of transfer documentation as per attached **Exhibit "B"** duly executed. Applicant shall pay our transfer fee of _____ of the transfer amount (minimum US\$ _____) under this Letter Of Credit. Any request for transfer will be effected by us subject to the above conditions. However, any transfer is not contingent upon Applicant's payment of our transfer fee. Any transfer of this Letter of Credit may not change date of expiration of the Letter of Credit. Each transfer shall be evidenced by our endorsement on the reverse of the Letter of Credit and we shall forward the original of the Letter of Credit so endorsed to the Transferee.

Documents may be delivered to us in person during regular Business Hours on a Business Day or forwarded to us by overnight delivery service to _____. As used herein, the term "Business Day" means a day on which we are open at our above address in _____, California to conduct our letter of credit business. Notwithstanding any provision to the contrary in the UCP (as hereinafter defined), if the expiration date of this Letter of Credit is not a Business Day then such date shall be automatically extended to the next succeeding date which is a Business Day.

We hereby engage with you that draft(s) drawn and/or documents presented under and in accordance with the terms and conditions of this Letter of Credit shall be duly honored upon presentation to issuer, if presented on or before the expiration date of this Letter of Credit.

This Letter of Credit is subject to the Uniform Customs and Practice for Documentary Credits (2007 revisions), International Chamber of Commerce Publication No. 600, and engages us in accordance therewith.

This is an integral part of Letter of Credit No. _____.

Very truly yours,

Exhibit G Page 2

EXHIBIT H

ENVIRONMENTAL REPORTS AND HP ENVIRONMENTAL AGREEMENTS

A. The "Environmental Reports":

1. Phase I Environmental Site Assessment dated June 1, 2007 prepared by GeoTrans, Inc. (Former Hewlett-Packard Facility, 690 E. Middlefield Road, Mountain View, California).
2. ALTA/ACSM Land Title Survey dated April 20, 2007 prepared by Slooten Consulting, Inc.
3. Property Condition Assessment Report dated July 13, 2006 prepared for Cushman & Wakefield.
4. Lead Paint Assessment Report dated December 7, 2006 prepared by SECOR International Incorporated.
5. Asbestos Assessment Report dated November 27, 2006 prepared by SECOR International Incorporated.
6. Topographic and Utility Survey dated August 2007 prepared by Kier & Wright Civil Engineers & Surveyors, Inc.
7. Draft Soil Sampling Analytical Results and Corresponding ESLs dated November 13, 2007 prepared by SECOR International Incorporated.
8. Geotechnical Investigation dated December 20, 2007 prepared by Cornerstone Earth Group.
9. Vapor Intrusion Screening Risk Evaluation dated February 11, 2008, prepared by Iris Environmental.
10. Peer Review of Vapor Intrusion Screening Risk Evaluation dated March 12, 2008, prepared by Iris Environmental.
11. Report of Soil Gas Sampling at Building 31 dated February 25, 2008 prepared by SECOR International Incorporated.
12. Transmittal of Soil Gas Sampling Report and Response to Water Board Comments to Soil Gas Sampling Work Plan dated March 17, 2008. Prepared by SECOR International Incorporated.
13. Revised Report of Soil Gas Sampling at Building 31 dated October 10, 2008, prepared by SECOR International Incorporated.
14. Approval of Revised Report of Soil Gas Sampling at Building 31, Former Hewlett-Packard Site, 690 East Middlefield Road, Mountain View, Santa Clara County dated January 10, 2011 prepared by the California Regional Water Quality Control Board.
15. Work Plan for Enhanced In Situ Bioremediation Pilot Study-Former HP Mountain View Site dated October 14, 2008 prepared by Stantec Consulting Corporation (formerly

SECOR International Incorporated).

16. Report of Results for Enhanced In Situ Bioremediation (EISB) Pilot Study Report-Former HP Mountain View Site dated June 22, 2009 prepared by Stantec Consulting Corporation
17. Report of Groundwater Extraction and Treatment System Decommissioning for 690 East Middlefield Road, Mountain View, CA, dated November 18, 2010 prepared by Stantec Consulting Corporation.
18. Annual Groundwater Self-Monitoring Report 2011 dated June 30, 2011 prepared by Stantec Consulting Corporation.
19. Update to Phase I Environmental Site Assessment dated July 1, 2011 prepared by GeoTrans, Inc. (Former Hewlett-Packard Facility, 690 E. Middlefield Road, Mountain View, California).

B. The "HP Environmental Agreements":

1. Covenant and Environmental Restriction on Property (the "HP Environmental Covenant") executed by Hewlett-Packard in favor of the California Regional Water Quality Control Board for the San Francisco Bay Region, dated as of April 19, 2007 and recorded on April 23, 2007 as Document No. 19395236 in the Official Records of Santa Clara County, California.
2. Easement, Access Agreement and Environmental Restriction (the "HP Easement Agreement") entered into by Hewlett-Packard and Landlord, dated as of April 26, 2007 and recorded on April 26, 2007 as Document No. 19400837 in the Official Records of Santa Clara County, California.
3. Environmental Indemnification Agreement (the "HP Indemnity Agreement") entered into by Hewlett-Packard and Landlord dated as of April 26, 2007.

SYNOPSIS, INC.
 2005 NON-EMPLOYEE DIRECTORS EQUITY INCENTIVE PLAN
 RESTRICTED STOCK GRANT NOTICE AND AWARD AGREEMENT
 (ANNUAL AWARD)

Pursuant to its 2005 Non-Employee Directors Equity Incentive Plan (the “**Plan**”), Synopsis, Inc. (the “**Corporation**”) has granted you (the “**Eligible Director**” or “**you**”) the right to acquire the number of shares of the Corporation’s Common Stock set forth below (“**Annual Award**”). The Annual Award is subject to the terms and conditions as set forth in this Restricted Stock Grant Notice and Award Agreement (this “**Agreement**”) and the Plan, which is incorporated by reference herein in its entirety. If there is any conflict between the terms in this Agreement and the Plan, the terms of the Plan will control.

Eligible Director:
 Grant Number:
 Date of Grant:
 Number of Shares Subject to Annual Award:

Vesting Schedule: The shares subject to the Annual Award will vest in a series of three (3) successive equal annual installments as the Eligible Director continues in Board service from the Date of Grant through the dates immediately preceding each of the first three (3) Annual Meetings following the Date of Grant.

Additional Terms/Acknowledgements: The undersigned Eligible Director acknowledges receipt of, and understands and agrees to, this Agreement, the Plan, the related Plan prospectus and the Corporation’s Insider Trading Policy. Eligible Director further acknowledges that as of the Date of Grant, this Agreement and the Plan set forth the entire understanding between Eligible Director and the Corporation regarding the acquisition of stock in the Corporation pursuant to the Annual Award specified above and supersede all prior oral and written agreements on that subject.

Defined terms not explicitly defined in this Agreement but defined in the Plan shall have the same definitions as in the Plan.

The details of the Annual Award are as follows:

1. ACQUISITION OF SHARES. By signing this Agreement, you hereby agree to acquire from the Corporation, and the Corporation hereby agrees to issue to you, the aggregate number of shares of Common Stock specified on the first page of this Agreement for the consideration set forth in Section 3 and subject to all of the terms and conditions of the Annual Award and the Plan. You may not acquire less than the aggregate number of shares specified in this Agreement.

2. CLOSING. Your acquisition of the shares shall be consummated as follows:

(a) You will acquire the shares, subject to your signing this Agreement in the manner required by the Corporation and delivering a copy to the Corporation’s Shareholder Services department, or to such other person as the Corporation may designate, during regular business hours, on the Date of Grant (the “**Closing Date**”) along with any consideration, other than your past or future services, required to be delivered by you by law on the Closing Date pursuant to Section 3 and such additional documents as the Corporation may then require.

(b) The Corporation will direct the transfer agent for the Corporation to deliver to the Escrow Agent pursuant to the terms of Section 9, below, the certificate or certificates evidencing the shares of Common Stock being acquired by you. You acknowledge and agree that any such shares may be held in book entry form directly registered with the transfer agent or in such other form as the Corporation may determine.

(c) In the event of the termination of your Board service prior to the Closing Date, the closing contemplated in this Agreement shall not occur.

3. CONSIDERATION. Unless otherwise required by law and/or the Plan, the shares of Common Stock to be delivered to you on the Closing Date shall be deemed paid, in whole or in part in exchange for past and future services to be rendered to the Corporation in the amounts and to the extent required by law.

4. VESTING. Subject to the limitations contained herein, the shares you acquire will vest as follows:

(a) The shares will vest as provided in the Vesting Schedule set forth in this Agreement, provided that vesting will cease upon the termination of your Board service.

(b) In the event of your death or Permanent Disability during the period of your Board service, the shares will vest in that number of additional shares of Common Stock subject to the Annual Award in which you would have vested had you continued in Board service until the next Annual Meeting.

(c) Shares acquired by you that have vested in accordance with the Vesting Schedule set forth in this Agreement and this Section 4 are "**Vested Shares**." Shares acquired by you pursuant to this Agreement that are not Vested Shares are "**Unvested Shares**."

5. CAPITALIZATION CHANGES. The number of shares of Common Stock subject to the Annual Award and referenced in this Agreement may be adjusted from time to time for changes in capitalization pursuant to Section IV.C of the Plan.

6. SECURITIES LAW COMPLIANCE. Notwithstanding anything to the contrary contained herein, you may not acquire any shares of Common Stock under the Annual Award unless the shares of Common Stock issuable upon such acquisition are then registered under the Securities Act of 1933, as amended (the "**Securities Act**") or, if such shares of Common Stock are not then so registered, the Corporation has determined that such acquisition would be exempt from the registration requirements of the Securities Act. The acquisition of shares under the Annual Award also must comply with other applicable laws and regulations governing the Annual Award, and you may not acquire such shares if the Corporation determines that such acquisition would not be in material compliance with such laws and regulations.

7. RIGHT OF REACQUISITION. The Corporation shall simultaneously with the termination of your Board service automatically reacquire (the "**Reacquisition Right**") for no consideration all of the Unvested Shares, unless the Corporation agrees to waive its Reacquisition Right as to some or all of the Unvested Shares. Any such waiver shall be exercised by the Corporation by written notice to you or your representative (with a copy to the Escrow Agent, as defined below) within ninety (90) days after the termination of your Board service, and the Escrow Agent may then release to you the number of Unvested Shares not being reacquired by the Corporation. If the Corporation does not waive its reacquisition right as to all of the Unvested Shares, then upon such termination of your Board service, the Escrow Agent shall transfer to the Corporation the number of Unvested Shares the Corporation is reacquiring. The Reacquisition Right shall expire when all of the shares have become Vested Shares in accordance with Section 4.

8. CERTAIN CORPORATE TRANSACTIONS. In the event of a Corporate Transaction as defined in the Plan, the Reacquisition Right may be assigned by the Corporation to the successor of the Corporation (or such successor's parent Corporation), if any, in connection with such transaction. To the extent the Reacquisition Right remains in effect following such transaction, it shall apply to the new capital stock, cash or other property received in exchange for the Common Stock in consummation of the transaction, but only to the extent the Common Stock was at the time covered by such right.

9. ESCROW OF UNVESTED COMMON STOCK. As security for your faithful performance of the terms of this Agreement and to insure the availability for delivery of your Common Stock upon execution of the Reacquisition Right provided in Section 7, above, you agree to the following "Joint Escrow" and "Joint Escrow Instructions," and you and the Corporation hereby authorize and direct the Corporate Secretary of the Corporation or the Corporate Secretary's designee ("**Escrow Agent**") to hold the documents delivered to Escrow Agent pursuant to the terms of this Agreement in accordance with the following Joint Escrow Instructions:

(a) In the event you cease your Board service, the Corporation shall pursuant to the Reacquisition Right in Section 7, above, automatically reacquire for no consideration all Unvested Shares, within the meaning of Section 4, above, as of the date of such termination, unless the Corporation elects to waive such right as to some or all of the Unvested Shares. If the Corporation (or its assignee) elects to waive the

Reacquisition Right, the Corporation or its assignee will give you and Escrow Agent a written notice specifying the number of shares of stock not to be reacquired. You and the Corporation hereby irrevocably authorize and direct Escrow Agent to close the transaction contemplated by such notice as soon as practicable following the date of termination of service in accordance with the terms of this Agreement and the notice of waiver, if any.

(b) Vested Shares shall be delivered to you upon your request given in the manner provided in Section 19 for providing notices.

(c) At any closing involving the transfer or delivery of some or all of the property subject to this Agreement, Escrow Agent is directed (i) to date any stock assignments necessary for the transfer in question, (ii) to fill in the number of shares being transferred, and (iii) to deliver same, together with the certificate, if any, evidencing the shares of Common Stock to be transferred, to you or the Corporation, as applicable.

(d) You irrevocably authorize the Corporation to deposit with Escrow Agent the certificates, if any, evidencing shares of Common Stock to be held by Escrow Agent hereunder and any additions and substitutions to said shares as specified in this Agreement. You do hereby irrevocably constitute and appoint Escrow Agent as your attorney-in-fact and agent for the term of this escrow to execute with respect to such securities and other property all documents of assignment and/or transfer and all stock certificates necessary or appropriate to make all securities negotiable and complete any transaction herein contemplated.

(e) This escrow shall terminate upon the expiration or application in full of the Reacquisition Right, whichever occurs first, and the completion of the tasks contemplated by these Joint Escrow Instructions.

(f) If at the time of termination of this escrow, should Escrow Agent have in its possession any documents, securities, or other property belonging to you, Escrow Agent shall deliver all of same to you and shall be discharged of all further obligations hereunder.

(g) Except as otherwise provided in these Joint Escrow Instructions, Escrow Agent's duties hereunder may be altered, amended, modified, or revoked only by a writing signed by all of the parties hereto.

(h) Escrow Agent shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by Escrow Agent to be genuine and to have been signed or presented by the proper party or parties or their assignees. Escrow Agent shall not be personally liable for any act Escrow Agent may do or omit to do hereunder as Escrow Agent or as attorney-in-fact for you while acting in good faith and any act done or omitted by Escrow Agent pursuant to the advice of Escrow Agent's own attorneys shall be conclusive evidence of such good faith.

(i) Escrow Agent is hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law, and is hereby expressly authorized to comply with and obey orders, judgments, or decrees of any court. In case Escrow Agent obeys or complies with any such order, judgment, or decree of any court, Escrow Agent shall not be liable to any of the parties hereto or to any other person, firm, or corporation by reason of such compliance, notwithstanding any such order, judgment, or decree being subsequently reversed, modified, annulled, set aside, vacated, or found to have been entered without jurisdiction.

(j) Escrow Agent shall not be liable in any respect on account of the identity, authority, or rights of the parties executing or delivering or purporting to execute or deliver this Agreement or any documents or papers deposited or called for hereunder.

(k) Escrow Agent shall not be liable for the outlawing of any rights under any statute of limitations with respect to these Joint Escrow Instructions or any documents deposited with Escrow Agent.

(l) Escrow Agent's responsibilities as Escrow Agent hereunder shall terminate if Escrow Agent shall cease to be the Secretary of the Corporation or if Escrow Agent shall resign by written notice to each party. In the event of any such termination, the Corporation may appoint any officer or assistant officer of the Corporation or other person who in the future assumes the position of Secretary for the Corporation as successor Escrow Agent and you hereby confirm the appointment of such successor or successors as your attorney-in-fact and agent to the full extent of such successor Escrow Agent's appointment.

(m) If Escrow Agent reasonably requires other or further instruments in connection with these Joint Escrow Instructions or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

(n) It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities, Escrow Agent is authorized and directed to retain in its possession without liability to anyone all or any part of said securities until such dispute shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree, or judgment of a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but Escrow Agent shall be under no duty whatsoever to institute or defend any such proceedings.

(o) By signing this Agreement below Escrow Agent becomes a party hereto only for the purpose of said Joint Escrow Instructions in this Section 9; Escrow Agent does not become a party to any other rights and obligations of this Agreement apart from those in this Section 9.

(p) Escrow Agent shall be entitled to employ such legal counsel and other experts as Escrow Agent may deem necessary properly to advise Escrow Agent in connection with Escrow Agent's obligations hereunder. Escrow Agent may rely upon the advice of such counsel, and may pay such counsel reasonable compensation therefor. The Corporation shall be responsible for all fees generated by such legal counsel in connection with Escrow Agent's obligations hereunder.

(q) These Joint Escrow Instructions set forth in this Section 9 shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. It is understood and agreed that references to "Escrow Agent" or "Escrow Agent's" herein refer to the original Escrow Agent and to any and all successor Escrow Agents. It is understood and agreed that the Corporation may at any time or from time to time assign its rights under this Agreement and these Joint Escrow Instructions in whole or in part.

10. IRREVOCABLE POWER OF ATTORNEY. You constitute and appoint the Corporation's Secretary as attorney-in-fact and agent to transfer said Common Stock on the books of the Corporation with full power of substitution in the premises, and to execute with respect to such securities and other property all documents of assignment and/or transfer and all stock certificates necessary or appropriate to make all securities negotiable and complete any transaction herein contemplated. This is a special power of attorney coupled with an interest (specifically, the Corporation's underlying security interest in retaining the shares of Common Stock in the event you do not perform the associated services for the Corporation), and is irrevocable and shall survive your death or legal incapacity. This power of attorney is limited to the matters specified in this Agreement.

11. RIGHTS AS STOCKHOLDER. Subject to the provisions of this Agreement, you shall have the right to exercise all rights and privileges of a stockholder of the Corporation with respect to the shares deposited in the Joint Escrow. You shall be deemed to be the holder of the shares for purposes of receiving any dividends that may be paid with respect to such shares and for purposes of exercising any voting rights relating to such shares, even if some or all of the shares are Unvested Shares.

12. LIMITATIONS ON TRANSFER OF THE COMMON STOCK. In addition to any other limitation on transfer created by applicable securities laws, you shall not sell, assign, hypothecate, donate, encumber, or otherwise dispose of any interest in the Common Stock while such shares of Common Stock are Unvested Shares or continue to be held in the Joint Escrow; *provided, however*, that an interest in such shares may be transferred pursuant to a qualified domestic relations order as defined in the Internal Revenue Code of 1986, as amended (the "**Code**") or Title I of the Employee Retirement Income Security Act. Before any Common Stock has been released from the Joint Escrow, you shall not sell, assign, hypothecate, donate, encumber, or otherwise dispose of any interest in the Common Stock except in compliance with the provisions herein and applicable securities laws.

13. RESTRICTIVE LEGENDS. Any certificates representing the Common Stock shall have endorsed thereon appropriate legends as determined by the Corporation.

14. NON-TRANSFERABILITY OF THE ANNUAL AWARD. The Annual Award (except for Vested Shares issued pursuant thereto) is not transferable except by will or by the laws of descent and distribution.

15. ANNUAL AWARD NOT A SERVICE CONTRACT. The Annual Award is not an employment or service contract, and nothing in the Annual Award shall be deemed to create in any way whatsoever any obligation on your part to continue in the service of the Corporation. In addition, nothing in the Annual Award shall obligate the Corporation, its respective stockholders, or the Board to continue any relationship that you might have as an Eligible Director.

16. TAXES; WITHHOLDING OBLIGATIONS. Regardless of any action the Corporation takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding due in connection with the Annual Award ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Corporation (1) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Annual Award, including the grant, vesting or delivery of shares under the Annual Award, the subsequent sale of shares acquired pursuant to the Annual Award and the receipt of any dividends; and (2) does not commit to structure the terms of the grant or any aspect of the Annual Award to reduce or eliminate your liability for Tax-Related Items. At the time the Annual Award is granted, or at any time thereafter as requested by the Corporation, you hereby authorize withholding from any amounts payable to you, or otherwise agree to make adequate provision in cash for, any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Corporation, if any, which arise in connection with the Annual Award. In the Corporation's sole discretion, the Corporation may elect, and you hereby authorize the Corporation, to withhold Vested Shares in such amounts as the Corporation determines are necessary to satisfy your obligation pursuant to the preceding sentence. If the Corporation withholds Vested Shares to satisfy such tax obligations, then you will have no further rights, title or interests in or to those Vested Shares.

17. TAX CONSEQUENCES. You agree to review with your own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. You shall rely solely on such advisors and not on any statements or representations of the Corporation or any of its agents. You understand that you (and not the Corporation) shall be responsible for your own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement. You understand that Section 83 of the Code taxes as ordinary income to you the fair market value of the shares of Common Stock as of the date any restrictions on the shares lapse (that is, as of the date on which part or all of the shares vest). In this context, "restriction" includes the right of the Corporation to reacquire the shares pursuant to its Reacquisition Right. You understand that you may elect to be taxed on the fair market value of the shares at the time the shares are acquired rather than when and as the Corporation's Reacquisition Right expires by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty (30) days after the date you acquire the shares pursuant to the Annual Award. YOU ACKNOWLEDGE THAT IT IS YOUR SOLE RESPONSIBILITY, AND NOT THE CORPORATION'S, TO FILE A TIMELY ELECTION UNDER CODE SECTION 83(b), EVEN IF YOU REQUEST THE CORPORATION OR ITS REPRESENTATIVES TO MAKE THE FILING ON YOUR BEHALF. You further acknowledge that you are aware that should you file an election under Section 83(b) of the Code and then subsequently forfeit the shares, you will not be able to report as a loss the value of any shares forfeited and will not get a refund of any of the tax paid.

18. DATA PRIVACY.

(a) You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this document by the Corporation for the exclusive purpose of implementing, administering and managing your participation in the Plan.

(b) You understand that the Corporation holds certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, compensation, nationality, job title, any shares of stock or directorships held in Corporation, details of all awards or any other entitlement to shares of stock awarded, canceled, settled, vested, unvested or outstanding in your favor (the "**Personal Data**"), for the purpose of implementing, administering and managing the Plan. You understand that Personal Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, and that the recipient's country may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Personal Data by contacting the Corporation's Corporate Secretary. You authorize the recipients to receive, possess, use, retain and transfer the Personal Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such

Personal Data as may be required to a broker or other third party with whom you may elect to deposit any shares of stock acquired upon vesting of the Annual Award. You understand that Personal Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Personal Data, request additional information about the storage and processing of the Personal Data, request any necessary amendments to the Personal Data or refuse or withdraw the consents herein, in any case without cost, by contacting the Corporation's Corporate Secretary. You understand, however, that refusing or withdrawing your consent may affect your ability to hold the Annual Award and participate in the Plan.

19. NOTICES. Any notice or request required or permitted under this Agreement or the Plan shall be given in writing to each of the other parties hereto and shall be deemed effectively given on the earlier of (i) the date of personal delivery, including delivery by express courier, or (ii) the date that electronic notice is sent by you or the Corporation (as applicable), in the case of notices provided by electronic means, or (iii) the date that is five (5) days after deposit in the United States Post Office (whether or not actually received by the addressee), by registered or certified mail with postage and fees prepaid, addressed at the following addresses, or at such other address(es) as a party may designate by ten (10) days' advance written notice to each of the other parties hereto:

CORPORATION: Synopsys, Inc.
700 East Middlefield Road
Mountain View, California 94043
Attn: Shareholder Services

YOU: Your address as on file with the Corporation at the time notice is given

ESCROW AGENT: Corporate Secretary
Synopsys, Inc.
700 East Middlefield Road
Mountain View, California 94043

20. MISCELLANEOUS.

(a) The rights and obligations of the Corporation under this Agreement shall be transferable by the Corporation to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by, the Corporation's successors and assigns. Your rights and obligations under the Annual Award may be assigned only with the prior written consent of the Corporation.

(b) All obligations of the Corporation under the Plan and this Agreement shall be binding on any successor to the Corporation, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Corporation.

(c) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Corporation to carry out the purposes or intent of the Annual Award.

(d) You acknowledge and agree that you have reviewed this Agreement in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting the Annual Award and fully understand all provisions of the Annual Award.

(e) This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

21. AMENDMENT. This Agreement may be amended solely by the Corporation by a writing (including an electronic writing) which specifically states that it is amending this Agreement, so long as a copy of such amendment is delivered to you, and provided that no such amendment impairing your rights hereunder may be made without your written consent. Without limiting the foregoing, the Corporation reserves the right to change, by written notice (including via electronic delivery) to you, the provisions of this Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall

be applicable only to rights relating to that portion of the Annual Award which is then subject to restrictions as provided herein.

22. GOVERNING PLAN DOCUMENT. The Annual Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of the Annual Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of the Annual Award and those of the Plan, the provisions of the Plan shall control. The Corporation shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Board shall be final and binding upon you, the Corporation, and all other interested persons. No member of the Board shall be personally liable for any action, determination, or interpretation made in good faith with respect to the Plan or this Agreement.

23. CHOICE OF LAW. The interpretation, performance and enforcement of this Agreement shall be governed by the law of the state of California without regard to such state's conflicts of laws rules. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the Annual Award or this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Santa Clara, California, or the federal courts for the United States for the Northern District of California.

24. SEVERABILITY. If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

25. OTHER DOCUMENTS. You hereby acknowledge receipt or the right to receive a prospectus providing the information required by Rule 428(b)(1) promulgated under the Securities Act.

26. ELECTRONIC DELIVERY. The Corporation may, in its sole discretion, decide to deliver any documents related to the Annual Award granted hereunder or to participation in the Plan (or future restricted stock units or other equity awards that may be granted under the Plan) by electronic means (including by filing documents publicly with the Securities and Exchange Commission at www.sec.gov or any successor website thereto) or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Corporation or another third party designated by the Corporation.

* * * * *

Your signature below or online acceptance (where permitted) indicates that you have read this Agreement and agree to be bound by the terms and conditions of the Plan and this Agreement.

SYNOPSYS, INC.

ELIGIBLE DIRECTOR

By: _____
Name: _____

By: _____
<<Name>>

Title: General Counsel and Corporate Secretary

Date: _____

Date: <<Grant Date>> _____

* * * * *

The Escrow Agent hereby acknowledges and accepts its rights and responsibilities pursuant to Section 9, above.

ESCROW AGENT:

By: _____
Name: _____
Title: _____

SYNOPSYS, INC.
2005 NON-EMPLOYEE DIRECTORS EQUITY INCENTIVE PLAN
STOCK OPTIONS GRANT NOTICE AND OPTION AGREEMENT
([INITIAL] [ANNUAL OR INTERIM] AWARD)

Pursuant to its 2005 Non-Employee Directors Equity Incentive Plan (the “**Plan**”), Synopsys, Inc. (the “**Corporation**”) has granted you (the “**Eligible Director**” or “**you**”) a Nonstatutory Stock Option (the “**Option**”) to purchase the number of shares of the Corporation’s Common Stock at the exercise price per share set forth below. The Option is subject to the terms and conditions as set forth in this Stock Options Grant Notice and Option Agreement (this “**Agreement**”), the Notice of Exercise attached hereto, and the Plan, which is incorporated by reference herein in its entirety. If there is any conflict between the terms in this Agreement and the Plan, the terms of the Plan will control.

Eligible Director:
Grant Number:
Date of Grant:
Number of Shares Subject to Option:
Exercise Price (Per Share):
Expiration Date:

Type of Grant: Nonstatutory Stock Option

Vesting Schedule: [Initial Award: The shares vest and become exercisable in a series of four (4) successive equal installments as the Eligible Director continues in Board service through the date immediately preceding each of the first four (4) Annual Meetings following the Date of Grant.]

[Annual or Interim Award: The shares vest and become exercisable in a series of thirty-six (36) successive equal installments for each month the Eligible Director continues in Board service from the Date of Grant through the third anniversary of the Date of Grant.]

Payment: By one or a combination of the following items (described in the Option Agreement):

- ☒ By cash or check
- ☒ Pursuant to a broker-dealer sale and remittance procedure
- ☒ By delivery of already-owned shares

Additional Terms/Acknowledgements: The undersigned Eligible Director acknowledges receipt of, and understands and agrees to, this Agreement, the Plan, the related Plan prospectus, and the Corporation’s Insider Trading Policy. Eligible Director further acknowledges that as of the Date of Grant, this Agreement and the Plan set forth the entire understanding between Eligible Director and the Corporation regarding the Option and supersede all prior oral and written agreements on that subject.

Defined terms not explicitly defined in this Agreement but defined in the Plan shall have the same definitions as in the Plan.

The details of the Option are as follows:

1. VESTING. Subject to the limitations contained herein, the Option will vest as provided in this Agreement, provided that vesting will cease upon the termination of your Board service.

2. NUMBER OF SHARES AND EXERCISE PRICE. The number of shares of Common Stock subject to the Option and your exercise price per share referenced in this Agreement may be adjusted from time to time for changes in capitalization pursuant to Section IV.C of the Plan.

3. METHOD OF PAYMENT. Payment of the exercise price is due in full upon exercise of all or any part of the Option. You may elect to make payment of the exercise price in cash or by check or in any other manner permitted by this Agreement, which may include one or more of the following:

(a) Provided that at the time of exercise the Common Stock is publicly traded on a national securities exchange, by full payment through a broker-dealer sale and remittance procedure developed under Regulation T as promulgated by the Federal Reserve Board pursuant to which you (i) shall provide irrevocable written instructions to a brokerage firm acceptable to the Corporation to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares, and (ii) shall concurrently provide written directives to the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale transaction.

(b) Delivery to the Corporation (either by actual delivery or attestation) of already-owned shares of Common Stock.

4. **WHOLE SHARES.** You may exercise the Option only for whole shares of Common Stock.

5. **SECURITIES LAW COMPLIANCE.** Notwithstanding anything to the contrary contained herein, you may not exercise the Option unless the shares of Common Stock issuable upon such exercise are then registered under the Securities Act of 1933, as amended (the "**Securities Act**") or, if such shares of Common Stock are not then so registered, the Corporation has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of the Option also must comply with other applicable laws and regulations governing the Option, and you may not exercise the Option if the Corporation determines that such exercise would not be in material compliance with such laws and regulations.

6. **TERM.** You may not exercise the Option before the commencement or after the expiration of its term. The term of the Option commences on the Date of Grant and expires upon the earliest of the following:

(a) six (6) months after the termination of your Board service for any reason other than your death or Permanent Disability, provided that if during any part of such six (6) month period the Option is not exercisable solely because of the condition set forth in Section 5, the Option shall not expire until the earlier of the Expiration Date or until it shall have been exercisable for an aggregate period of six (6) months after the termination of your Board service;

(b) twelve (12) months after the termination of your Board service due to your Permanent Disability;

(c) twelve (12) months after your death if you die either during your Board service or within six (6) months after your Board service terminates; or

(d) the Expiration Date indicated in this Agreement, not to exceed the day before the seventh (7th) anniversary of the Date of Grant.

7. **ACCELERATION UPON DEATH OR PERMANENT DISABILITY.** In the event of your death or Permanent Disability during the period of your Board service, the Option shall vest and become exercisable in that number of additional shares of Common Stock subject to the Option in which you would have vested had you continued in Board service until the next Annual Meeting.

8. **EXERCISE.** You may exercise the vested portion of the Option during its term by delivering a Notice of Exercise (or other form designated by the Corporation) together with the exercise price to the Corporation's Shareholder Services department, or to such other person as the Corporation may designate, during regular business hours, together with such additional documents as the Corporation may then require.

9. **NON-TRANSFERABILITY OF THE OPTION.** The Option is not transferable except by will or by the laws of descent and distribution and is exercisable only by you during your lifetime. However, you may transfer the Option for no consideration upon written consent of the Board if, at the time of transfer, a Form S-8 registration statement under the Securities Act is available for the issuance of shares by the Corporation upon the exercise of such transferred Option. Any such transfer is subject to such limits as the Board may establish, and subject to the transferee agreeing to remain subject to all the terms and conditions applicable to the Option prior to such transfer. The forgoing right to transfer the Option shall apply to the right to consent to amendments to the Option Agreement for such Option.

10. OPTION NOT A SERVICE CONTRACT. The Option is not an employment or service contract, and nothing in the Option shall be deemed to create in any way whatsoever any obligation on your part to continue in the service of the Corporation. In addition, nothing in the Option shall obligate the Corporation, its respective stockholders, or the Board to continue any relationship that you might have as an Eligible Director.

11. TAXES; WITHHOLDING OBLIGATIONS. Regardless of any action the Corporation takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding due in connection with the Option ("**Tax-Related Items**"), you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Corporation (1) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option, including the grant, vesting or exercise of the Option, the subsequent sale of shares acquired pursuant to such exercise and the receipt of any dividends; and (2) does not commit to structure the terms of the grant or any aspect of the Option to reduce or eliminate your liability for Tax-Related Items. At the time you exercise the Option, in whole or in part, or at any time thereafter as requested by the Corporation, you hereby authorize withholding from any amounts payable to you, or otherwise agree to make adequate provision in cash for, any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Corporation, if any, which arise in connection with the exercise of the Option or the subsequent vesting of any shares acquired thereby. In the Corporation's sole discretion, the Corporation may elect, and you hereby authorize the Corporation, to withhold from fully vested shares of Common Stock otherwise issuable to you in such amounts as the Corporation determines are necessary to satisfy your obligation pursuant to the preceding sentence. If the Corporation withholds such fully vested shares of Common Stock to satisfy such tax obligations, then you will have no further rights, title or interests in or to those shares.

12. RESTRICTIVE LEGENDS. The Common Stock issued under the Option shall be endorsed with appropriate legends, if any, determined by the Corporation.

13. UNSECURED OBLIGATION. The Option is unfunded, and even as to any vested portion, you shall be considered an unsecured creditor of the Corporation with respect to the Corporation's obligation, if any, to issue Common Stock pursuant to this Agreement. You shall not have voting or any other rights as a stockholder of the Corporation with respect to the Common Stock acquired pursuant to this Agreement until such Common Stock is issued. Upon such issuance, you will obtain full voting and other rights as a stockholder of the Corporation with respect to the Common Stock so issued and held by you.

14. TAX CONSEQUENCES. You agree to review with your own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. You shall rely solely on such advisors and not on any statements or representations of the Corporation or any of its agents. You understand that you (and not the Corporation) shall be responsible for your own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

15. DATA PRIVACY.

(a) You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this document by the Corporation for the exclusive purpose of implementing, administering and managing your participation in the Plan.

(b) You understand that the Corporation holds certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, compensation, nationality, job title, any shares of stock or directorships held in Corporation, details of all awards or any other entitlement to shares of stock awarded, canceled, settled, vested, unvested or outstanding in your favor (the "**Personal Data**"), for the purpose of implementing, administering and managing the Plan. You understand that Personal Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, and that the recipient's country may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Personal Data by contacting the Corporation's Corporate Secretary. You authorize the recipients to receive, possess, use, retain and transfer the Personal Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Personal Data as may be required to a broker or other third party with whom you may elect to deposit any shares of stock acquired upon exercise of the Option. You understand that Personal Data will be held only as long as is

necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view the Personal Data, request additional information about the storage and processing of the Personal Data, request any necessary amendments to the Personal Data or refuse or withdraw the consents herein, in any case without cost, by contacting the Corporation's Corporate Secretary. You understand, however, that refusing or withdrawing your consent may affect your ability to hold the Option and participate in the Plan.

16. NOTICES. Any notice or request required or permitted under this Agreement or the Plan shall be given in writing to each of the other parties hereto and shall be deemed effectively given on the earlier of (i) the date of personal delivery, including delivery by express courier, or (ii) the date that electronic notice is sent by you or the Corporation (as applicable), in the case of notices provided by electronic means, or (iii) the date that is five (5) days after deposit in the United States Post Office (whether or not actually received by the addressee), by registered or certified mail with postage and fees prepaid, addressed at the following addresses, or at such other address(es) as a party may designate by ten (10) days' advance written notice to each of the other parties hereto:

CORPORATION: Synopsys, Inc.
700 East Middlefield Road
Mountain View, California 94043
Attn: Shareholder Services

YOU: Your address as on file with the Corporation
at the time notice is given

17. MISCELLANEOUS.

(a) The rights and obligations of the Corporation under this Agreement shall be transferable by the Corporation to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by, the Corporation's successors and assigns. Your rights and obligations under the Option may be assigned only with the prior written consent of the Corporation.

(b) All obligations of the Corporation under the Plan and this Agreement shall be binding on any successor to the Corporation, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Corporation.

(c) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Corporation to carry out the purposes or intent of the Option.

(d) You acknowledge and agree that you have reviewed this Agreement in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting the Option and fully understand all provisions of the Option.

(e) This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

18. AMENDMENT. This Agreement may be amended solely by the Corporation by a writing (including an electronic writing) which specifically states that it is amending this Agreement, so long as a copy of such amendment is delivered to you, and provided that no such amendment impairing your rights hereunder may be made without your written consent. Without limiting the foregoing, the Corporation reserves the right to change, by written notice (including via electronic delivery) to you, the provisions of this Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall be applicable only to rights relating to that portion of the Option which is then subject to restrictions as provided herein.

19. GOVERNING PLAN DOCUMENT. The Option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of the Option, and is further subject to all interpretations, amendments, rules and regulations, which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of the Option and those of the Plan, the provisions of the Plan shall control. The Corporation shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith and to

interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Board shall be final and binding upon you, the Corporation, and all other interested persons. No member of the Board shall be personally liable for any action, determination, or interpretation made in good faith with respect to the Plan or this Agreement.

20. CHOICE OF LAW. The interpretation, performance and enforcement of this Agreement shall be governed by the law of the state of California without regard to such state's conflicts of laws rules. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the Option or this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Santa Clara, California, or the federal courts for the United States for the Northern District of California.

21. SEVERABILITY. If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

22. OTHER DOCUMENTS. You hereby acknowledge receipt or the right to receive a prospectus providing the information required by Rule 428(b)(1) promulgated under the Securities Act.

23. ELECTRONIC DELIVERY. The Corporation may, in its sole discretion, decide to deliver any documents related to the Option granted hereunder or to participation in the Plan (or future options or other equity awards that may be granted under the Plan) by electronic means (including by filing documents publicly with the Securities and Exchange Commission at www.sec.gov or any successor website thereto) or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Corporation or another third party designated by the Corporation.

* * * * *

Your signature below or online acceptance (where permitted) indicates that you have read this Agreement and agree to be bound by the terms and conditions of the Plan and this Agreement.

SYNOPSYS, INC.

By: _____
Name: _____
Title: General Counsel and Corporate Secretary
Date: <<Grant Date>> _____

ELIGIBLE DIRECTOR

By: _____
<<Name>>
Date: _____

**ATTACHMENT I
NOTICE OF EXERCISE**

Synopsys, Inc.
700 East Middlefield Road
Mountain View, CA 94043

Date of Exercise:

Ladies and Gentlemen:

This constitutes notice under my stock option that I elect to purchase the number of shares for the price set forth below.

Type of option: Nonstatutory

Stock option dated:

Number of shares as to which option is exercised:

Certificates to be issued in name of:

Total exercise price: \$

Exercise Method:

- Cash or check payment delivered herewith: \$
- Value of shares of Synopsys, Inc. Common Stock
delivered herewith: \$
- Pursuant to a broker-dealer sale and remittance procedure

By this exercise, I agree to provide such additional documents as you may require pursuant to the terms of the Synopsys, Inc. 2005 Non-Employee Directors Equity Incentive Plan.

Very truly yours,

By: _____
<<Name>>

SUBSIDIARIES OF SYNOPSYS, INC.

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
Abigail (UK) Ltd.	United Kingdom
Alarity Corporation	Delaware
Alarity SPb	Russia
ARC Cores Ltd.	United Kingdom
ARC International (UK) Ltd.	United Kingdom
ARC International Cambridge Ltd.	United Kingdom
ARC International I.P., Inc.	Delaware
ARC International Intellectual Property, Inc.	California
ARC International Israel	Israel
ARC International Limited	United Kingdom
ARC International Nashua, Inc.	New Hampshire
ARC International Nova Scotia	Canada
ARC International Nova Scotia Holdings Ltd.	Canada
ARC International Overseas Holdings Ltd.	United Kingdom
ARC International Software Stacks	Canada
ARC International U.S. Holdings, Inc.	Delaware
ArchPro Design Automation (India) Pvt. Ltd.	India
ArchPro Design Automation, Inc.	Delaware
Atlantic Acqco, LDA	Portugal
Avant! LLC	Delaware
Chipidea Microelectronica, Limitada	Macau
Chipidea Microelectronics Co. Ltd.	China
Chipidea Semiconductors N.V.(in liquidation)	Belgium
CoWare India Pty Ltd	India
CoWare LLC	Delaware
CoWare Strategic Corporation	Delaware
Extreme DA LLC	Delaware
Extreme Design Automation Software (India) Private Limited	India
Gemini Design Technology LLC	Delaware
HPL International, Ltd.	Cayman Islands
HPL Technologies Private Ltd.	India
In Chip Systems, Inc.	California
Ingot Systems, Inc.	California
Ingot Systems Private Limited	India
LisaTek, Inc.	Delaware
Maude Avenue Land Corporation	Delaware
Nassda Corporation	Delaware
Nassda International Corporation	California
Nihon Synopsys G.K.	Japan
Optical Research Associates LLC	California
S.N.P.S. Israel Limited	Israel
Sandwork Design, Inc.	California
SNPS Belgium NV	Belgium
SNPS Portugal Lda	Portugal
Sonic Focus Inc.	California
Synopsys (Beijing) Company Limited	China
Synopsys (India) EDA Software Private Limited	India
Synopsys (India) Private Limited	India

Name**Jurisdiction of
Incorporation**

Synopsys (Northern Europe) Limited	United Kingdom
Synopsys (Shanghai) Co., Ltd.	China
Synopsys (Singapore) Pte. Limited	Singapore
Synopsys Arastirma Gelistirme Limited Sirketi	Turkey
Synopsys Armenia CJSC	Armenia
Synopsys Australia Pty Limited	Australia
Synopsys Canada Holdings ULC	Canada
Synopsys Canada ULC	Canada
Synopsys Chile Limitada	Chile
Synopsys China Holdings, Ltd.	Bermuda
Synopsys Denmark ApS	Denmark
Synopsys Finland OY	Finland
Synopsys Global Kft.	Hungary
Synopsys GmbH	Germany
Synopsys Hardware Platforms Group AB	Sweden
Synopsys International Holdings Inc.	Delaware
Synopsys International Inc. (FSC)	Barbados
Synopsys International Limited	Ireland
Synopsys International Old Limited	Ireland
Synopsys International Services, Inc.	Delaware
Synopsys Ireland Limited	Ireland
Synopsys Italia S.r.l.	Italy
Synopsys Korea, Inc.	Korea
Synopsys Ltd.	Russia
Synopsys Netherlands BV	Netherlands
Synopsys Poland Sp.z.o.o.	Poland
Synopsys SARL	France
Synopsys Scandinavia AB	Sweden
Synopsys Switzerland LLC	Switzerland
Synopsys Taiwan Limited	Taiwan
Synopsys Technologies Holding LLC	Delaware
Synplicity International, Inc.	California
Synplicity Israel, Ltd	Israel
Synplicity LLC	California
TeraRoute LLC	Arizona
VaST Systems Technology International LLC	Delaware
VaST Systems Technology LLC	Delaware
Virage Logic International	California
Virage Logic International Limited	Israel
Virage Logic LLC	Delaware
VL BV	The Netherlands
VL CV	The Netherlands
ZeroSoft LLC	Delaware

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Synopsis, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-84517 and 333-68011) on Form S-3 and (Nos. 333-174587, 333-169275, 333-166274, 333-157791, 333-151067, 333-151070, 333-116222, 333-45056, 333-38810, 333-32130, 333-90643, 333-84279, 333-77597, 333-56170, 333-63216, 333-77000, 333-97317, 333-97319, 333-99651, 333-100155, 333-103418, 333-103635, 333-103636, 333-106149, 333-108507, 333-77127, 333-68883, 333-60783, 333-50947, 333-45181, 333-42069, 333-22663, 333-75638, 333-100155, 333-71056, 333-125224, 333-125225, and 333-134899) on Form S-8 of Synopsis, Inc. (the Company) of our report dated December 15, 2011, with respect to the consolidated balance sheets of Synopsis, Inc. and subsidiaries as of October 29, 2011 and October 30, 2010, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended October 29, 2011, and the effectiveness of internal control over financial reporting as of October 29, 2011, which report appears in the October 29, 2011 annual report on Form 10-K of Synopsis, Inc.

As described in note 3, the Company changed its method of accounting for business combinations in fiscal 2010.

/s/ KPMG LLP

Santa Clara, California
December 15, 2011

CERTIFICATION

I, Aart J. de Geus, certify that:

1. I have reviewed this report on Form 10-K of Synopsys, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 15, 2011

/s/ Aart J. de Geus

Aart J. de Geus
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Brian M. Beattie, certify that:

1. I have reviewed this report on Form 10-K of Synopsys, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 15, 2011

/s/ Brian M. Beattie

Brian M. Beattie
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 1350, Chapter 63 of Title 18 of the United States Code (18 U.S.C-§1350), each of Aart J. de Geus, Chief Executive Officer of Synopsys, Inc., a Delaware corporation (the "Company"), and Brian M. Beattie, Chief Financial Officer of the Company, does hereby certify, to such officer's knowledge that:

The Annual Report on Form 10-K for the fiscal year ended October 31, 2011 (the "Form 10-K") to which this Certification is attached as Exhibit 32.1 fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act. The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 15th day of December, 2011.

/s/ Aart J. de Geus

Aart J. de Geus
Chief Executive Officer

/s/ Brian M. Beattie

Brian M. Beattie
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not deemed filed with the Securities and Exchange Commission as part of the Form 10-K or as a separate disclosure document and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.