MENTOR GRAPHICS CORPORATION
(Exact name of registrant as specified in its charter)

Oregon
(State or other jurisdiction of incorporation or organization)

93-0786033
(IRS Employer Identification No.)

8005 SW Boeckman Road, Wilsonville, Oregon
(Address of principal executive offices)

97070-7777
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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 ☒

Number of shares of common stock, no par value, outstanding as of June 4, 2010: 106,827,894
PART I. FINANCIAL INFORMATION

Item 1.  Financial Statements (unaudited)
Condensed Consolidated Statements of Operations for the three months ended April 30, 2010 and 2009 3
Condensed Consolidated Balance Sheets as of April 30, 2010 and January 31, 2010 4
Condensed Consolidated Statements of Cash Flows for the three months ended April 30, 2010 and 2009 5
Notes to Unaudited Condensed Consolidated Financial Statements 6

Item 2.  Management’s Discussion and Analysis of Financial Condition and Results of Operations 25
Item 3.  Quantitative and Qualitative Disclosures About Market Risk 39
Item 4.  Controls and Procedures 41

PART II. OTHER INFORMATION

Item 1A.  Risk Factors 42
Item 2.  Unregistered Sales of Equity Securities and Use of Proceeds 49
Item 6.  Exhibits 50

SIGNATURES 51
### Condensed Consolidated Statements of Operations

#### Three months ended April 30,

**In thousands, except per share data**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System and software</td>
<td>$97,450</td>
<td>$115,418</td>
</tr>
<tr>
<td>Service and support</td>
<td>83,127</td>
<td>78,357</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>180,577</strong></td>
<td><strong>193,775</strong></td>
</tr>
<tr>
<td><strong>Cost of revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System and software</td>
<td>3,954</td>
<td>4,889</td>
</tr>
<tr>
<td>Service and support</td>
<td>22,320</td>
<td>21,203</td>
</tr>
<tr>
<td>Amortization of purchased technology</td>
<td>3,569</td>
<td>2,948</td>
</tr>
<tr>
<td><strong>Total cost of revenues</strong></td>
<td><strong>29,843</strong></td>
<td><strong>29,040</strong></td>
</tr>
<tr>
<td><strong>Gross margin</strong></td>
<td><strong>150,734</strong></td>
<td><strong>164,735</strong></td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>64,132</td>
<td>62,291</td>
</tr>
<tr>
<td>Marketing and selling</td>
<td>73,652</td>
<td>76,601</td>
</tr>
<tr>
<td>General and administration</td>
<td>22,499</td>
<td>23,424</td>
</tr>
<tr>
<td>Equity in earnings of Frontline</td>
<td>(184)</td>
<td>—</td>
</tr>
<tr>
<td>Amortization of intangible assets</td>
<td>2,361</td>
<td>2,870</td>
</tr>
<tr>
<td>Special charges</td>
<td>3,268</td>
<td>5,695</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>165,728</strong></td>
<td><strong>170,881</strong></td>
</tr>
<tr>
<td><strong>Operating loss</strong></td>
<td>(14,994)</td>
<td>(6,146)</td>
</tr>
<tr>
<td>Other income (expense), net</td>
<td>(1,141)</td>
<td>98</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(4,327)</td>
<td>(4,151)</td>
</tr>
<tr>
<td><strong>Loss before income tax</strong></td>
<td>(20,462)</td>
<td>(10,199)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>2,563</td>
<td>2,752</td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td><strong>$23,025</strong></td>
<td><strong>$12,956</strong></td>
</tr>
<tr>
<td><strong>Net loss per share:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>$(0.22)</td>
<td>$(0.14)</td>
</tr>
<tr>
<td>Diluted</td>
<td>$(0.22)</td>
<td>$(0.14)</td>
</tr>
<tr>
<td><strong>Weighted average number of shares outstanding:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>103,763</td>
<td>94,168</td>
</tr>
<tr>
<td>Diluted</td>
<td>103,763</td>
<td>94,168</td>
</tr>
</tbody>
</table>

See accompanying notes to unaudited condensed consolidated financial statements.
Mentor Graphics Corporation  
Condensed Consolidated Balance Sheets  
(Unaudited)  

See accompanying notes to unaudited condensed consolidated financial statements.
<table>
<thead>
<tr>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In thousands</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating Cash Flows:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$(23,025)</td>
<td>$(12,956)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash (used in) provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization of property, plant, and equipment</td>
<td>7,837</td>
<td>8,526</td>
</tr>
<tr>
<td>Amortization</td>
<td>6,421</td>
<td>7,521</td>
</tr>
<tr>
<td>Impairment of cost-basis investments</td>
<td>—</td>
<td>113</td>
</tr>
<tr>
<td>Equity in losses of unconsolidated entities</td>
<td>86</td>
<td>324</td>
</tr>
<tr>
<td>Gain on debt extinguishment</td>
<td>—</td>
<td>(264)</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>6,581</td>
<td>7,770</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(1,150)</td>
<td>2,714</td>
</tr>
<tr>
<td>Changes in other long-term liabilities</td>
<td>(543)</td>
<td>(654)</td>
</tr>
<tr>
<td>Other</td>
<td>228</td>
<td>233</td>
</tr>
<tr>
<td><strong>Net cash (used in) provided by operating activities</strong></td>
<td>27,648</td>
<td>(970)</td>
</tr>
<tr>
<td><strong>Investing Cash Flows:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sales and maturities of short-term investments</td>
<td>—</td>
<td>1,990</td>
</tr>
<tr>
<td>Purchases of property, plant, and equipment</td>
<td>(7,608)</td>
<td>(4,570)</td>
</tr>
<tr>
<td>Acquisitions of businesses and equity interests, net of cash acquired</td>
<td>(9,787)</td>
<td>(2,143)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(17,395)</td>
<td>(4,723)</td>
</tr>
<tr>
<td><strong>Financing Cash Flows:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from issuance of common stock</td>
<td>2,167</td>
<td>—</td>
</tr>
<tr>
<td>Net decrease in short-term borrowings</td>
<td>(11,091)</td>
<td>(6,579)</td>
</tr>
<tr>
<td>Debt and equity issuance costs</td>
<td>(631)</td>
<td>(149)</td>
</tr>
<tr>
<td>Proceeds from notes payable and revolving credit facility</td>
<td>50,000</td>
<td>—</td>
</tr>
<tr>
<td>Repayments of notes payable and revolving credit facility</td>
<td>(50,000)</td>
<td>(2,066)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(9,555)</td>
<td>(8,794)</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>(309)</td>
<td>(378)</td>
</tr>
<tr>
<td><strong>Net change in cash and cash equivalents</strong></td>
<td>389</td>
<td>(14,865)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the beginning of the period</strong></td>
<td>99,340</td>
<td>93,642</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the period</strong></td>
<td>$ 99,729</td>
<td>$ 78,777</td>
</tr>
</tbody>
</table>

See accompanying notes to unaudited condensed consolidated financial statements.
Notes to Unaudited Condensed Consolidated Financial Statements

All numerical references are in thousands, except for percentages and per share data.

(1) General—The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with United States (U.S.) generally accepted accounting principles (GAAP) and reflect all material normal recurring adjustments. However, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the condensed consolidated financial statements include adjustments necessary for a fair presentation of the results of the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and contingencies as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Any changes in estimates will be reflected in the financial statements in future periods.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include our financial statements and those of our wholly-owned and majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

We do not have off-balance sheet arrangements, financings, or other similar relationships with unconsolidated entities or other persons, also known as special purpose entities. In the ordinary course of business, we lease certain equipment and certain real properties, primarily field sales offices, and research and development facilities, as described in Note 8. “Commitments and Contingencies.”

Revenue Recognition

We report revenue in two categories based on how the revenue is generated: (i) system and software and (ii) service and support.

System and software revenues—We derive system and software revenues from the sale of licenses of software products, emulation hardware systems, and finance fee revenues from our long-term installment receivables resulting from product sales. We primarily license our products using two different license types:

1. Term licenses—We use this license type primarily for software sales. This license type provides the customer with the right to use a fixed list of software products for a specified time period, typically three years, with payments spread over the license term, and does not provide the customer with the right to use the products after the end of the term. Term license arrangements may allow the customer to share products between multiple locations and remix product usage from the fixed list of products at regular intervals during the license term. We generally recognize product revenue from term license arrangements upon product delivery and start of the license term. In a term license agreement where we provide the customer with rights to unspecified or unreleased future products, we recognize revenue ratably over the license term. When all other criteria for revenue recognition have been met, we recognize revenue from emulation hardware system sales upon delivery.

2. Perpetual licenses—We use this license type for software and emulation hardware system sales. This license type provides the customer with the right to use the product in perpetuity and typically does not provide for extended payment terms. We generally recognize product revenue from perpetual license arrangements upon product delivery assuming all other criteria for revenue recognition have been met.

We include finance fee revenues from the accretion on the discount of long-term installment receivables in System and software revenues.

Service and support revenues—We derive service and support revenues from software and hardware post-contract maintenance or support services and professional services, which include consulting, training, and other services. We recognize revenue ratably over the support services term. We record professional service revenue as the services are provided to the customer.

We apply the Financial Accounting Standards Board (FASB) authoritative guidance in Accounting Standards Codification (ASC) 985 “Revenue Recognition—Software” to the sale of licenses of software products.
Beginning February 1, 2010, we adopted FASB Accounting Standards Update (ASU) No. 2009-13 Revenue Recognition (Topic 605)- “Multiple-Deliverable Revenue Arrangements” and ASU No. 2009-14 Software (Topic 985)- “Certain Revenue Arrangements That Include Software Elements,” (together the ASUs). Accordingly, we apply FASB authoritative guidance in ASC 605 applicable to multiple-element arrangements to the sale of our emulation hardware systems that contain software components and non-software components that function together to deliver the hardware’s essential functionality. We determine whether product revenue recognition is appropriate based upon the evaluation of whether the following four criteria have been met:

1. Persuasive evidence of an arrangement exists – Generally, we use either a customer signed contract or qualified customer purchase order as evidence of an arrangement for both term and perpetual licenses. For professional service engagements, we generally use a signed professional services agreement and a statement of work to evidence an arrangement. Sales through our distributors are evidenced by an agreement governing the relationship, together with binding purchase orders from the distributor on a transaction-by-transaction basis.

2. Delivery has occurred – We generally deliver software and the corresponding access keys to customers electronically. Electronic delivery occurs when we provide the customer access to the software. We may also deliver the software on a compact disc. With respect to emulation hardware systems, we transfer title to the customer upon shipment. We offer non-essential installation services for emulation hardware system sales or the customer may elect to perform the installation without our assistance. Our software license and emulation hardware system agreements generally do not contain conditions for acceptance. We base our VSOE for certain product elements of an arrangement upon the pricing in comparable transactions when the element is sold separately. We primarily base our VSOE for term and perpetual support services upon customer renewal history where the services are sold separately. We also base VSOE for professional services and installation services for emulation hardware systems upon the price charged when the services are sold separately.

3. Fee is fixed or determinable – We assess whether a fee is fixed or determinable at the outset of the arrangement, primarily based on the payment terms associated with the transaction. We have established a history of collecting under the original contract with installment terms without providing concessions on payments, products, or services. Additionally, for installment contracts, we determine that the fee is fixed or determinable if the arrangement has a payment schedule that is within the term of the licenses and the payments are collected in equal or nearly equal installments, when evaluated on a cumulative basis. If the fee is not deemed to be fixed or determinable, we recognize revenue as payments become due and payable.

4. Collectibility is probable – To recognize revenue, we must judge collectibility of the arrangement fees on a customer-by-customer basis pursuant to our credit review process. We typically sell to customers with whom there is a history of successful collection. We evaluate the financial position and a customer’s ability to pay whenever an existing customer purchases new products, renews an existing arrangement, or requests an increase in credit terms. For certain industries for which our products are not considered core to the industry or the industry is generally considered troubled, we impose higher credit standards. If we determine that collectibility is not probable based upon our credit review process or the customer’s payment history, we recognize revenue as payments are received.

Multiple element arrangements involving software licenses – For multiple element arrangements involving software and other software-related deliverables, vendor-specific objective evidence of fair value (VSOE) must exist to allocate the total fee among all delivered and non-essential undelivered elements of the arrangement. If undelivered elements of the arrangement are essential to the functionality of the product, we defer revenue until the essential elements are delivered. If VSOE does not exist for one or more non-essential undelivered elements, we defer revenue until such evidence exists for the undelivered elements, or until all elements are delivered, whichever is earlier. If VSOE of all non-essential undelivered elements exist but VSOE does not exist for one or more delivered elements, we recognize revenue using the residual method. Under the residual method, we defer revenue related to the undelivered elements based upon VSOE and we recognize the remaining portion of the arrangement fee as revenue for the delivered elements, assuming all other criteria for revenue recognition are met. If we can no longer establish VSOE for non-essential undelivered elements of multiple element arrangements, we defer revenue until all elements are delivered or VSOE was established for the undelivered elements, whichever is earlier.

We base our VSOE for certain product elements of an arrangement upon the pricing in comparable transactions when the element is sold separately. We primarily base our VSOE for term and perpetual support services upon customer renewal history where the services are sold separately. We also base VSOE for professional services and installation services for emulation hardware systems upon the price charged when the services are sold separately.
Prior to February 1, 2010, for emulation hardware systems where the software was determined to be more than incidental under prior authoritative guidance, we recognized revenue consistent with the discussion above for multiple element arrangements involving software licenses.

Multiple element arrangements involving hardware – Effective February 1, 2010, for multiple element arrangements involving our emulation hardware systems we allocate revenue to each element based on the relative selling price of each deliverable. In order to meet the separation criteria to allocate revenue to each element we must determine the standalone selling price of each element using a hierarchy of evidence. The authoritative guidance requires that, in the absence of VSOE or third-party evidence (TPE), a company must develop an estimated selling price (ESP). ESP is defined as the price at which the vendor would transact if the deliverable was sold by the vendor regularly on a standalone basis. The vendor should consider market conditions as well as entity-specific factors when estimating a selling price.

When VSOE or TPE does not exist, we base our ESP for certain elements in arrangements based on either costs incurred to manufacture a product plus a reasonable profit margin or standalone sales to similar customers. In determining profit margins, we consider current market conditions, pricing strategies related to the class of customer, and the level of penetration we have with the customer. In other cases, we may have limited sales on a standalone basis to the same or similar customers and/or guaranteed pricing on future purchases of the same item. If we are not able to develop ESP for one or more element or we are unable to demonstrate value on a standalone basis of an element, we could be required to combine elements which could impact the timing of revenue recognition if not delivered together. We can no longer apply the residual method for hardware arrangements.

The adoption of the ASUs is not expected to have a material impact to revenue in periods subsequent to adoption. However, it may result in the advancing of revenue into periods earlier than would have been recognized prior to the adoption of the ASUs.

**Investment in Frontline**

In connection with our acquisition of Valor Computerized Systems, Ltd. (Valor) on March 18, 2010, we acquired Valor’s 50% interest in a joint venture, Frontline P.C.B. Solutions Limited Partnership (Frontline). We use the equity method of accounting for our investment in Frontline which results in our reporting our investment in the joint venture on one line item on the Condensed Consolidated Balance Sheet and our share of earnings on one line item in the Condensed Consolidated Statement of Operations.

We actively participate in regular and periodic activities such as budgeting, business planning, marketing, and direction of research and development projects. Accordingly, we have included our interest in the earnings of Frontline as a component of Operating loss.

(3) **Fair Value Measurement**—We measure derivative instruments at fair value on a quarterly basis. The FASB established a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect our market assumptions. The fair value hierarchy consists of the following three levels:

- Level 1—Quoted prices for identical instruments in active markets;
- Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose significant inputs are observable; and
- Level 3—One or more significant inputs to the valuation model are unobservable.
The following table presents information about financial assets and liabilities required to be carried at fair value on a recurring basis as of April 30, 2010:

<table>
<thead>
<tr>
<th></th>
<th>Fair Value</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency exchange contracts</td>
<td>$ (397)</td>
<td>$ —</td>
<td>$ (397)</td>
<td>$ —</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>(1.786)</td>
<td>$ —</td>
<td>$ —</td>
<td>(1.786)</td>
</tr>
<tr>
<td>Total</td>
<td>$ (2,183)</td>
<td>$ —</td>
<td>$ (397)</td>
<td>$(1,786)</td>
</tr>
</tbody>
</table>

The following table presents information about financial assets and liabilities required to be carried at fair value on a recurring basis as of January 31, 2010:

<table>
<thead>
<tr>
<th></th>
<th>Fair Value</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency exchange contracts</td>
<td>$ (4,619)</td>
<td>$ —</td>
<td>$ (4,619)</td>
<td>$ —</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>(1,822)</td>
<td>$ —</td>
<td>$ —</td>
<td>(1,822)</td>
</tr>
<tr>
<td>Total</td>
<td>$ (6,441)</td>
<td>$ —</td>
<td>$ (4,619)</td>
<td>$(1,822)</td>
</tr>
</tbody>
</table>

We use an income approach to determine the fair value of our foreign currency exchange contracts. For foreign currency exchange contracts designated as cash flow hedges, which are linked to a specific transaction, we report the net gains and losses in Accumulated other comprehensive income in Stockholders’ equity until the forecasted transaction occurs or the hedge is no longer effective. Once the forecasted transaction occurs or the hedge is no longer effective, we reclassify the gains or losses attributable to the foreign currency exchange contracts to our Condensed Consolidated Statement of Operations. For foreign currency exchange contracts entered into to offset the variability in exchange rates on certain short-term monetary assets and liabilities, we recognize changes in fair value currently in Other income (expense), net, in our Condensed Consolidated Statement of Operations. See further discussion in Note 5. “Derivative Instruments and Hedging Activities.”

In connection with a fiscal 2010 acquisition, payment of a portion of the purchase price is contingent upon the acquired business’ achievement of certain revenue goals. We have estimated the fair value of this contingent consideration as the present value of the expected contingent payments over the term of the arrangement discounted at a rate of 16%. As of April 30, 2010, there has been no change to our estimate of the fair value of the contingent consideration.

The following table summarizes Level 3 activity:

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of January 31, 2010</td>
<td></td>
<td>$1,822</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest change</td>
<td></td>
<td>$ (36)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance as of April 30, 2010</td>
<td>$1,786</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The carrying amounts of cash equivalents, Short-term investments, Trade accounts receivable, net, Term receivables, Accounts payable, and Accrued liabilities approximate fair value because of the short-term nature of these instruments or because amounts have been appropriately discounted. We record foreign currency exchange contracts based on quoted market prices for similar instruments.

The following table summarizes the fair value and carrying value of Notes payable:

<table>
<thead>
<tr>
<th></th>
<th>April 30, 2010</th>
<th>January 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of Notes payable</td>
<td>$ 214,564</td>
<td>$ 192,321</td>
</tr>
<tr>
<td>Carrying value of Notes payable</td>
<td>$ 209,094</td>
<td>$ 188,347</td>
</tr>
</tbody>
</table>

We based the fair value of Notes payable on the quoted market price or rates available to us for instruments with similar terms and maturities. Of the total carrying value of Notes payable, $34,272 was classified as current on our Condensed Consolidated Balance Sheet as of April 30, 2010. The carrying amount of the remaining balance of Short-term borrowings of $6,588 as of April 30, 2010 and $37,874 as of January 31, 2010 approximates fair value because of the short-term nature of the instruments.
(4) **Business Combinations**—During the three months ended April 30, 2010, we completed two acquisitions. For each acquisition, the excess of the fair value of the consideration transferred over the fair value of the net tangible assets acquired and net tangible liabilities assumed was allocated to various identifiable intangible assets and goodwill. Identifiable intangible assets typically consist of purchased technology and customer-related intangibles, which are amortized to expense over their useful lives. Goodwill, representing the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets, is not amortized.

**Acquisitions during the three months ended April 30, 2010**

<table>
<thead>
<tr>
<th>Acquisition</th>
<th>Total Consideration Transferred</th>
<th>Net Tangible Assets Acquired</th>
<th>Identifiable Intangible Assets Acquired</th>
<th>Deferred Tax Liability</th>
<th>Goodwill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valor</td>
<td>$86,903</td>
<td>$48,925</td>
<td>$18,600</td>
<td>($8,619)</td>
<td>$27,997</td>
</tr>
<tr>
<td>Other</td>
<td>3,000</td>
<td>169</td>
<td>1,210</td>
<td>—</td>
<td>1,621</td>
</tr>
<tr>
<td>Total</td>
<td>$89,903</td>
<td>$49,094</td>
<td>$19,810</td>
<td>($8,619)</td>
<td>$29,618</td>
</tr>
</tbody>
</table>

On March 18, 2010, we acquired all of the outstanding common shares of Valor, a provider of productivity improvement software solutions for the printed circuit board manufacturing supply chain. The acquisition was an investment aimed at extending our scope into the market for printed circuit board systems manufacturing solutions. Under the terms of the merger agreement, Valor shareholders received 5,621 shares of our common stock and cash of $32,715. The common stock issued to the former common shareholders of Valor had a fair value of $47,163, based on our closing price on March 18, 2010 of $8.39 per share. Additionally, under the merger agreement, we converted Valor’s outstanding stock options into options to purchase shares of our common stock, resulting in additional consideration of $7,025. Included in net tangible assets acquired was the fair value of the Frontline investment of $29,500 and cash acquired of $27,010.

The identified intangible assets acquired consisted of purchase technology of $12,300 and other intangibles of $6,300. We are amortizing purchased technology to Cost of revenues over three years and other intangibles to Operating expenses over one to four years. The goodwill created by the transaction of $27,997 is not deductible for tax purposes. Key factors that make up the goodwill created by the transaction include expected synergies from the combination of operations and the knowledge and experience of the acquired workforce and infrastructure.

As part of our acquisition accounting for Valor, we have recognized provisional amounts for the fair value of certain assets acquired and liabilities assumed. We are continuing to review these matters during the measurement period, and if we obtain new information about the facts and circumstances that existed at the acquisition date that identifies adjustments to the initially recorded balances, the acquisition accounting will be revised to reflect the resulting adjustments to the provisional amounts.

We also acquired a privately-held company which was not material.

The separate results of operations for the acquisitions during the three months ended April 30, 2010 and 2009 were not material, individually or in the aggregate, compared to our overall results of operations and accordingly pro-forma financial statements of the combined entities have been omitted.

(5) **Derivative Instruments and Hedging Activities**—We are exposed to fluctuations in foreign currency exchange rates. To manage the volatility, we aggregate exposures on a consolidated basis to take advantage of natural offsets. The primary exposures are the Japanese yen, where we are in a long position, and the euro and the British pound, where we are in a short position. Most large European revenue contracts are denominated and paid to us in U.S. dollars while our European expenses, including substantial research and development operations, are paid in local currencies causing a short position in the euro and the British pound. In addition, we experience greater inflows than outflows of Japanese yen as almost all Japanese-based customers contract and pay us in Japanese yen. While these exposures are aggregated on a consolidated basis to take advantage of natural offsets, substantial exposure remains.

To partially offset the net exposures in the euro, British pound, and the Japanese yen, we enter into foreign currency exchange contracts of less than one year which are designated as cash flow hedges. Any gain or loss on Japanese yen contracts is classified as product revenue when the hedged transaction occurs while any gain or loss on euro and British pound contracts is classified as operating expense when the hedged transaction occurs. During the three months ended April 30, 2010, we entered into 337 new foreign currency forward contracts, of which 40 contracts with a total gross notional value of $187,180 remain outstanding as of April 30, 2010.

We formally document all relationships between foreign currency exchange contracts and hedged items as well as our risk management objectives and strategies for undertaking various hedge transactions. All hedges designated as cash flow hedges are linked to forecasted transactions and we assess, both at inception of the hedge and on an ongoing basis,
the effectiveness of the foreign currency exchange contracts in offsetting changes in the cash flows of the hedged items. We report the effective portions of the net gains or losses on foreign currency exchange contracts as a component of Accumulated other comprehensive income in Stockholders’ equity. Accumulated other comprehensive income associated with hedges of forecasted transactions is reclassified to the Condensed Consolidated Statement of Operations in the same period the forecasted transaction occurs. We discontinue hedge accounting prospectively when we determine that a foreign currency exchange contract is not highly effective as a hedge. To the extent a forecasted transaction is no longer deemed probable of occurring, we prospectively discontinue hedge accounting treatment and we reclassify deferred amounts to Other income (expense), net in the Condensed Consolidated Statement of Operations. We noted no such instance during the three months ended April 30, 2010 or 2009.

The fair values and balance sheet presentation of our derivative instruments as of April 30, 2010 are summarized as follows:

<table>
<thead>
<tr>
<th>As of April 30, 2010</th>
<th>Location</th>
<th>Asset Derivatives</th>
<th>Liability Derivatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives designated as hedging instruments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow forwards</td>
<td>Accrued liabilities</td>
<td>$ 598</td>
<td>$(1,769)</td>
</tr>
<tr>
<td>Derivatives not designated as hedging instruments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-designated forwards</td>
<td>Accrued liabilities</td>
<td>1,285</td>
<td>(511)</td>
</tr>
<tr>
<td>Total derivatives</td>
<td></td>
<td>$1,883</td>
<td>$(2,280)</td>
</tr>
</tbody>
</table>

The fair values and balance sheet presentation of our derivative instruments as of January 31, 2010 are summarized as follows:

<table>
<thead>
<tr>
<th>As of January 31, 2010</th>
<th>Location</th>
<th>Asset Derivatives</th>
<th>Liability Derivatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives designated as hedging instruments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow forwards</td>
<td>Accrued liabilities</td>
<td>$91</td>
<td>$(1,867)</td>
</tr>
<tr>
<td>Derivatives not designated as hedging instruments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-designated forwards</td>
<td>Accrued liabilities</td>
<td>159</td>
<td>(3,002)</td>
</tr>
<tr>
<td>Total derivatives</td>
<td></td>
<td>$250</td>
<td>$(4,869)</td>
</tr>
</tbody>
</table>

We had foreign currency exchange contracts outstanding with a gross notional value of $203,281 as of April 30, 2010 and $182,572 as of January 31, 2010. Notional amounts do not quantify risk or represent our assets or liabilities but are used in the calculation of cash settlements under the contracts.

By using derivative instruments, we subject ourselves to credit risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, our credit risk will equal the fair value of the derivative instrument. Generally, when the fair value of our derivative contracts is a net asset, the counterparty owes us, thus creating a receivable risk. We minimize counterparty credit risk by entering into derivative transactions with major financial institutions and, therefore, we do not expect material losses as a result of default by our counterparties.

The pre-tax effect of derivative instruments in cash flow hedging relationships on income and other comprehensive income (OCI) for the three months ended April 30, 2010 is as follows:

<table>
<thead>
<tr>
<th>Derivatives Designated as Hedging Instruments</th>
<th>Loss Recognized in OCI on Derivatives (Effective Portion)</th>
<th>Loss Reclassified from Accumulated OCI into Income (Effective Portion)</th>
<th>Gain Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount Location</td>
<td>Amount Location</td>
<td>Amount Location</td>
</tr>
<tr>
<td>Cash flow forwards</td>
<td>$ (1,250) Revenues (131)</td>
<td>Operating expenses $ (1,713)</td>
<td>Other income (expense), net $ 30</td>
</tr>
<tr>
<td>Total</td>
<td>$ (1,250)</td>
<td>$(1,844)</td>
<td>$ 30</td>
</tr>
</tbody>
</table>

The gain on cash flow forwards of $30 recognized in Other income (expense), net for the three months ended April 30, 2010 was related to the time value exclusion of foreign currency forward contracts from our assessment of hedge effectiveness.
The pre-tax effect of derivative instruments in cash flow hedging relationships on income and OCI for the three months ended April 30, 2009 is as follows:

<table>
<thead>
<tr>
<th>Derivatives Designated as Hedging Instruments</th>
<th>Gain Recognized in OCI on Derivatives (Effective Portion)</th>
<th>Loss Reclassified from Accumulated OCI into Income (Effective Portion)</th>
<th>Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow forwards</td>
<td>$3,250</td>
<td>$(1,586)</td>
<td>Other income (expense), net $97</td>
</tr>
<tr>
<td>Cash flow options</td>
<td>13</td>
<td>(100)</td>
<td>Other income (expense), net (5)</td>
</tr>
<tr>
<td>Total</td>
<td>$3,263</td>
<td>$(3,638)</td>
<td>$92</td>
</tr>
</tbody>
</table>

Included in the gain on cash flow forwards of $97 recognized in Other income (expense), net for the three months ended April 30, 2009 was a gain of $94 related to the time value exclusion of foreign currency forward contracts from our assessment of hedge effectiveness.

The hedge balance in Accumulated other comprehensive income as of April 30, 2010 of $976, after tax effect, represents a net unrealized loss on foreign currency exchange contracts related to hedges of forecasted revenues and expenses expected to occur within the next twelve months. We will transfer these amounts to the Condensed Consolidated Statement of Operations upon recognition of the related revenues and recording of the respective expenses. We expect substantially all of the hedge balance in Accumulated other comprehensive income to be reclassified to the Condensed Consolidated Statement of Operations within the next twelve months.

We enter into foreign currency exchange contracts to offset the earnings impact relating to the variability in exchange rates on certain short-term monetary assets and liabilities denominated in non-functional currencies. We do not designate these foreign currency contracts as hedges. The effect of derivative instruments not designated as hedging instruments on income for the three months ended April 30, 2010 is as follows:

<table>
<thead>
<tr>
<th>Derivatives Not Designated as Hedging Instruments</th>
<th>Gain Recognized in Income on Derivatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-designated forwards</td>
<td>Other income (expense), net $1,423</td>
</tr>
</tbody>
</table>

The effect of derivative instruments not designated as hedging instruments on income for the three months ended April 30, 2009 is as follows:

<table>
<thead>
<tr>
<th>Derivatives Not Designated as Hedging Instruments</th>
<th>Gain Recognized in Income on Derivatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-designated forwards</td>
<td>Other income (expense), net $693</td>
</tr>
</tbody>
</table>

(6) **Short-Term Borrowings** — Short-term borrowings consisted of the following:

<table>
<thead>
<tr>
<th>As of</th>
<th>April 30, 2010</th>
<th>January 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior revolving credit facility</td>
<td>$20,000</td>
<td></td>
</tr>
<tr>
<td>Collections of previously sold accounts receivable</td>
<td>13,388</td>
<td></td>
</tr>
<tr>
<td>Other borrowings</td>
<td>4,486</td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>$37,874</td>
<td></td>
</tr>
</tbody>
</table>

We have a syndicated, senior, unsecured, four-year revolving credit facility that terminates June 1, 2011. In April 2010, we amended the revolving credit facility to reduce the maximum borrowing capacity from $140,000 to $100,000 and retained an option to increase the maximum borrowing capacity by $30,000. Under this revolving credit facility, we have the option to pay interest based on: (i) London Interbank Offered Rate (LIBOR) with varying maturities commensurate with the borrowing period we select, plus a spread of between 1.0% and 1.6%, or (ii) a base rate plus a spread of between 0.0% and 0.6%, based on a pricing grid tied to a financial covenant. The base rate is defined as the higher of: (i) the federal funds rate, as defined, plus 0.5%, (ii) the prime rate of the lead bank, or (iii) one-month.
LIBOR plus 1.0%. As a result of these interest rate options, our interest expense associated with borrowings under this revolving credit facility will vary with market interest rates. In addition, commitment fees are payable on the unused portion of the revolving credit facility at rates between 0.25% and 0.35% based on a pricing grid tied to a financial covenant. We paid commitment fees of $66 for the three months ended April 30, 2010 compared to $77 for the three months ended April 30, 2009. This revolving credit facility contains certain financial and other covenants, including the following:

- Our adjusted quick ratio (ratio of the sum of cash and cash equivalents, short-term investments, and net current receivables to total current liabilities) shall not be less than 0.85;
- Our tangible net worth (stockholders’ equity less goodwill and other intangible assets) must exceed the calculated required tangible net worth as defined in the credit agreement, which establishes a fixed level of required tangible net worth. Each quarter the required level increases by 70% of any positive net income in the quarter (but in the aggregate no more than 70% of positive net income for any full fiscal year), 100% of the amortization of intangible assets in the quarter, and 100% of certain stock issuance proceeds. The required level also decreases each quarter by certain amounts of acquired intangible assets;
- Our leverage ratio (ratio of total liabilities less subordinated debt to the sum of subordinated debt and tangible net worth) shall be less than 2.20;
- Our senior leverage ratio (ratio of total debt less subordinated debt to the sum of subordinated debt and tangible net worth) shall not be greater than 0.90; and
- Our minimum cash and accounts receivable ratio (ratio of the sum of cash and cash equivalents, short-term investments, and 47.5% of net current accounts receivable, to outstanding credit agreement borrowings) shall not be less than 1.25.

The revolving credit facility prevents us from paying dividends.

We were in compliance with all financial covenants as of April 30, 2010. If we fail to comply with the financial covenants and do not obtain a waiver from our lenders, we would be in default under the revolving credit facility and our lenders could terminate the facility and demand immediate repayment of all outstanding loans under the revolving credit facility.

During the three months ended April 30, 2010, we borrowed $30,000 against the revolving credit facility and repaid $50,000. As of April 30, 2010, we had no balance outstanding against this revolving credit facility, compared to an outstanding balance of $20,000 as of January 31, 2010.

Short-term borrowings include amounts collected from customers on accounts receivable previously sold on a non-recourse basis to financial institutions. These amounts are remitted to the financial institutions in the following quarter.

We generally have other short-term borrowings, including multi-currency lines of credit, capital leases, and other borrowings. Interest rates are generally based on the applicable country’s prime lending rate, depending on the currency borrowed.

(7) Notes Payable—Notes payable consist of the following:

<table>
<thead>
<tr>
<th>As of</th>
<th>April 30, 2010</th>
<th>January 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.25% Debentures due 2026</td>
<td>$155,561</td>
<td>$154,832</td>
</tr>
<tr>
<td>Floating Rate Debentures due 2023</td>
<td>32,272</td>
<td>32,272</td>
</tr>
<tr>
<td>Term Loan due 2013</td>
<td>20,000</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>1,261</td>
<td>1,243</td>
</tr>
<tr>
<td>Notes payable</td>
<td>209,094</td>
<td>188,347</td>
</tr>
<tr>
<td>Floating Rate Debentures due 2023, current portion</td>
<td>(32,272)</td>
<td>(32,272)</td>
</tr>
<tr>
<td>Term Loan due 2013, current portion</td>
<td>(2,000)</td>
<td>—</td>
</tr>
<tr>
<td>Notes payable, long-term</td>
<td>$174,822</td>
<td>$156,075</td>
</tr>
</tbody>
</table>

6.25% Debentures due 2026: In March 2006, we issued $200,000 of 6.25% Convertible Subordinated Debentures (6.25% Debentures) due 2026 in a private offering pursuant to SEC Rule 144A under the Securities Act of 1933. Interest on the 6.25% Debentures is payable semi-annually in March and September. The 6.25% Debentures are convertible, under certain circumstances, into our common stock at a conversion price of $17.968 per share for a total of 9,183 shares as of April 30, 2010. These circumstances include:

- The market price of our common stock exceeding 120% of the conversion price;
• The market price of the 6.25% Debentures declining to less than 98% of the value of the common stock into which the 6.25% Debentures are convertible;
• A call for the redemption of the 6.25% Debentures;
• Specified distributions to holders of our common stock;
• If a fundamental change, such as a change of control, occurs; or
• During the ten trading days prior to, but not on, the maturity date.

Upon conversion, in lieu of shares of our common stock, for each $1 principal amount of the 6.25% Debentures a holder will receive an amount of cash equal to the lesser of: (i) $1 or (ii) the conversion value of the number of shares of our common stock equal to the conversion rate. If such conversion value exceeds $1, we will also deliver, at our election, cash or common stock, or a combination of cash and common stock with a value equal to the excess. If a holder elects to convert 6.25% Debentures in connection with a fundamental change in the company that occurs prior to March 6, 2011, the holder will also be entitled to receive a make whole premium upon conversion in some circumstances. The 6.25% Debentures rank pari passu with the Floating Rate Convertible Subordinated Debentures (Floating Rate Debentures) due 2023. We may redeem some or all of the 6.25% Debentures for cash on or after March 6, 2011. The holders, at their option, may redeem some or all of the 6.25% Debentures for cash on March 1, 2013, 2016, or 2021. During the three months ended April 30, 2010, we did not repurchase any 6.25% Debentures and the principal amount of $165,000 remains outstanding.

The principal amount, unamortized debt discount and net carrying amount of the liability component as well as the carrying amount of the equity component of the 6.25% Debentures are as follows:

<table>
<thead>
<tr>
<th>As of</th>
<th>April 30, 2010</th>
<th>January 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal amount</td>
<td>$165,000</td>
<td>$165,000</td>
</tr>
<tr>
<td>Unamortized debt discount</td>
<td>(9,439)</td>
<td>(10,168)</td>
</tr>
<tr>
<td>Equity component</td>
<td>$21,766</td>
<td>$21,766</td>
</tr>
<tr>
<td>Net carrying amount of the liability component</td>
<td>$155,561</td>
<td>$154,832</td>
</tr>
</tbody>
</table>

The remaining unamortized debt discount will be amortized to interest expense using the effective interest method through March 2013.

We recognized the following amounts in Interest expense in the Condensed Consolidated Statements of Operations related to the 6.25% Debentures:

<table>
<thead>
<tr>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense at the contractual interest rate</td>
<td>$2,578</td>
<td>$2,578</td>
</tr>
<tr>
<td>Amortization of debt discount</td>
<td>729</td>
<td>669</td>
</tr>
</tbody>
</table>

The effective interest rate on the 6.25% Debentures was 8.60% for the three months ended April 30, 2010 and 2009.

**Floating Rate Debentures due 2023:** In August 2003, we issued $110,000 of Floating Rate Debentures in a private offering pursuant to SEC Rule 144A under the Securities Act of 1933. Interest on the Floating Rate Debentures is payable quarterly in February, May, August, and November at a variable interest rate equal to 3-month LIBOR plus 1.65%. The effective interest rate was 1.90% for the three months ended April 30, 2010 and 2.97% for the three months ended April 30, 2009. The Floating Rate Debentures are convertible, under certain circumstances, into our common stock at a conversion price of $23.40 per share for a total of 1,379 shares as of April 30, 2010. These circumstances generally include:

• The market price of our common stock exceeding 120% of the conversion price;
• The market price of the Floating Rate Debentures declining to less than 98% of the value of the common stock into which the Floating Rate Debentures are convertible; or
• A call for redemption of the Floating Rate Debentures or certain other corporate transactions.

The conversion price may also be adjusted based on certain future transactions, such as stock splits or stock dividends. Effective August 2009, we may redeem some or all of the Floating Rate Debentures for cash at 100.81% of the face value.
amount, with the premium reducing to 0% on August 6, 2010. The holders, at their option, may require us to redeem some or all of the Floating Rate Debentures for cash on August 6, 2010, 2013, or 2018. We have reclassified the entire $32,272 of Floating Rate Debentures to short-term in our Condensed Consolidated Balance Sheet as of April 30, 2010 as holders, at their option, may require us to redeem some or all of the Floating Rate Debentures on August 6, 2010.

During the three months ended April 30, 2010, we did not purchase any Floating Rate Debentures.

During the three months ended April 30, 2009, we purchased on the open market and retired Floating Rate Debentures with a principal balance of $2,330 for a total purchase price of $2,066. In connection with this purchase, during the three months ended April 30, 2009, we incurred a before tax net gain on the early extinguishment of debt of $248, which included a $264 discount on the repurchased Floating Rate Debentures and a write-off of $16 for a portion of unamortized deferred debt issuance costs.

**Term Loan due 2013:** In April 2010, we entered into a three-year term loan (Term Loan) for $20,000 to finance the purchase of office buildings in Fremont, California. Principal and accrued interest are payable quarterly in February, May, August, and November. The remaining principal balance is payable on the April 2013 maturity date. We have the option to pay interest based on: (i) LIBOR plus 4.5%, or (ii) a base rate plus 3.5%. The base rate is defined as the higher of: (i) the federal funds rate, as defined, plus 0.5%, (ii) the prime rate of the lead bank, or (iii) one-month LIBOR plus 1.0%. As a result of these interest rate options, our interest expense associated with borrowings under this term loan will vary with market interest rates. Principal payments are fixed at $500 and are payable quarterly. Additionally, the term loan requires us to have a minimum cash and cash equivalent balance as of the last day of the quarter. If we fail to comply with this covenant and do not obtain a waiver from our lenders, we would be in default under this term loan and our lenders could terminate the loan and demand immediate repayment of the outstanding loan. The Term Loan is secured by our Wilsonville, Oregon campus which includes land, buildings and improvements with a carrying value of approximately $40 million. This amount is reported in our Condensed Consolidated Balance Sheet within Property, plant, and equipment, net.

During the three months ended April 30, 2010, we did not repay any amount on the Term Loan. The effective interest rate was 4.77% for the three months ended April 30, 2010.

**Other Notes Payable:** In November 2009, we issued a subordinated note payable as part of a business combination with a principal balance of $1,234. The note bears interest at a rate of 3.875% and is due in full along with all accrued interest on November 17, 2012.

(8) **Commitments and Contingencies**

**Leases**
We lease a majority of our field sales offices and research and development facilities under non-cancelable operating leases. In addition, we lease certain equipment used in our research and development activities. This equipment is generally leased on a month-to-month basis after meeting a six-month lease minimum. There have been no significant changes to the future minimum lease payments due under non-cancelable operating leases disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

**Income Taxes**
As of April 30, 2010, we had a liability of $41,578 for income taxes associated with uncertain income tax positions. All of these tax positions are classified as long-term liabilities in our Condensed Consolidated Balance Sheet, as we generally do not anticipate the settlement of the liabilities will require payment of cash within the next twelve months. Further, certain liabilities may result in the reduction of deferred tax assets rather than settlement in cash. We are not able to reasonably estimate the timing of any cash payments required to settle these liabilities and do not believe that the ultimate settlement of these obligations will materially affect our liquidity.

**Indemnifications**
Our license and service agreements generally include a limited indemnification provision for claims from third parties relating to our intellectual property. The indemnification is generally limited to the amount paid by the customer or a set cap. As of April 30, 2010, we were not aware of any material liabilities arising from these indemnification obligations.

**Legal Proceedings**
From time to time we are involved in various disputes and litigation matters that arise in the ordinary course of business. These include disputes and lawsuits relating to intellectual property rights, contracts, distributorships, and employee relations matters. Periodically, we review the status of various disputes and litigation matters and assess our potential exposure. When we consider the potential loss from any dispute or legal matter probable and the amount or the range of loss can be estimated, we will accrue a liability for the estimated loss. Legal proceedings are subject to uncertainties and the outcomes are difficult to predict. Because of such uncertainties, we base accruals on the best
information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims and litigation matters and may revise estimates. We believe that the outcome of current litigation, individually and in the aggregate, will not have a material effect on our results of operations.

(9) Accounting for Stock-Based Compensation

Stock Option Plans and Stock Plans

We have two common stock option plans which provide for the granting of incentive stock options, nonqualified stock options (NQSOs), stock appreciation rights, restricted stock, restricted stock units, and performance-based awards. The two common stock option plans are administered by the Compensation Committee of our Board of Directors and permit accelerated vesting of outstanding options upon the occurrence of certain changes in control of our company.

We also have a stock plan that provides for the sale of common stock to officers, key employees, and non-employee consultants. This plan allows for shares to be awarded at no purchase price as a stock bonus or with a purchase price as a NQSO.

Stock options under the above three plans generally vest over four years, have an expiration date of ten years from the date of grant, and an exercise price not less than the fair market value of the shares on the date of grant.

The 1987 Non-Employee Directors’ Stock Plan provides for the annual grant to each non-employee director of either an option for 21 shares of common stock or 7 shares of restricted stock, each vesting over a period of five years but with accelerated vesting upon any termination of service. There were no restricted shares issued under this plan during the three months ended April 30, 2010 and 2009. Options granted under this plan are included in the table below.

As of April 30, 2010, a total of 6,850 shares of common stock were available for future grant under the above stock option and stock plans.

We assumed the stock plans of Valor during the three months ended April 30, 2010. Under the terms of our merger agreement with Valor, options outstanding under these plans were converted to options to purchase shares of our common stock. Options issued under these plans vest over four years from the original grant date and have an expiration date of 10 years from the original grant date. The exercise price of each converted option is equal to the product of the original exercise price and the original number of options granted divided by the number of converted options received. These stock plans have been suspended and no future awards will be granted under these plans. A total of 2,160 shares of common stock have been authorized and issued under the Valor plans.

On December 14, 2009, our shareholders approved the exchange of certain options for restricted stock units. Eligible for the exchange were options held by non-executive employees with an exercise price equal to or greater than $11.00 which were granted prior to January 7, 2009 and expire after August 15, 2010. The offer expired February 5, 2010. A total of 6,945 options were exchanged for 557 restricted stock units. Total incremental cost of $491 resulted from this exchange. The incremental cost will be amortized over 2 years.

Stock options outstanding, the weighted average exercise price, and transactions involving the stock option plans are summarized as follows:

<table>
<thead>
<tr>
<th>Options Outstanding</th>
<th>Weighted Average Exercise Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of January 31, 2010</td>
<td>18,982</td>
</tr>
<tr>
<td>Granted</td>
<td>1</td>
</tr>
<tr>
<td>Assumed in acquisition</td>
<td>2,160</td>
</tr>
<tr>
<td>Exercised</td>
<td>(589)</td>
</tr>
<tr>
<td>Forfeited</td>
<td>(19)</td>
</tr>
<tr>
<td>Expired</td>
<td>(173)</td>
</tr>
<tr>
<td>Exchanged</td>
<td>(6,945)</td>
</tr>
<tr>
<td>Balance as of April 30, 2010</td>
<td>13,417</td>
</tr>
</tbody>
</table>

The following table summarizes restricted stock activity:

<table>
<thead>
<tr>
<th>Restricted Stock</th>
<th>Weighted Average Grant Date Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonvested as of January 31, 2010</td>
<td>226</td>
</tr>
<tr>
<td>Granted</td>
<td>569</td>
</tr>
<tr>
<td>Cancelled</td>
<td>(6)</td>
</tr>
<tr>
<td>Nonvested as of April 30, 2010</td>
<td>789</td>
</tr>
</tbody>
</table>

Employee Stock Purchase Plans
We have an employee stock purchase plan (ESPP) for U.S. employees and an ESPP for certain foreign subsidiary employees. The ESPPs generally provide for overlapping two-year offerings starting every six months on January 1 and July 1 of each year with purchases every six months during those offering periods. Each eligible employee may purchase up to six thousand shares of stock on each purchase date at prices no less than 85% of the lesser of the fair market value of the shares at the beginning of the two-year offering period or on the applicable purchase date. As of April 30, 2010, 7,395 shares remain available for future purchase under the ESPPs.
Stock-Based Compensation Expense

We estimate the fair value of stock options and purchase rights under our ESPPs using a Black-Scholes option-pricing model. The Black-Scholes option-pricing model incorporates several highly subjective assumptions including expected volatility, expected term, and interest rates.

In reaching our determination of expected volatility for options, we include the following elements:

- Historical volatility of our shares of common stock;
- Historical volatility of shares of comparable companies;
- Implied volatility of our traded options; and
- Implied volatility of traded options of comparable companies.

In determining expected volatility for purchase rights under our ESPP, we use the historical volatility of our shares of common stock.

We base the expected term of our stock options on historical experience.

The risk-free interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of restricted stock units is the market value as of the grant date.

Using the Black-Scholes option-pricing model, the weighted average grant date fair values are summarized as follows:

<table>
<thead>
<tr>
<th>Three months ended April 30</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options granted</td>
<td>$4.29</td>
<td>$4.90</td>
</tr>
<tr>
<td>Restricted stock units granted</td>
<td>$7.99</td>
<td>$—</td>
</tr>
<tr>
<td>ESPP purchase rights</td>
<td>$2.02</td>
<td>$2.95</td>
</tr>
</tbody>
</table>
The fair value calculations used the following assumptions:

<table>
<thead>
<tr>
<th>Stock Option Plans</th>
<th>Three months ended April 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>2.4%</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>0.0%</td>
</tr>
<tr>
<td>Expected life (in years)</td>
<td>5.5</td>
</tr>
<tr>
<td>Weighted average volatility</td>
<td>55%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employee Stock Purchase Plans</th>
<th>Three months ended April 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free interest rate</td>
<td>1.0%</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>0.0%</td>
</tr>
<tr>
<td>Expected life (in years)</td>
<td>1.3</td>
</tr>
<tr>
<td>Volatility (range)</td>
<td>45% - 69%</td>
</tr>
<tr>
<td>Weighted average volatility</td>
<td>46%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Acquired Company Options Exchange</th>
<th>Three months ended April 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free interest rate</td>
<td>0.1% - 3.3%</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>0%</td>
</tr>
<tr>
<td>Expected life (in years)</td>
<td>0.1 - 7.7</td>
</tr>
<tr>
<td>Volatility (range)</td>
<td>35% - 72%</td>
</tr>
<tr>
<td>Weighted average volatility</td>
<td>60%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employee Options Exchange</th>
<th>Three months ended April 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free interest rate</td>
<td>0.2% - 2.7%</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>0%</td>
</tr>
<tr>
<td>Expected life (in years)</td>
<td>0.5 - 5.9</td>
</tr>
<tr>
<td>Volatility (range)</td>
<td>43% - 77%</td>
</tr>
<tr>
<td>Weighted average volatility</td>
<td>43%</td>
</tr>
</tbody>
</table>

(10) **Net Loss Per Share**—We compute basic net loss per share using the weighted average number of common shares outstanding during the period. We compute diluted net loss per share using the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of common shares issuable upon exercise of stock options, restricted stock units, purchase rights from ESPPs, and warrants using the treasury stock method and common shares issuable upon conversion of the convertible subordinated debentures, if dilutive.

The following provides the computation of basic and diluted net loss per share:

<table>
<thead>
<tr>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$(23,025)</td>
<td>$(12,956)</td>
</tr>
<tr>
<td>Weighted average common shares used to calculate basic and diluted net loss per share</td>
<td>103,763</td>
<td>94,168</td>
</tr>
<tr>
<td>Basic and diluted net loss per share</td>
<td>$(0.22)</td>
<td>$(0.14)</td>
</tr>
</tbody>
</table>

We excluded from the computation of diluted net loss per share options, restricted stock units, warrants, and ESPP purchase rights to purchase 16,938 shares of common stock for the three months ended April 30, 2010 compared to 21,777 for the three months ended April 30, 2009. The options, restricted stock units, warrants, and ESPP purchase rights were anti-dilutive either because we incurred a net loss for the period, the warrant price was greater than the average market price of the common stock during the period, or the option was determined to be anti-dilutive as a result of applying the treasury stock method.
The effect of the conversion of the Floating Rate Debentures and the 6.25% Debentures was anti-dilutive and therefore excluded from the computation of diluted net loss per share. We assume that the 6.25% Debentures will be settled in common stock for purposes of calculating the dilutive effect of the 6.25% Debentures. If the Floating Rate Debentures and the 6.25% Debentures had been dilutive we would have included additional income and additional incremental common shares as shown in the following table:

<table>
<thead>
<tr>
<th>Floating Rate Debentures</th>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional income</td>
<td>$120</td>
<td></td>
<td>$201</td>
</tr>
<tr>
<td>Additional incremental common shares</td>
<td>1,379</td>
<td></td>
<td>1,514</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6.25% Debentures (1)</th>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional income</td>
<td>$1,057</td>
<td></td>
<td>1,057</td>
</tr>
</tbody>
</table>

(1) Dilutive net loss would have included no incremental shares for the three months ended April 30, 2010 and 2009 as the stock price was below the conversion rate.

The conversion features of the 6.25% Debentures, which allow for settlement in cash, common stock, or a combination of cash and common stock, are further described in Note 7. “Notes Payable.”

(11) **Comprehensive Loss**—The following provides a summary of comprehensive loss:

<table>
<thead>
<tr>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$(23,025)</td>
<td>$(12,956)</td>
</tr>
<tr>
<td>Change in unrealized gain on derivative instruments</td>
<td>611</td>
<td>6,602</td>
</tr>
<tr>
<td>Change in accumulated translation adjustment</td>
<td>(3,764)</td>
<td>(217)</td>
</tr>
<tr>
<td>Change in pension liability</td>
<td>—</td>
<td>(33)</td>
</tr>
<tr>
<td>Comprehensive loss</td>
<td>$(26,178)</td>
<td>$(6,604)</td>
</tr>
</tbody>
</table>

(12) **Investment in Frontline Joint Venture**—In connection with our acquisition of Valor on March 18, 2010, we also acquired Valor’s interest in a joint venture, Frontline. Frontline is owned equally by Valor and Orbotech, Ltd., an Israeli company. The joint venture combined the computer-aided manufacturing operations of the two companies. As described in Note 2. “Summary of Significant Accounting Policies,” we use the equity method of accounting for our investment in Frontline. Frontline reports on a calendar year basis. As such, we record our interest in the earnings or losses of Frontline in the subsequent month following incurrence.
The following presents the summarized financial information of Frontline for the period from March 18, 2010 through March 31, 2010:

### Balance sheet data:

<table>
<thead>
<tr>
<th></th>
<th>Frontline Total</th>
<th>Mentor’s 50% Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$7,576</td>
<td>$3,788</td>
</tr>
<tr>
<td>Property, plant, and equipment, net</td>
<td>179</td>
<td>90</td>
</tr>
<tr>
<td>Other assets</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$7,770</td>
<td>$3,885</td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$1,610</td>
<td>$805</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>636</td>
<td>318</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$2,246</td>
<td>$1,123</td>
</tr>
</tbody>
</table>

### Operating results data:

<table>
<thead>
<tr>
<th></th>
<th>Frontline Total</th>
<th>Mentor’s 50% Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System and software</td>
<td>$1,845</td>
<td>$922</td>
</tr>
<tr>
<td>Service and support</td>
<td>346</td>
<td>173</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$2,191</td>
<td>1,095</td>
</tr>
<tr>
<td><strong>Cost of revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System and software</td>
<td>18</td>
<td>9</td>
</tr>
<tr>
<td>Service and support</td>
<td>149</td>
<td>74</td>
</tr>
<tr>
<td><strong>Total cost of revenues</strong></td>
<td>167</td>
<td>83</td>
</tr>
<tr>
<td>Gross margin</td>
<td>2,024</td>
<td>1,012</td>
</tr>
<tr>
<td>Research and development</td>
<td>183</td>
<td>92</td>
</tr>
<tr>
<td>Marketing and selling</td>
<td>228</td>
<td>114</td>
</tr>
<tr>
<td>General and administration</td>
<td>25</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>436</td>
<td>218</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>$1,588</td>
<td>794</td>
</tr>
<tr>
<td>Interest income</td>
<td>21</td>
<td>11</td>
</tr>
<tr>
<td><strong>Net income - as reported</strong></td>
<td>$1,609</td>
<td>$805</td>
</tr>
<tr>
<td>Amortization of purchased technology and other identified intangible assets (1)</td>
<td>—</td>
<td>621</td>
</tr>
<tr>
<td><strong>Equity in earnings of Frontline</strong></td>
<td>$1,609</td>
<td>$184</td>
</tr>
</tbody>
</table>

(1) Amount represents amortization of purchased technology and other identified intangible assets identified as part of the fair value of the Frontline investment. The purchased technology will be amortized over three years and other identified intangible assets will be amortized over three to four years. Other identified intangible assets include tradename and customer relationships intangibles.

(13) **Special Charges**—The following is a summary of the components of the special charges:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee severance and related costs</td>
<td>$1,589</td>
<td>$4,028</td>
</tr>
<tr>
<td>Excess leased facility costs</td>
<td>474</td>
<td>(41)</td>
</tr>
<tr>
<td>Other costs</td>
<td>1,205</td>
<td>1,708</td>
</tr>
<tr>
<td><strong>Total special charges</strong></td>
<td>$3,268</td>
<td>$5,695</td>
</tr>
</tbody>
</table>
Special charges primarily consist of costs incurred for employee terminations due to a reduction of personnel resources driven by modifications of business strategy or business emphasis. Special charges may also include expenses related to potential acquisitions, excess facility costs, and asset related charges.

Employee severance and related costs of $1,589 for the three months ended April 30, 2010 included severance benefits, notice pay, and outplacement services. The total rebalance charge represents the aggregate of numerous unrelated rebalance plans which impacted several employee groups, none of which was individually material to our financial position or results of operations. We determined termination benefit amounts based on employee status, years of service, and local statutory requirements. We communicated termination benefits to the affected employees prior to the end of the quarter in which we recorded the charge. Approximately 21% of these costs were paid during the three months ended April 30, 2010. We expect to pay the remainder during the fiscal year ending January 31, 2011. There have been no significant modifications to the amount of these charges.

Excess leased facility costs of $474 for the three months ended April 30, 2010 were primarily due to the abandonment of leased facilities and changes in the estimate of sublease income for previously abandoned leased facilities.

Other special charges for the three months ended April 30, 2010 included costs of $1,175 related to advisory fees and other costs of $30.

Employee severance and related costs of $4,028 for the three months ended April 30, 2009 included severance benefits, notice pay, and outplacement services. The total rebalance charge represents the aggregate of numerous unrelated rebalance plans which impacted several employee groups, none of which was individually material to our financial position or results of operations. We determined termination benefit amounts based on employee status, years of service, and local statutory requirements. We communicated termination benefits to the affected employees prior to the end of the quarter in which we recorded the charge. Substantially all of these costs were paid during the fiscal year ended January 31, 2010. There have been no significant modifications to the amount of these charges.

The reduction of leased facility costs of $41 during the three months ended April 30, 2009 resulted from the buyout of a lease which had been previously abandoned.

Other special charges for the three months ended April 30, 2009 included costs of $1,175 related to advisory fees and charges of $265 related to a casualty loss. Additionally, acquisition costs of $268 during the three months ended April 30, 2009 represent legal and other costs related to a potential acquisition.

Accrued special charges are included in Accrued liabilities and Other long-term liabilities in the Condensed Consolidated Balance Sheets. The following table shows changes in accrued special charges during the three months ended April 30, 2010:

<table>
<thead>
<tr>
<th></th>
<th>Accrued special charges as of January 31, 2010</th>
<th>Charges during the three months ended April 30, 2010</th>
<th>Payments during the three months ended April 30, 2010</th>
<th>Accrued special charges as of April 30, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee severance and related costs</td>
<td>$2,616</td>
<td>$1,589</td>
<td>$(1,154)</td>
<td>$3,051</td>
</tr>
<tr>
<td>Excess leased facility costs</td>
<td>4,110</td>
<td>474</td>
<td>(836)</td>
<td>3,748</td>
</tr>
<tr>
<td>Other costs</td>
<td>2,298</td>
<td>1,205</td>
<td>(1,809)</td>
<td>1,694</td>
</tr>
<tr>
<td>Total accrued special charges</td>
<td>$9,024</td>
<td>3,268</td>
<td>$(3,799)</td>
<td>8,493</td>
</tr>
</tbody>
</table>

(1) Of the $8,493 total accrued special charges as of April 30, 2010, $1,457 represented the long-term portion of accrued lease termination fees and other facility costs, net of sublease income. The remaining balance of $7,036 represented the short-term portion of accrued special charges.
During the three months ended April 30, 2010, we acquired the outstanding shares of Valor. Under the terms of the merger agreement, Valor shareholders received 5,621 shares of our common stock and cash of $32,715. The common stock issued to the former common shareholders of Valor had a fair value of $47,163, based on our closing price on March 18, 2010 of $8.39 per share. Additionally, under the merger agreement, we converted Valor’s outstanding stock options into options to purchase shares of our common stock, resulting in additional consideration of $7,025. Included in the net tangible assets acquired was cash of $27,010.

As part of the Valor acquisition, we acquired an investment in Frontline. During the three months ended April 30, 2010, we received returns on investment of $300 which is included in cash flows from operating activities.

### Other Income (Expense), Net

<table>
<thead>
<tr>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>$277</td>
<td>$404</td>
</tr>
<tr>
<td>Foreign currency exchange loss</td>
<td>(650)</td>
<td>(79)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(768)</td>
<td>(227)</td>
</tr>
<tr>
<td>Other income (expense), net</td>
<td>$(1,141)</td>
<td>$98</td>
</tr>
</tbody>
</table>

### Related Party Transactions

Certain members of our Board of Directors also serve on the board of directors of certain of our customers. Management believes the transactions between these customers and us were carried out on an arm’s-length basis. The following table shows revenue recognized from these customers:

<table>
<thead>
<tr>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from customers</td>
<td>$12,631</td>
<td>$8,229</td>
</tr>
<tr>
<td>Percentage of total revenue</td>
<td>7.0%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

### Supplemental Cash Flow Information

The following provides information concerning supplemental disclosures of cash flow activities:

<table>
<thead>
<tr>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid, net for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>$5,939</td>
<td>$6,130</td>
</tr>
<tr>
<td>Income taxes</td>
<td>$3,665</td>
<td>$6,779</td>
</tr>
</tbody>
</table>

During the three months ended April 30, 2010, we acquired the outstanding shares of Valor. Under the terms of the merger agreement, Valor shareholders received 5,621 shares of our common stock and cash of $32,715. The common stock issued to the former common shareholders of Valor had a fair value of $47,163, based on our closing price on March 18, 2010 of $8.39 per share. Additionally, under the merger agreement, we converted Valor’s outstanding stock options into options to purchase shares of our common stock, resulting in additional consideration of $7,025. Included in the net tangible assets acquired was cash of $27,010.

As part of the Valor acquisition, we acquired an investment in Frontline. During the three months ended April 30, 2010, we received returns on investment of $300 which is included in cash flows from operating activities.

### Segment Reporting

We operate exclusively in the electronic design automation industry. We market our products and services worldwide, primarily to large companies in the military/aerospace, communications, computer, consumer electronics, semiconductor, networking, multimedia, and transportation industries. We sell and license our products through our direct sales force in North America, Europe, Japan, and the Pacific Rim and through distributors where third parties can extend sales reach more effectively or efficiently. Our Chief Operating Decision Makers (CODMs), which consist of the Chief Executive Officer and the President, review our consolidated results within one operating segment. In making operating decisions, our CODMs primarily consider consolidated financial information accompanied by disaggregated information by geographic region.
We eliminate all intercompany revenues and expenses in computing Revenues, Operating loss, and Loss before income tax. The corporate component of Operating loss represents research and development, corporate marketing and selling, corporate general and administration, special charges, and equity in earnings of Frontline. Geographic information is as follows:

<table>
<thead>
<tr>
<th>Three months ended April 30.</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$ 65,165</td>
<td>$ 74,464</td>
</tr>
<tr>
<td>Europe</td>
<td>42,577</td>
<td>42,510</td>
</tr>
<tr>
<td>Japan</td>
<td>31,668</td>
<td>34,640</td>
</tr>
<tr>
<td>Pacific Rim</td>
<td>41,167</td>
<td>42,161</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$ 180,577</td>
<td>$ 193,775</td>
</tr>
<tr>
<td><strong>Operating income (loss):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$ 29,852</td>
<td>$ 40,922</td>
</tr>
<tr>
<td>Europe</td>
<td>22,334</td>
<td>20,866</td>
</tr>
<tr>
<td>Japan</td>
<td>1,033</td>
<td>23,903</td>
</tr>
<tr>
<td>Pacific Rim</td>
<td>33,326</td>
<td>33,614</td>
</tr>
<tr>
<td>Corporate</td>
<td>(101,539)</td>
<td>(125,451)</td>
</tr>
<tr>
<td>Total operating loss</td>
<td>$ (14,994)</td>
<td>$ (6,146)</td>
</tr>
<tr>
<td><strong>Income (loss) before income tax:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$ 24,703</td>
<td>$ 36,909</td>
</tr>
<tr>
<td>Europe</td>
<td>22,064</td>
<td>20,804</td>
</tr>
<tr>
<td>Japan</td>
<td>988</td>
<td>23,891</td>
</tr>
<tr>
<td>Pacific Rim</td>
<td>33,322</td>
<td>33,648</td>
</tr>
<tr>
<td>Corporate</td>
<td>(101,539)</td>
<td>(125,451)</td>
</tr>
<tr>
<td>Total loss before income tax</td>
<td>$ (20,462)</td>
<td>$ (10,199)</td>
</tr>
</tbody>
</table>

No single customer accounted for 10% or more of total revenues for the three months ended April 30, 2010. For the three months ended April 30, 2009, one customer accounted for 13% and another customer accounted for 12% of our total revenues.
We segregate revenue into five categories of similar products and services. Each category includes both product and related support revenues. Revenue information is as follows:

<table>
<thead>
<tr>
<th>Property, plant, and equipment, net:</th>
<th>As of</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 30, 2010</td>
<td>January 31, 2010</td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$96,598</td>
<td>$97,373</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>18,679</td>
<td>18,887</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>1,179</td>
<td>1,341</td>
<td></td>
</tr>
<tr>
<td>Pacific Rim</td>
<td>3,843</td>
<td>4,194</td>
<td></td>
</tr>
<tr>
<td>Total property, plant, and equipment, net</td>
<td>$120,299</td>
<td>$121,795</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total assets:</th>
<th>As of</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 30, 2010</td>
<td>January 31, 2010</td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$753,771</td>
<td>$761,567</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>351,257</td>
<td>319,165</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>100,848</td>
<td>106,493</td>
<td></td>
</tr>
<tr>
<td>Pacific Rim</td>
<td>29,719</td>
<td>35,816</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>$1,235,595</td>
<td>$1,223,041</td>
<td></td>
</tr>
</tbody>
</table>

We segregate revenue into five categories of similar products and services. Each category includes both product and related support revenues. Revenue information is as follows:

<table>
<thead>
<tr>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IC Design to Silicon</td>
<td>$60,752</td>
<td>$84,491</td>
</tr>
<tr>
<td>Integrated System Design</td>
<td>44,591</td>
<td>37,523</td>
</tr>
<tr>
<td>Scalable Verification</td>
<td>36,744</td>
<td>40,482</td>
</tr>
<tr>
<td>New &amp; Emerging Products</td>
<td>23,621</td>
<td>19,620</td>
</tr>
<tr>
<td>Services &amp; Other</td>
<td>14,869</td>
<td>11,659</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$180,577</td>
<td>$193,775</td>
</tr>
</tbody>
</table>
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated, numerical references included in millions, except for percentages and per share data.

Overview

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes included elsewhere in this Form 10-Q. Certain of the statements below contain forward-looking statements. These statements are predictions based upon our current expectations about future trends and events. Actual results could vary materially as a result of certain factors, including but not limited to, those expressed in these statements. In particular, we refer you to the risks discussed in Part II, Item 1A. “Risk Factors” and in our other Securities and Exchange Commission (SEC) filings, which identify important risks and uncertainties that could cause our actual results to differ materially from those contained in the forward-looking statements.

We urge you to consider these factors carefully in evaluating the forward-looking statements contained in this Form 10-Q. All subsequent written or spoken forward-looking statements attributable to our company or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements included in this Form 10-Q are made only as of the date of this Form 10-Q. We do not intend, and undertake no obligation, to update these forward-looking statements.

The Company

We are a supplier of electronic design automation (EDA) systems — advanced computer software and emulation hardware systems used to automate the design, analysis, and testing of electronic hardware and embedded systems software in electronic systems and components. We market our products and services worldwide, primarily to large companies in the military/aerospace, communications, computer, consumer electronics, semiconductor, networking, multimedia, and transportation industries. Through the diversification of our customer base among these various customer markets, we attempt to reduce our exposure to fluctuations within each market. We sell and license our products through our direct sales force and a channel of distributors and sales representatives. In addition to our corporate offices in Wilsonville, Oregon, we have sales, support, software development, and professional service offices worldwide.

We focus on products and design platforms where we have leading market share, enabling us to spend more effort to cause adoption of our technology in new applications, especially for new markets in which EDA companies have not participated. We believe this strategy leads to a more diversified product and customer mix and can help reduce the volatility of our business and our credit risk, while increasing our potential for growth. System customers make up a much larger percentage of our business than that of most of our EDA competitors.

We derive system and software revenues primarily from the sale of term software license contracts, which are typically three to four years in length. We generally recognize revenue for these arrangements upon product delivery at the beginning of the license term. Larger enterprise-wide customer contracts, which typically represent as much as 50% of our system and software revenue, drive the majority of our period-to-period revenue variances. We identify term licenses where collectibility is not probable and recognize revenue on those licenses when cash is received. Ratable license revenues also include short-term term licenses as well as other term licenses where we provide the customer with rights to unspecified or unreleased future products. For these reasons, the timing of large contract renewals, customer circumstances, and license terms are the primary drivers of revenue changes from period to period, with revenue changes also being driven by new contracts and increases in the capacity of existing contracts, to a lesser extent.

The EDA industry is highly competitive and is characterized by very strong leadership positions in specific segments of the EDA market. These strong leadership positions can be maintained for significant periods of time as the software can be difficult to master and customers are disinclined to make changes once their employees, as well as others in the industry, have developed familiarity with a particular software product. For these reasons, much of our profitability arises from niche areas in which we are the leader. We will continue our strategy of developing high quality tools with number one market share potential, rather than being a broad-line supplier with undifferentiated product offerings. This strategy allows us to focus investment in areas where customer needs are greatest and where we have the opportunity to build significant market share.

Our products and services are dependent to a large degree on new design projects initiated by customers in the integrated circuit and electronics system industries. These industries can be cyclical and are subject to constant and rapid technological change, rapid product obsolescence, price erosion, evolving standards, short product life cycles, and wide fluctuations in product supply and demand. Furthermore, extended economic downturns can result in reduced funding for development due to downsizing and other business restructurings. These pressures are offset by the need for the development and introduction of next generation products once an economic recovery occurs.
Our revenue has historically fluctuated quarterly and has generally been the highest in the fourth quarter of our fiscal year due to our customers’ corporate calendar year-end spending trends and the timing of contract renewals.

**Known Trends and Uncertainties Impacting Future Results of Operations**

In the United States (U.S.) and abroad, market and economic conditions have been volatile over the past two years, with tighter credit conditions, market volatility, diminished expectations for the U.S. and global economies, and market uncertainty and instability in both U.S. and international capital and credit markets.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Many lenders and institutional investors reduced, and in some cases, ceased to provide funding to borrowers due to the absence of a securitization market and concerns about the stability of the markets generally and the strength of the counterparties specifically. Continued turbulence in the U.S. and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers. If these market conditions continue, they may limit our ability, and the ability of our customers, to access the capital markets to meet liquidity needs and timely refinance maturing liabilities, resulting in an adverse effect on our financial condition and results of operations.

The semiconductor industry is particularly vulnerable in this economy as several of the largest companies lack the balance sheet strength that they have historically carried into recessions. Consistent with our revenue recognition policy, when individual customer credit worthiness declines to a level where we do not consider collectibility probable, we convert new transactions from up-front revenue recognition to cash-based revenue recognition and we may be required to modify the payment terms to meet the customer’s ability to pay. Our top ten accounts make up approximately 40% of our receivables, including both short and long-term balances and we have not experienced and do not presently expect to experience collection issues with these customers. Net of reserves, we have no receivables greater than 60 days past due, and continue to experience no difficulty in factoring our receivables.

Bad debt expense recorded for the first quarter of fiscal 2011 was not material. However, we do have exposures within our receivables portfolio to some of the larger semiconductor companies with weak credit ratings. These receivables balances do not represent a material portion of our portfolio but could have a material adverse effect on earnings in any given quarter, should additional allowances for doubtful accounts be necessary.

A multi-quarter increase or decrease in service and support revenue can be an early indicator that our business is either strengthening or weakening. Our experience is that customers will scale back on the purchase of outsourcing services in times of economic decline or weakness. In the first quarter of fiscal 2011 and in the fourth quarter of fiscal 2010, we noted a leveling off in the rate of declined software maintenance renewals.

Bookings during the first three months of fiscal 2011 decreased by approximately 10% compared to the first three months of fiscal 2010. Bookings are the value of executed orders during a period for which revenue has been or will be recognized within six months for products and within twelve months for professional services and training. The ten largest transactions for the three months ended April 30, 2010 accounted for approximately 50% of total system and software bookings compared to approximately 60% for the three months ended April 30, 2009. The number of new customers during the three months ended April 30, 2010, excluding PADS (our ready to use printed circuit board design tools) increased 20% from the levels experienced during the three months ended April 30, 2009.

**Product Developments**

During the three months ended April 30, 2010, we continued to execute our strategy of focusing on challenges encountered by customers, as well as building upon the well-established product families. We believe that customers, faced with leading-edge design challenges in creating new products, generally choose the best EDA products in each category to build their design environment. Through both internal development and strategic acquisitions, we have focused on areas where we believe we can build a leading market position or extend an existing leading market position.

We believe that the development and commercialization of EDA software tools is generally a three to five year process with limited customer adoption and sales in the first years of tool availability. Once tools are adopted, however, their life spans tend to be long. We introduced new products and upgrades to existing products in the first quarter of fiscal 2011. During the three months ended April 30, 2010, we did not have any significant products reaching the end of their useful economic life.

**Critical Accounting Policies**

We base our discussion and analysis of our financial condition and results of operations upon our condensed consolidated financial statements which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and contingencies as of the date of the financial statements and the reported amounts of revenues and
expenses during the reporting periods. We evaluate our estimates on an on-going basis. We base our estimates on historical experience, current facts, and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs, and expenses that are not readily apparent from other sources. As future events and their effects cannot be determined with precision, actual results could differ from those estimates.

We believe that the accounting for revenue recognition, valuation of trade accounts receivable, valuation of deferred tax assets, income tax reserves, goodwill, intangible assets, long-lived assets, special charges, and accounting for stock-based compensation are the critical accounting estimates and judgments used in the preparation of our condensed consolidated financial statements. For further discussion of our critical accounting policies, see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” in our Annual Report on Form 10-K for the year ended January 31, 2010.

Revenue Recognition
We report revenue in two categories based on how the revenue is generated: (i) system and software and (ii) service and support.

**System and software revenues** – We derive system and software revenues from the sale of licenses of software products, emulation hardware systems, and finance fee revenues from our long-term installment receivables resulting from product sales. We primarily license our products using two different license types:

1. **Term licenses** – We use this license type primarily for software sales. This license type provides the customer with the right to use a fixed list of software products for a specified time period, typically three years, with payments spread over the license term, and does not provide the customer with the right to use the products after the end of the term. Term license arrangements may allow the customer to share products between multiple locations and remix product usage from the fixed list of products at regular intervals during the license term. We generally recognize product revenue from term license arrangements upon product delivery and start of the license term. In a term license agreement where we provide the customer with rights to unspecified or unreleased future products, we recognize revenue ratably over the license term. When all other criteria for revenue recognition have been met, we recognize revenue from emulation hardware system sales upon delivery.

2. **Perpetual licenses** – We use this license type for software and emulation hardware system sales. This license type provides the customer with the right to use the product in perpetuity and typically does not provide for extended payment terms. We generally recognize product revenue from perpetual license arrangements upon product delivery assuming all other criteria for revenue recognition have been met.

We include finance fee revenues from the accretion on the discount of long-term installment receivables in System and software revenues.

**Service and support revenues** – We derive service and support revenues from software and hardware post-contract maintenance or support services and professional services, which include consulting, training, and other services. We recognize revenue ratably over the support services term. We record professional service revenue as the services are provided to the customer.

We apply the Financial Accounting Standards Board (FASB) authoritative guidance in Accounting Standards Codification (ASC) 985 “Revenue Recognition – Software” to the sale of licenses of software products. Beginning February 1, 2010, we adopted FASB Accounting Standards Update (ASU) No. 2009-13 Revenue Recognition (Topic 605)- “Multiple-Deliverable Revenue Arrangements” and ASU No. 2009-14 Software (Topic 985)- “Certain Revenue Arrangements That Include Software Elements,” (together the ASUs). Accordingly, we apply FASB authoritative guidance in ASC 605 applicable to multiple-element arrangements to the sale of our emulation hardware systems that contain software components and non-software components that function together to deliver the hardware’s essential functionality. We determine whether product revenue recognition is appropriate based upon the evaluation of whether the following four criteria have been met:
1. Persuasive evidence of an arrangement exists – Generally, we use either a customer signed contract or qualified customer purchase order as evidence of an arrangement for both term and perpetual licenses. For professional service engagements, we generally use a signed professional services agreement and a statement of work to evidence an arrangement. Sales through our distributors are evidenced by an agreement governing the relationship, together with binding purchase orders from the distributor on a transaction-by-transaction basis.

2. Delivery has occurred – We generally deliver software and the corresponding access keys to customers electronically. Electronic delivery occurs when we provide the customer access to the software. We may also deliver the software on a compact disc. With respect to emulation hardware systems, we transfer title to the customer upon shipment. We offer non-essential installation services for emulation hardware system sales or the customer may elect to perform the installation without our assistance. Our software license and emulation hardware system agreements generally do not contain conditions for acceptance.

3. Fee is fixed or determinable – We assess whether a fee is fixed or determinable at the outset of the arrangement, primarily based on the payment terms associated with the transaction. We have established a history of collecting under the original contract with installment terms without providing concessions on payments, products, or services. Additionally, for installment contracts, we determine that the fee is fixed or determinable if the arrangement has a payment schedule that is within the term of the licenses and the payments are collected in equal or nearly equal installments, when evaluated on a cumulative basis. If the fee is not deemed to be fixed or determinable, we recognize revenue as payments become due and payable.

Significant judgment is involved in assessing whether a fee is fixed or determinable. We must also make these judgments when assessing whether a contract amendment to a term arrangement (primarily in the context of a license extension or renewal) constitutes a concession. Our experience has been that we are able to determine whether a fee is fixed or determinable for term licenses. If we no longer were to have a history of collecting under the original contract without providing concessions on term licenses, revenue from term licenses would be required to be recognized when payments under the installment contract become due and payable. Such a change could have a material impact on our results of operations.

4. Collectibility is probable – To recognize revenue, we must judge collectibility of the arrangement fees on a customer-by-customer basis pursuant to our credit review process. We typically sell to customers with whom there is a history of successful collection. We evaluate the financial position and a customer’s ability to pay whenever an existing customer purchases new products, renews an existing arrangement, or requests an increase in credit terms. For certain industries for which our products are not considered core to the industry or the industry is generally considered troubled, we impose higher credit standards. If we determine that collectibility is not probable based upon our credit review process or the customer’s payment history, we recognize revenue as payments are received.

Multiple element arrangements involving software licenses – For multiple element arrangements involving software and other software-related deliverables, vendor-specific objective evidence of fair value (VSOE) must exist to allocate the total fee among all delivered and non-essential undelivered elements of the arrangement. If undelivered elements of the arrangement are essential to the functionality of the product, we defer revenue until the essential elements are delivered. If VSOE does not exist for one or more non-essential undelivered elements, we defer revenue until such evidence exists for the undelivered elements, or until all elements are delivered, whichever is earlier. If VSOE of all non-essential undelivered elements exist but VSOE does not exist for one or more delivered elements, we recognize revenue using the residual method. Under the residual method, we defer revenue related to the undelivered elements based upon VSOE and we recognize the remaining portion of the arrangement fee as revenue for the delivered elements, assuming all other criteria for revenue recognition are met. If we can no longer establish VSOE for non-essential undelivered elements of multiple element arrangements, we defer revenue until all elements are delivered or VSOE was established for the undelivered elements, whichever is earlier.

We base our VSOE for certain product elements of an arrangement upon the pricing in comparable transactions when the element is sold separately. We primarily base our VSOE for term and perpetual support services upon customer renewal history where the services are sold separately. We also base VSOE for professional services and installation services for emulation hardware systems upon the price charged when the services are sold separately.

Prior to February 1, 2010, for emulation hardware systems where the software was determined to be more than incidental under prior authoritative guidance, we recognized revenue consistent with the discussion above for multiple element arrangements involving software licenses.

Multiple element arrangements involving hardware – Effective February 1, 2010, for multiple element arrangements involving our emulation hardware systems we allocate revenue to each element based on the relative selling price of each deliverable. In order to meet the separation criteria to allocate revenue to each element we must determine the standalone selling price of each element using a hierarchy of evidence. The authoritative guidance requires that, in the absence of VSOE or third-party evidence (TPE), a company must develop an estimated selling price (ESP). ESP is defined as the price at which the vendor would transact if the deliverable was sold by the vendor regularly on a standalone basis. The vendor should consider market conditions as well as entity-specific factors when estimating a selling price.
When VSOE or TPE does not exist, we base our ESP for certain elements in arrangements based on either costs incurred to manufacture a product plus a reasonable profit margin or standalone sales to similar customers. In determining profit margins, we consider current market conditions, pricing strategies related to the class of customer, and the level of penetration we have with the customer. In other cases, we may have limited sales on a standalone basis to the same or similar customers and/or guaranteed pricing on future purchases of the same item. If we are not able to develop ESP for one or more element or we are unable to demonstrate value on a standalone basis of an element, we could be required to combine elements which could impact the timing of revenue recognition if not delivered together. We can no longer apply the residual method for hardware arrangements.

The adoption of the ASUs is not expected to have a material impact to revenue in periods subsequent to adoption. However, it may result in the advancing of revenue into periods earlier than would have been recognized prior to the adoption of the ASUs.

RESULTS OF OPERATIONS

Revenues and Gross Margins

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>Change</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>System and software</td>
<td>$97.5</td>
<td>(16%)</td>
<td>$115.4</td>
</tr>
<tr>
<td>Gross margin percent</td>
<td>92%</td>
<td></td>
<td>93%</td>
</tr>
<tr>
<td>Service and support</td>
<td>$83.1</td>
<td>6%</td>
<td>$78.4</td>
</tr>
<tr>
<td>Gross margin percent</td>
<td>73%</td>
<td></td>
<td>73%</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$180.6</td>
<td>(7%)</td>
<td>$193.8</td>
</tr>
<tr>
<td>Total gross margin</td>
<td>$150.7</td>
<td>(9%)</td>
<td>$164.7</td>
</tr>
<tr>
<td>Gross margin percent</td>
<td>83%</td>
<td></td>
<td>85%</td>
</tr>
</tbody>
</table>

System and Software

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>Change</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upfront license</td>
<td>$71.5</td>
<td>(27%)</td>
<td>$97.6</td>
</tr>
<tr>
<td>Ratable license</td>
<td>26.0</td>
<td>46%</td>
<td>17.8</td>
</tr>
<tr>
<td>Total system and</td>
<td>$97.5</td>
<td>(16%)</td>
<td>$115.4</td>
</tr>
<tr>
<td>software revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

We derive system and software revenues from the sale of licenses of software products and emulation hardware systems, including finance fee revenues from our long-term installment receivables resulting from product sales. Upfront license revenues consist of perpetual licenses and term licenses for which we recognize revenue upon product delivery at the start of the license term. We identify term licenses where collectibility is not probable and recognize revenue on those licenses when cash is received. Additionally, ratable license revenues include short-term term licenses, term licenses where we provide the customer with rights to unspecified or unreleased future products, and finance fee revenues from the accretion of the discount of long-term installment receivables.

Our top ten customers accounted for approximately 45% of total System and software revenues for the three months ended April 30, 2010 compared to approximately 65% for the three months ended April 30, 2009. The decrease in System and software revenues for the three months ended April 30, 2010 compared to the three months ended April 30, 2009 was
primarily due to three large transactions in the three months ended April 30, 2009 totaling $61.7. This decrease was partially offset by an increase in the number of transactions greater than $1.0 in the three months ended April 30, 2010 compared to the three months ended April 30, 2009.

For the three months ended April 30, 2010, no single customer accounted for 10% or more of Total revenues. For the three months ended April 30, 2009, one customer accounted for 13% and another customer accounted for 12% of our total revenues. Sales of product associated with our acquisitions completed in the three months ended April 30, 2010 and the second half of fiscal 2010 resulted in increases in System and software revenues of approximately $4.0 for the three months ended April 30, 2010.

Foreign currency had an overall favorable impact of $2.6 on Total revenues during the three months ended April 30, 2010 compared to the three months ended April 30, 2009, primarily as a result of the strengthening Japanese yen against the U.S. dollar.

System and software gross margin percent was down slightly for the three months ended April 30, 2010 compared to the three months ended April 30, 2009 due to decreased System and software revenues for the three months ended April 30, 2010 compared to the three months ended April 30, 2009, partly offset by gross margin increases resulting from our completed acquisitions in the three months ended April 30, 2010 and the second half of fiscal 2010.

Amortization of purchased technology to System and software cost of revenues was $3.6 for the three months ended April 30, 2010 compared to $2.9 for the three months ended April 30, 2009. The increase in amortization for the three months ended April 30, 2010 was primarily due to new purchased technology from our completed acquisitions occurring in three months ended April 30, 2010 and the second half of fiscal 2010, partially offset by certain purchased technology being fully amortized during fiscal 2010.

Service and Support
We derive service and support revenues from software and hardware post-contract maintenance or support services and professional services, which include consulting, training, and other services. Professional services are a lower margin offering which is staffed according to fluctuations in demand while support services operate under a less variable cost structure resulting in improved margins as revenue increases. The increase in revenues for the three months ended April 30, 2010 compared to the three months ended April 30, 2009 was primarily the result of our completed acquisitions in the three months ended April 30, 2010 and the second half of fiscal 2010 resulting in an increase of approximately $3.0. Service and support gross margin percent was flat for the three months ended April 30, 2010 compared to the three months ended April 30, 2009 despite increased Service and support revenues for the three months ended April 30, 2010 compared to the three months ended April 30, 2009 primarily due to the impact on gross margin from our completed acquisitions in the three months ended April 30, 2010 and the second half of fiscal 2010 and due to increased personnel costs for the three months ended April 30, 2010.

Geographic Revenues Information

<table>
<thead>
<tr>
<th>Revenue by Geography</th>
<th>2010</th>
<th>Change</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>$ 65.1</td>
<td>(13%)</td>
<td>$ 74.5</td>
</tr>
<tr>
<td>Europe</td>
<td>42.6</td>
<td>0%</td>
<td>42.5</td>
</tr>
<tr>
<td>Japan</td>
<td>31.7</td>
<td>(8%)</td>
<td>34.6</td>
</tr>
<tr>
<td>Pacific Rim</td>
<td>41.2</td>
<td>(2%)</td>
<td>42.2</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>$180.6</td>
<td>(7%)</td>
<td>$193.8</td>
</tr>
</tbody>
</table>

For the three months ended April 30, 2010, approximately one-third of European and approximately all Japanese revenues were subject to exchange fluctuations as they were booked in local currencies. We recognize additional revenues in periods when the U.S. dollar weakens in value against foreign currencies. Likewise, we recognize lower revenues in periods when the U.S. dollar strengthens in value against foreign currencies. For additional description of how changes in foreign exchange rates affect our Condensed Consolidated Financial Statements, see discussion in Part I, “Item 3. Quantitative and Qualitative Disclosures about Market Risk – Foreign Currency Risk.”
Operating Expenses

<table>
<thead>
<tr>
<th>Four months ended April 30,</th>
<th>2010</th>
<th>Change</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and development</td>
<td>$64.1</td>
<td>3%</td>
<td>$62.3</td>
</tr>
<tr>
<td>Marketing and selling</td>
<td>73.6</td>
<td>(4%)</td>
<td>76.6</td>
</tr>
<tr>
<td>General and administration</td>
<td>22.5</td>
<td>(4%)</td>
<td>23.4</td>
</tr>
<tr>
<td>Equity in earnings of Frontline</td>
<td>(0.2)</td>
<td></td>
<td>—</td>
</tr>
<tr>
<td>Amortization of intangible assets</td>
<td>2.4</td>
<td>(17%)</td>
<td>2.9</td>
</tr>
<tr>
<td>Special charges</td>
<td>3.3</td>
<td>(42%)</td>
<td>5.7</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$165.7</td>
<td>(3%)</td>
<td>$170.9</td>
</tr>
</tbody>
</table>

Research and Development

Research and development expenses increased by $1.8 for the three months ended April 30, 2010 compared to the three months ended April 30, 2009. The components of this increase are summarized as follows:

<table>
<thead>
<tr>
<th>Change for the three months ended April 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental expenses resulting from acquired businesses</td>
</tr>
<tr>
<td>Stock-based compensation</td>
</tr>
<tr>
<td>Other expenses</td>
</tr>
<tr>
<td>Total change in research and development expenses</td>
</tr>
</tbody>
</table>

Marketing and Selling

Marketing and selling expenses decreased by $3.0 for the three months ended April 30, 2010 compared to the three months ended April 30, 2009. The components of this decrease are summarized as follows:

<table>
<thead>
<tr>
<th>Change for the three months ended April 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, variable compensation, and benefits expenses</td>
</tr>
<tr>
<td>Travel expenses</td>
</tr>
<tr>
<td>Incremental expenses resulting from acquired businesses</td>
</tr>
<tr>
<td>Bad debt expenses</td>
</tr>
<tr>
<td>Other expenses</td>
</tr>
<tr>
<td>Total change in marketing and selling expenses</td>
</tr>
</tbody>
</table>
General and Administration

General and administration expenses decreased by $0.9 for the three months ended April 30, 2010 compared to the three months ended April 30, 2009. The components of this decrease are summarized as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Change for the three months ended April 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, variable compensation, benefits, and personnel expenses</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(0.1)</td>
</tr>
<tr>
<td><strong>Total change in general and administration expenses</strong></td>
<td><strong>$ (0.9)</strong></td>
</tr>
</tbody>
</table>

We incur a substantial portion of our operating expenses outside the U.S. in various foreign currencies. When currencies weaken against the U.S. dollar, our operating expense performance is positively affected and when currencies strengthen, our operating expense performance is adversely affected. For the three months ended April 30, 2010 compared to the three months ended April 30, 2009, we experienced unfavorable currency movements of approximately $6.0 in total operating expenses. The impact of these unfavorable currency movements is reflected in the movements in operating expenses detailed above.

Investment in Frontline Joint Venture

In connection with our acquisition of Valor Computerized Systems, Ltd. (Valor) on March 18, 2010, we also acquired Valor’s 50% interest in a joint venture, Frontline P.C.B. Solutions Limited Partnership (Frontline). Frontline is owned equally by Valor and Orbotech, Ltd., an Israeli company.

As required by U.S. GAAP, we use the equity method of accounting for our investment in Frontline which results in our reporting our investment in the joint venture on one line item on the Condensed Consolidated Balance Sheet and our share of earnings on one line item in the Condensed Consolidated Statement of Operations. Our fiscal year ends January 31st. Frontline’s fiscal year ends December 31st. We record our quarterly interest in the equity method earnings or losses of Frontline based on its quarterly reported results.

As discussed in Note 2, “Summary of Significant Accounting Policies” to the condensed consolidated financial statements, we include our interest in the earnings or losses of Frontline as a component of Operating loss on our Condensed Consolidated Statement of Operations due to our active participation in regular and periodic activities such as budgeting, business planning, marketing, and direction of research and development projects.

The following table presents summarized financial information of Frontline for the period from March 18, 2010 through March 31, 2010:

<table>
<thead>
<tr>
<th></th>
<th>Mentor’s 50% Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As of March 31, 2010</strong></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 3.9</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$ 1.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Mentor’s 50% Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For the period March 18, 2010 through March 31, 2010</strong></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>$ 1.1</td>
</tr>
<tr>
<td>Cost of revenues</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Gross margin</strong></td>
<td><strong>1.0</strong></td>
</tr>
<tr>
<td>Operating expense</td>
<td>0.2</td>
</tr>
<tr>
<td>Net income-as reported</td>
<td>0.8</td>
</tr>
<tr>
<td>Amortization of purchased technology and other identified intangible assets</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Equity in earnings of Frontline</strong></td>
<td><strong>$ 0.2</strong></td>
</tr>
</tbody>
</table>

Amortization of Intangible Assets

For the three months ended April 30, 2010 compared to the three months ended April 30, 2009, the decrease in amortization of intangible assets was primarily due to certain intangible assets being fully amortized during fiscal 2010 and fiscal 2011.
Special Charges

Employee severance and related costs $1.6 (60%) $4.0
Excess leased facility costs 0.5 —
Other costs 1.2 (29%) 1.7
Total special charges $3.3 (42%) $5.7

Special charges primarily consist of costs incurred for employee terminations and were due to a reduction of personnel resources driven by modifications of business strategy or business emphasis. Special charges may also include incurred related to potential acquisitions, excess facility costs, and asset-related charges.

Employee severance and related costs of $1.6 for the three months ended April 30, 2010 included severance benefits, notice pay, and outplacement services. The total rebalance charge represents the aggregate of numerous unrelated rebalance plans which impacted several employee groups, none of which was individually material to our financial position or results of operations. We determined termination benefit amounts based on employee status, years of service, and local statutory requirements. We communicated termination benefits to the affected employees prior to the end of the quarter in which we recorded the charge. Approximately 21% of the year to date costs were paid during the three months ended April 30, 2010. We expect to pay the remainder during the fiscal year ending January 31, 2011. There have been no significant modifications to the amount of these charges.

Excess leased facility costs of $0.5 for the three months ended April 30, 2010 were primarily due to the abandonment of leased facilities and changes in the estimate of sublease income for previously abandoned leased facilities.

Other special charges for the three months ended April 30, 2010 included costs of $1.2 related to advisory fees.

Employee severance and related costs of $4.0 for the three months ended April 30, 2009 included severance benefits, notice pay, and outplacement services. The total rebalance charge represents the aggregate of numerous unrelated rebalance plans which impacted several employee groups, none of which were individually material to our financial position or results of operations. We determined termination benefit amounts based on employee status, years of service, and local statutory requirements. We communicated termination benefits to the affected employees prior to the end of the quarter in which we recorded the charge. Substantially all of these costs were paid during the fiscal year ended January 31, 2010. There have been no significant modifications to the amount of these charges.

Other special charges for the three months ended April 30, 2009 included costs of $1.2 related to advisory fees and other charges of $0.5.

Other Income (Expense), Net

<table>
<thead>
<tr>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>Change</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>$0.3</td>
<td>(25%)</td>
<td>$0.4</td>
</tr>
<tr>
<td>Foreign currency exchange loss</td>
<td>-0.6</td>
<td>(500%)</td>
<td>-0.1</td>
</tr>
<tr>
<td>Other, net</td>
<td>-0.8</td>
<td>(300%)</td>
<td>-0.2</td>
</tr>
<tr>
<td>Other income (expense), net</td>
<td>$-1.1</td>
<td>(1,200%)</td>
<td>$0.1</td>
</tr>
</tbody>
</table>

Provision for Income Taxes

<table>
<thead>
<tr>
<th>Three months ended April 30,</th>
<th>2010</th>
<th>Change</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax expense</td>
<td>$2.6</td>
<td>(7%)</td>
<td>$2.8</td>
</tr>
</tbody>
</table>

Generally, the provision for income taxes is the result of the mix of profit and loss earned by us and our subsidiaries in tax jurisdictions with a broad range of income tax rates, withholding taxes (primarily in certain foreign jurisdictions), changes in tax reserves, and the application of valuation allowances on deferred tax assets. Accounting guidance requires that on a quarterly basis we evaluate our provision for income tax expense (benefit) of U.S. and foreign jurisdictions based on our projected results of operations for the full year and record an adjustment in the current quarter.
For fiscal 2011, we anticipate losses in the U.S. but a net profit from international operations. Any tax benefit in the U.S. will generally be offset by an increase in the valuation allowance on U.S. deferred tax assets. For the three months ended April 30, 2010, our effective tax rate was (13)%. For fiscal 2011, we project a 57% effective tax rate, with the inclusion of period specific items. This differs from tax computed at the U.S. federal statutory rate of 35% primarily due to:

- Projected U.S. losses for which no tax benefit will be recognized;
- Non-deductible employee stock purchase plan compensation expense; and
- Withholding taxes in certain foreign jurisdictions.

Actual results may differ significantly from our current projections.

We have not provided for income taxes on the undistributed earnings of our foreign subsidiaries to the extent they are considered permanently re-invested outside of the U.S. Upon repatriation, some of these earnings may be sheltered by U.S. loss carryforwards or the carryforward of foreign tax credits, which may reduce the federal tax liability associated with any future foreign dividend. To the extent that the earnings of our foreign subsidiaries are not treated as permanently reinvested, which include earnings of certain countries, we have considered the impact in our provision. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable; however, the potential foreign tax credit associated with the deferred income would be available to reduce the resulting U.S. tax liabilities.

We determined deferred tax assets and liabilities based on differences between the financial reporting and tax basis of assets and liabilities. We calculated the deferred tax assets and liabilities using the enacted tax rates and laws that will be in effect when we expect the differences to reverse. Since 2004, we have determined it is uncertain whether our U.S. entity will generate sufficient taxable income and foreign source income to utilize foreign tax credit carryforwards, research and experimentation credit carryforwards, and net operating loss carryforwards before expiration. Accordingly, we recorded a valuation allowance against those deferred tax assets for which realization does not meet the more likely than not standard. We determine valuation allowances related to certain foreign deferred tax assets based on historical losses as well as future expectations in certain jurisdictions. In the first quarter of fiscal 2011, we purchased Valor. We are currently in the process of determining the fair value of all of the tax assets or liabilities assumed. However, we have made preliminary estimates which have been included in our purchase price allocation. Our assessment will be completed as soon as reasonably possible and may result in a material adjustment. We will continue to evaluate the realizability of the deferred tax assets on a periodic basis.

We are subject to income taxes in the U.S. and in numerous foreign jurisdictions. In the ordinary course of business there are many transactions and calculations where the ultimate tax determination is uncertain. The statute of limitations for adjustments to our historic tax obligations will vary from jurisdiction to jurisdiction. In some cases it may be extended or be unlimited. Furthermore, net operating loss and tax credit carryforwards may be subject to adjustment after the expiration of the statute of limitations of the year such net operating losses and tax credits originated. Our larger jurisdictions generally provide for a statute of limitations from three to five years. We are currently under examination in various jurisdictions. The examinations are in different stages and timing of their resolution is difficult to predict. The tax years for U.S. federal income tax purposes that remain open are fiscal year 2006 and forward. The statute of limitations remains open for years on or after 2005 in certain foreign jurisdictions.

We have reserves for taxes to address potential exposures involving tax positions that are being challenged or that could be challenged by taxing authorities even though we believe that the positions we have taken are appropriate. We believe our tax reserves are adequate to cover potential liabilities. We review the tax reserves quarterly and as circumstances warrant and adjust the reserves as events occur that affect our potential liability for additional taxes. It is often difficult to predict the final outcome or timing of resolution of any particular tax matter. Various events, some of which cannot be predicted, such as clarifications of tax law by administrative or judicial means, may occur and would require us to increase or decrease our reserves and effective tax rate. We expect to record additional reserves in future periods with respect to our tax filing positions. It is reasonably possible that unrecognized tax positions may decrease from $0 to $6.0 due to settlements or expirations of the statute of limitations within the next twelve months. To the extent that uncertain tax positions resolve in our favor, it could have a positive impact on our effective tax rate.

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary ongoing cash requirements will be for product development, operating activities, capital expenditures, debt service, and acquisition opportunities that may arise. Our primary sources of liquidity are cash generated from operations and borrowings under our revolving credit facility.
As of April 30, 2010, we had cash and cash equivalents of $99.7. The available cash and cash equivalents are held in accounts managed by third-party financial institutions and consist of invested cash and cash in our operating accounts.

Invested cash is held in interest bearing funds managed by third-party financial institutions. To date, we have experienced no loss or lack of access to our invested cash; however, we can provide no assurances that access to our cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

At any point in time, we have significant balances in operating accounts that are with individual third-party financial institutions, which may exceed the Federal Deposit Insurance Corporation insurance limits or other regulatory insurance program limits. While we monitor daily the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets.

We anticipate that the following will be sufficient to meet our working capital needs on a short-term (twelve months or less) and a long-term (more than twelve months) basis:

- Current cash balances;
- Anticipated cash flows from operating activities, including the effects of selling customer term receivables;
- Amounts available under existing revolving credit facilities; and
- Other available financing sources, such as the issuance of debt or equity securities.

However, capital markets have been volatile, and we cannot assure you that we will be able to raise debt or equity capital on acceptable terms, if at all.

### Operating Activities

Cash flows from operating activities consist of our net loss, adjusted for certain non-cash items and changes in operating assets and liabilities. Our cash flows from operating activities are significantly influenced by the payment terms on our license agreements and by our sales of qualifying accounts receivable. As a result of the current global economic downturn, our customers may not be able to make future payments as scheduled or may seek to renegotiate pre-existing contractual commitments due to adverse changes in their own businesses. Our customers’ inability to fulfill payment obligations could adversely affect our cash flow. Though we have not, to date, experienced a material level of defaults, material payment defaults by our customers as a result of current economic conditions or otherwise could have a material adverse effect on our financial condition. To address these concerns, we are monitoring our accounts receivable portfolio for customers with low or declining credit ratings and have increased our collection efforts.

### Trade Accounts and Term Receivables

The increase in the average days sales outstanding in short-term receivables as of April 30, 2010 compared to January 31, 2010 was due to a decrease in revenue in the first quarter of fiscal 2011 compared to the fourth quarter of fiscal 2010. The decrease in Trade accounts receivable, net as of April 30, 2010 compared to January 31, 2010 was due to decreased revenue.

The current portion of term receivables was $175.0 as of April 30, 2010 and $178.9 as of January 31, 2010. The increase in average days sales outstanding excluding the current portion of term receivables was due to a decrease in revenues during the three months ended April 30, 2010 compared to January 31, 2010.

The current portion of term receivables is attributable to multi-year term license sales agreements. We include amounts for term agreements that are due within one year in Trade accounts receivable, net, and balances that are due in more than one
year in Term receivables, long-term. We use term agreements as a standard business practice and have a history of successfully collecting under the original payment terms without making concessions on payments, products, or services, although the impact of current economic conditions on our customers could affect this performance. The decrease in total term receivables from $343.8 as of January 31, 2010 to $310.1 as of April 30, 2010 was primarily a result of an increase in term sales recorded during the first quarter of fiscal 2011 compared to the fourth quarter of fiscal 2010.

We enter into agreements to sell qualifying accounts receivable from time to time to certain financing institutions on a non-recourse basis. We received net proceeds from the sale of receivables of $14.9 for the three months ended April 30, 2010 compared to $13.3 for the three months ended April 30, 2009. We continue to have no difficulty in factoring receivables and continue to evaluate the economics of the sale of accounts receivable. We have not set a target for the sale of accounts receivable for the remainder of fiscal 2011.

Accrued Payroll and Related Liabilities

<table>
<thead>
<tr>
<th>As of</th>
<th>April 30, 2010</th>
<th>January 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued payroll and related liabilities</td>
<td>$53.5</td>
<td>$77.0</td>
</tr>
</tbody>
</table>

The decrease in Accrued payroll and related liabilities as of April 30, 2010 compared to January 31, 2010 was primarily due to incentive payments made during the first quarter of fiscal 2011 on year-end accruals. We generally experience higher accrued payroll and related liability balances at year end primarily due to increased commission accruals associated with an increase in revenues in the fourth quarter. Additionally, we generally experience an increase in bonus accruals at year end which result from a year-to-date true-up of amounts based on the full year achievement of results.

Investing Activities

Cash used in investing activities for the three months ended April 30, 2010 consisted of cash paid for acquisitions of businesses, net of cash acquired, equity interests, and capital expenditures.

Expenditures for property, plant, and equipment increased to $7.6 for the three months ended April 30, 2010 compared to $4.6 for the three months ended April 30, 2009. The expenditures for property, plant, and equipment for the three months ended April 30, 2010 were primarily a result of spending on information technology and infrastructure improvements within facilities. We expect total capital expenditures for property, plant, and equipment for fiscal 2011 to be approximately $54.3.

During the three months ended April 30, 2010, we acquired Valor through the issuance of common stock of $47.2 and cash consideration of $5.7, net of cash received of $27.0. We plan to finance our investments in property, plant, and equipment using cash. We plan to finance our business acquisitions through a combination of cash and common stock issuances. The cash expected to be utilized includes cash on hand, cash generated from operating activities, and borrowings under the revolving credit facility.

Financing Activities

For the three months ended April 30, 2010, cash used in financing activities consisted primarily of repayments of short-term borrowings of $11.1 and net repayments of $20.0 on our revolving line of credit. These repayments were partially offset by $20.0 in proceeds from a term loan to finance the purchase of office buildings in Fremont, California. Additional discussion regarding the term loan is in the section below.

We may elect to purchase or otherwise retire some or all of our debentures with cash, stock, or other assets from time to time in the open market or privately negotiated transactions, either directly or through intermediaries, or by tender offer when we believe that market conditions are favorable to do so. Such purchases may have a material effect on our liquidity, financial condition, and results of operations.

Other factors affecting liquidity and capital resources

6.25% Debentures due 2026

Interest on the 6.25% Convertible Subordinated Debentures (6.25% Debentures) due 2026 is payable semi-annually in March and September. The 6.25% Debentures are convertible, under certain circumstances, into our common stock at a conversion price of $17.968 per share for a total of 9.2 shares as of April 30, 2010. Upon conversion, in lieu of shares of our common stock, for each one thousand dollar principal amount of the 6.25% Debentures a holder will receive an amount of cash equal to the lesser of: (i) one thousand dollars or (ii) the conversion value of the number of shares of our common stock equal to the conversion rate. If such conversion value exceeds one thousand dollars, we will also deliver, at our election, cash or common stock, or a combination of cash and common stock with a value equal to the excess. If a holder elects to convert their 6.25%
Debentures in connection with a fundamental change in the company that occurs prior to March 6, 2011, the holder will also be entitled to receive a make whole premium upon conversion in some circumstances. The 6.25% Debentures rank pari passu with the Floating Rate Convertible Subordinated Debentures (Floating Rate Debentures) due 2023. We may redeem some or all of the 6.25% Debentures for cash on or after March 6, 2011. The holders, at their option, may redeem some or all of the 6.25% Debentures for cash on March 1, 2013, 2016, or 2021. During the three months ended April 30, 2010, we did not repurchase any 6.25% Debentures and the principal amount of $165.0 remains outstanding.

Floating Rate Debentures due 2023
Interest on the Floating Rate Debentures is payable quarterly in February, May, August, and November at a variable interest rate equal to 3-month London Interbank Offered Rate (LIBOR) plus 1.65%. The effective interest rate was 1.90% for the three months ended April 30, 2010. The Floating Rate Debentures are convertible, under certain circumstances, into our common stock at a conversion price of $23.40 per share for a total of 1.4 shares as of April 30, 2010.

The conversion price may be adjusted based on certain future transactions, such as stock splits or stock dividends. We may redeem some or all of the Floating Rate Debentures for cash at 100.81% of the face amount, with the premium reducing to 0% on August 6, 2010. The holders, at their option, may redeem some or all of the Floating Rate Debentures for cash on August 6, 2010, 2013, or 2018. During the three months ended April 30, 2010, we did not repurchase any Floating Rate Debentures and the principal amount of $32.3 is outstanding.

We have classified the entire $32.3 of Floating Rate Debentures as short-term in our Condensed Consolidated Balance Sheet as of April 30, 2010 as holders, at their option, may redeem some or all of the Floating Rate Debenture for cash on August 6, 2010. We expect to retire this obligation utilizing cash on hand and amounts available under our revolving credit facility.

Term Loan due 2013
In April 2010, we entered into a three-year term loan (Term Loan) to finance the purchase of office buildings in Fremont, California. Principal and interest payment are payable quarterly in February, May, August, and November. The remaining principal balance is payable on the April 2013 maturity date. We have the option to pay interest based on: (i) LIBOR plus 4.5%, or (ii) a base rate plus 3.5%. The base rate is defined as the higher of: (i) the federal funds rate, as defined, plus 0.5%, (ii) the prime rate of the lead bank, or (iii) one-month LIBOR plus 1.0%. As a result of these interest rate options, our interest expense associated with borrowings under this term loan will vary with market interest rates. Principle payments are fixed at $0.5 and are payable quarterly. Additionally, the term loan requires us to have a minimum cash and cash equivalent balance as of the last day of the quarter. If we were to fail to comply with this covenant and did not obtain a waiver from our lenders, we would be in default under this term loan and our lenders could terminate the loan and demand immediate repayment of the outstanding loan. The Term Loan is secured by our Wilsonville, Oregon campus which includes land, buildings and improvements with a carrying value of approximately $40 million. This amount is reported in our Condensed Consolidated Balance sheet within Property, plant, and equipment, net.

During the three months ended April 30, 2010, we did not repay any amount against the Term Loan. The effective interest rate was 4.77% for the three months ended April 30, 2010.

For further information on our 6.25% Debentures, our Floating Rate Debentures and the Term Loan, see Note 7. “Notes Payable” in Part I., Item 1. “Financial Statements - Notes to Unaudited Condensed Consolidated Financial Statements.”

Revolving Credit Facility
We are party to a syndicated, senior, unsecured, four-year revolving credit facility with a maximum borrowing capacity of $100.0 with an option to increase the borrowing capacity by $30.0 in the future. Under this revolving credit facility, we have the option to pay interest based on: (i) LIBOR with varying maturities which are commensurate with the borrowing period we select, plus a spread between 1.0% and 1.6%, or (ii) a base rate plus a spread of between 0.0% and 0.6%, based on a pricing grid tied to a financial covenant. The base rate is defined as the higher of: (i) the federal funds rate, as defined, plus 0.5%, (ii) the prime rate of the lead bank, or (iii) one-month LIBOR plus 1.0%. As a result of these interest rate options, our interest expense associated with borrowings under this revolving credit facility will vary with market interest rates. In addition, commitment fees are payable on the unused portion of the revolving credit facility at rates between 0.25% and 0.35% based on a pricing grid tied to a financial covenant. We paid commitment fees of $0.1 for the three months ended April 30, 2010 and $0.1 for the three months ended April 30, 2009.

We borrowed $30.0 against the revolving credit facility and repaid $50.0 during the three months ended April 30, 2010. As of April 30, 2010, we had no balance outstanding against the revolving credit facility. The interest rate was 3.25% as of April 30, 2010.

For further information on our revolving credit facility, see Note 6. “Short-Term Borrowings” in Part I., Item 1. “Financial Statements—Notes to Unaudited Condensed Consolidated Financial Statements.”
OFF-BALANCE SHEET ARRANGEMENTS
We do not have off-balance sheet arrangements, financings, or other similar relationships with unconsolidated entities or other persons, also known as special purpose entities. In the ordinary course of business, we lease certain real properties, primarily field sales offices, research and development facilities, and equipment.

OUTLOOK FOR FISCAL 2011
We expect revenues for the second quarter of fiscal 2011 to be approximately $180.0 with a net loss per share for the same period of approximately $(0.17) to $(0.22). For the full fiscal year 2011, we expect revenues of $870.0 with earnings per share of $0.10 to $0.15.
All numerical references in tables are in millions, except interest rates and contract rates.

**Interest Rate Risk**

We are exposed to interest rate risk primarily through our investment portfolio, short-term borrowings, and notes payable. We do not hold or issue derivative financial instruments for speculative or trading purposes.

We place our investments in instruments that meet high quality credit standards, as specified in our investment policy. The policy also limits the amount of credit exposure to any one issuer and type of instrument. We do not expect any material loss with respect to our investment portfolio.

The table below presents the carrying amount and related weighted-average fixed interest rates for our investment portfolio. The carrying amount approximates fair value as of April 30, 2010. In accordance with our investment policy, all short-term investments mature in twelve months or less.

<table>
<thead>
<tr>
<th>Principal (notional) amounts in United States dollars</th>
<th>Carrying Amount</th>
<th>Average Fixed Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash equivalents – fixed rate</td>
<td>$ 50.6</td>
<td>0.08%</td>
</tr>
</tbody>
</table>

We had convertible subordinated debentures with a principal balance of $165.0 million outstanding with a fixed interest rate of 6.25% as of April 30, 2010 and April 30, 2009. For fixed rate debt, interest rate changes affect the fair value of the debentures but do not affect earnings or cash flow.

We had floating rate convertible subordinated debentures with a principal balance of $32.3 million outstanding with a variable interest rate of 3-month London Interbank Offered Rate (LIBOR) plus 1.65% as of April 30, 2010 and $33.8 million as of April 30, 2009. The effective interest rate was 1.90% for the three months ended April 30, 2010 and 2.97% for the three months ended April 30, 2009. For variable interest rate debt, interest rate changes generally do not affect the fair market value, but do affect earnings and cash flow.

As of April 30, 2010, we had a syndicated, senior, unsecured, revolving credit facility, which expires on June 1, 2011. Borrowings under the revolving credit facility are permitted to a maximum of $100.0 million. Under this revolving credit facility, we have the option to pay interest based on: (i) LIBOR with varying maturities which are commensurate with the borrowing period we select, plus a spread of between 1.0% and 1.6%, or (ii) a base rate plus a spread of between 0.0% and 0.6%, based on a pricing grid tied to a financial covenant. The base rate is defined as the higher of: (i) the federal funds rate, as defined, plus 0.5%, (ii) the prime rate of the lead bank, or (iii) one-month LIBOR plus 1.0%. As a result of these interest rate options, our interest expense associated with borrowings under this revolving credit facility will vary with market interest rates. This revolving credit facility contains certain financial and other covenants, including financial covenants requiring the maintenance of specified liquidity ratios, leverage ratios, and minimum tangible net worth as well as restrictions on the payment of cash dividends. As of April 30, 2010, we had no balance outstanding against this revolving credit facility. As of April 30, 2009, we had an outstanding balance of $20.0 million. The interest rate as of April 30, 2009 was 3.85%. For variable interest rate debt, interest rate changes generally do not affect the fair market value, but do affect earnings and cash flow.

In April 2010, we entered into a three-year term loan. Under this term loan, we have the option to pay interest based on: (i) LIBOR plus 4.5%, or (ii) a base rate plus 3.5%. The base rate is defined as the higher of: (i) the federal funds rate, as defined, plus 0.5%, (ii) the prime rate of the lead bank, or (iii) one-month LIBOR plus 1.0%. As a result of these interest rate options, our interest expense associated with borrowings under this term loan will vary with market interest rates. This term loan contains covenant requiring the maintenance of minimum cash and cash equivalent balance. As of April 30, 2010, we had $20.0 million outstanding against this term loan. The effective interest rate was 4.77% for the three months ended April 30, 2010. For variable interest rate debt, interest rate changes generally do not affect the fair market value, but do affect earnings and cash flow.

We had other short-term borrowings of $4.3 million outstanding as of April 30, 2010 and $4.1 million as of April 30, 2009 with variable rates based on market indexes. For variable interest rate debt, interest rate changes generally do not affect the fair market value, but do affect earnings and cash flow.

If the interest rates as of April 30, 2010 on the above variable rate borrowings were to increase or decrease by 1% and the level of borrowings outstanding remained constant, annual interest expense would increase or decrease by approximately $0.6 million.
**Foreign Currency Risk**

We transact business in various foreign currencies and have established a foreign currency hedging program to hedge certain foreign currency forecasted transactions and exposures from existing assets and liabilities. Our derivative instruments consist of short-term foreign currency exchange contracts, with a duration period of a year or less. We enter into contracts with counterparties who are major financial institutions and, as such we do not expect material losses as a result of defaults by our counterparties. We do not hold or issue derivative financial instruments for speculative or trading purposes.

We enter into foreign currency forward contracts to protect against currency exchange risk associated with expected future cash flows. Our practice is to hedge a majority of our existing material foreign currency transaction exposures, which generally represent the excess of expected euro and British pound expenses over expected euro and British pound denominated revenues, and the excess of Japanese yen denominated revenue over expected Japanese yen expenses. We also enter into foreign currency forward contracts to protect against currency exchange risk associated with existing assets and liabilities.

The following table provides volume information about our foreign currency forward program. The information provided is in U.S. dollar equivalent amounts. The table presents the gross notional amounts, at contract exchange rates, and the weighted average contractual foreign currency exchange rates. These forward contracts mature within the next twelve months.

<table>
<thead>
<tr>
<th>As of</th>
<th>April 30, 2010</th>
<th>January 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross Notional Amount</td>
<td>Weighted Average Contract Rate</td>
</tr>
<tr>
<td>Forward Contracts:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japanese yen</td>
<td>$82.0</td>
<td>92.30</td>
</tr>
<tr>
<td>Euro</td>
<td>35.0</td>
<td>0.72</td>
</tr>
<tr>
<td>British pound</td>
<td>20.4</td>
<td>0.64</td>
</tr>
<tr>
<td>Indian rupee</td>
<td>16.1</td>
<td>44.52</td>
</tr>
<tr>
<td>Swedish krona</td>
<td>15.5</td>
<td>7.19</td>
</tr>
<tr>
<td>Canadian dollar</td>
<td>9.0</td>
<td>1.01</td>
</tr>
<tr>
<td>Taiwan dollar</td>
<td>7.8</td>
<td>31.25</td>
</tr>
<tr>
<td>Other (1)</td>
<td>17.5</td>
<td>—</td>
</tr>
<tr>
<td>Total forward contracts</td>
<td><strong>$203.3</strong></td>
<td><strong>$182.6</strong></td>
</tr>
</tbody>
</table>

(1) Other includes 10 currencies which are the Korean won, Swiss franc, Hungarian forint, Danish kroner, Russian ruble, Polish zloty, Israeli shekel, Norwegian kroner, Chinese yuan, and Singapore dollar.
Item 4. Controls and Procedures

(1) Evaluation of Disclosure Controls and Procedures
We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (Exchange Act), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report.

(2) Changes in Internal Controls Over Financial Reporting
There has been no change in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.
PART II. OTHER INFORMATION

Item 1A. Risk Factors

The forward-looking statements contained under “Outlook for Fiscal 2011” in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and all other statements contained in this report that are not statements of historical fact, including without limitation, statements containing the words “believes,” “expects,” “projections,” and words of similar meaning, constitute forward-looking statements that involve a number of risks and uncertainties that are difficult to predict. Moreover, from time to time, we may issue other forward-looking statements. Forward-looking statements regarding financial performance in future periods, including the statements under “Outlook for Fiscal 2011,” do not reflect potential impacts of mergers or acquisitions or other significant transactions or events that have not been announced as of the time the statements are made. Actual outcomes and results may differ materially from what is expressed or forecast in forward-looking statements. We disclaim any obligation to update forward-looking statements to reflect future events or revised expectations. Our business faces many risks, and the factors set forth below are some of the factors that could cause actual results to differ materially from the results expressed or implied by our forward-looking statements. Forward-looking statements should be considered in light of these factors.

Weakness in the United States (U.S.) and international economies may harm our business.

Our revenue levels are generally dependent on the level of technology capital spending, which includes worldwide expenditures for electronic design automation (EDA) software, hardware, and consulting services. The global economy continues to be weak, with continuing uncertainty in the credit markets and banking systems, reduced capital spending, and significant job losses. This volatility and uncertainty about future economic conditions could adversely affect our customers and postpone decisions to license or purchase our products, decrease our customers' spending, and jeopardize or delay our customers' ability or willingness to make payment obligations, any of which could adversely affect our business. We cannot predict the duration of the global economic downturn or subsequent recovery.

Our forecasts of our revenues and earnings outlook may be inaccurate.

Our revenues, particularly new software license revenues, are difficult to forecast. We use a “pipeline” system, a common industry practice, to forecast revenues and trends in our business. Sales personnel monitor the status of potential business and estimate when a customer will make a purchase decision, the dollar amount of the sale, and the products or services to be sold. These estimates are aggregated periodically to generate a sales pipeline. Our pipeline estimates may prove to be unreliable either in a particular quarter or over a longer period of time, in part because the “conversion rate” of the pipeline into contracts can be very difficult to estimate and requires management judgment. A variation in the conversion rate could cause us to plan or budget incorrectly and materially adversely impact our business or our planned results of operations. In particular, a slowdown in customer spending or weak economic conditions generally can reduce the conversion rate in a particular quarter as purchasing decisions are delayed, reduced in amount, or cancelled. The conversion rate can also be affected by the tendency of some of our customers to wait until the end of a fiscal quarter attempting to obtain more favorable terms.

Our business could be impacted by fluctuations in quarterly results of operations due to customer seasonal purchasing patterns, the timing of significant orders, and the mix of licenses and products purchased by our customers.

We have experienced, and may continue to experience, varied quarterly operating results. Various factors affect our quarterly operating results and some of these are not within our control, including customer demand and the timing of significant orders. We typically experience seasonality in demand for our products, due to the purchasing cycles of our customers, with revenues in the fourth quarter generally being the highest. If planned contract renewals are delayed or the average size of renewed contracts do not increase as we anticipate, we could fail to meet our and investors’ expectations, which could have a material adverse impact on our stock price.

Our revenues are also affected by the mix of licenses entered into where we recognize software revenues as payments become due and payable, on a cash basis, or ratably over the license term as compared to revenues recognized at the beginning of the license term. We recognize revenues ratably over the license term, for instance, when the customer is provided with rights to unspecified or unreleased future products. A shift in the license mix toward increased ratable, due and payable, and/or cash-based revenue recognition could result in increased deferral of software revenues to future periods and would decrease current revenues, which could result in us not meeting near-term revenue expectations.

The gross margin on our software is greater than that for our emulation hardware systems, software support, and professional services. Therefore, our gross margin may vary as a result of the mix of products and services sold. We also have a significant amount of fixed or relatively fixed costs, such as employee costs and purchased technology amortization,
and costs which are committed in advance and can only be adjusted periodically. As a result, a small failure to reach planned revenues would likely have a relatively large negative effect on resulting earnings. If anticipated revenues do not materialize as expected, our gross margins and operating results could be materially adversely impacted.

**We face intense competition in the EDA industry.**

Competition in the EDA industry is intense, which can lead to, among other things, price reductions, longer selling cycles, lower product margins, loss of market share, and additional working capital requirements. If our competitors offer significant discounts on certain products, we may need to lower our prices or offer other favorable terms in order to compete successfully. Any such changes would likely reduce margins and could materially adversely impact our operating results. Any broad-based changes to our prices and pricing policies could cause new software license and service revenues to decline or be delayed as the sales force implements and our customers adjust to the new pricing policies. Some of our competitors may bundle certain software products at low prices for promotional purposes or as a long-term pricing strategy. These practices could significantly reduce demand for our products or constrain prices we can charge.

We currently compete primarily with two large companies: Synopsys, Inc. and Cadence Design Systems, Inc. We also compete with numerous smaller companies and compete with manufacturers of electronic devices that have developed their own EDA products internally.

**Our international operations and the effects of foreign currency fluctuations expose us to additional risks.**

We typically generate about half of our revenues from customers outside the U.S. and we generate approximately one-third of our expenses outside the U.S. Significant changes in currency exchange rates, particularly in the Japanese yen, euro, and the British pound, could have an adverse impact on us. In addition, international operations subject us to other risks including longer receivables collection periods, changes in a specific country’s or region’s economic or political conditions, trade protection measures, local labor laws, import or export licensing requirements, loss or modification of exemptions for taxes and tariffs, limitations on repatriation of earnings, and difficulties with licensing and protecting our intellectual property rights.

**We derive a substantial portion of our revenues from relatively few product groups.**

We derive a substantial portion of our revenues from sales of relatively few product groups and related support services. As such, any factor adversely affecting sales of these products, including the product release cycles, market acceptance, product competition, performance and reliability, reputation, price competition, and economic and market conditions, could harm our operating results.

**We are subject to the cyclical nature of the integrated circuit (IC) and electronics systems industries.**

Purchases of our products and services are highly dependent upon new design projects initiated by customers in the IC and electronics systems industries. These industries are highly cyclical and are subject to constant and rapid technological change, rapid product obsolescence, price erosion, evolving standards, short product life cycles, and wide fluctuations in product supply and demand. The IC and electronics systems industries regularly experience significant downturns, often connected with, or in anticipation of, maturing product cycles within such companies or decline in general economic conditions. These downturns could cause diminished demand for our products and services.

**Customer payment defaults or related issues could adversely affect our financial condition and results of operations.**

We have customer payment obligations not yet due that are attributable to software we have already delivered. These customer obligations are typically not cancelable, but will not yield the expected revenue and cash flow if the customer defaults or declares bankruptcy and fails to pay amounts owed. In these cases, we may generally take legal action to recover amounts owed, if warranted. Moreover, existing customers may seek to renegotiate pre-existing contractual commitments due to adverse changes in their own businesses, particularly in the current troubled economic environment. Though we have not, to date, experienced a material level of defaults or renegotiated a material level of pre-existing contractual commitments, any material payment default by our customers or significant reductions in existing contractual commitments could have a material adverse effect on our financial condition and results of operations. These risks may be exacerbated by the global economic downturn because our revenue forecasts assume: (i) customers whose payments are recognized as revenue only when paid will make future payments as scheduled, and (ii) customers whose credit ratings and financial circumstances have deteriorated since we originally booked contracts with them will make future payments as scheduled.
Customer payment defaults could adversely affect our timing of revenue recognition.

We use fixed-term license agreements as standard business practices with customers we believe are creditworthy. These multi-year, multi-element term license agreements have payments spread over the license term and are typically about three years in length for semiconductor companies and about four years in length for military and aerospace companies. The complexity of these agreements tends to increase the risk associated with collectibility from customers that can arise for a variety of reasons including ability to pay, product dissatisfaction, and disputes. If we are unable to collect under these agreements, our results of operations could be materially adversely impacted. We use these fixed-term license agreements as a standard business practice and have a history of successfully collecting under the original payment terms without making concessions on payments, products, or services. If we no longer had a history of collecting without providing concessions on the terms of the agreements, then revenue would be required to be recognized under U.S. generally accepted accounting principles as the payments become due and payable over the license term. This change could have a material adverse impact on our near-term results.

IC and printed circuit board (PCB) technology evolves rapidly.

The complexity of ICs and PCBs continues to rapidly increase. In response to this increasing complexity, new design tools and methodologies must be invented or acquired quickly to remain competitive. If we fail to quickly respond to new technological developments, our products could become obsolete or uncompetitive, which could materially adversely impact our business.

Errors or defects in our products and services could expose us to liability and harm our reputation.

Our customers use our products and services in designing and developing products that involve a high degree of technological complexity and have unique specifications. Due to the complexity of the systems and products with which we work, some of our products and designs can be adequately tested only when put to full use in the marketplace. As a result, our customers or their end users may discover errors or defects in our software, or the products or systems designed with or manufactured using tools that may not operate as expected. Errors or defects could result in:

- Loss of current customers and loss of, or delay in, revenue and loss of market share;
- Failure to attract new customers or achieve market acceptance;
- Diversion of development resources to resolve the problems resulting from errors or defects; and
- Increased support or service costs.

In addition, we include limited amounts of third-party technology in our products and we rely on those third parties to provide support services to us. Failure of those third parties to provide necessary support services could materially adversely impact our business.

Long sales cycles and delay in customer completion of projects make the timing of our revenues difficult to predict.

We have a lengthy sales cycle. A lengthy customer evaluation and approval process is generally required due to the complexity and expense associated with our products and services. Consequently, we may incur substantial expenses and devote significant management effort and expense to develop potential relationships that do not result in agreements or revenues and may prevent us from pursuing other opportunities. In addition, sales of our products and services is sometimes discretionary and may be delayed if customers delay approval or commencement of projects due to budgetary constraints, internal acceptance review procedures, timing of budget cycles, or timing of competitive evaluation processes.

Disruptions of our indirect sales channel could affect our future operating results.

Our indirect sales channel is comprised primarily of independent distributors. Our relationships with these distributors are important elements of our marketing and sales efforts. Our financial results could be adversely affected if our contracts with distributors were terminated, if our relationships with distributors were to deteriorate, if any of our competitors enter into strategic relationships with or acquire a significant distributor, or if the financial condition of our distributors were to weaken.

Any loss of our leadership position in certain segments of the EDA market could harm our business.

The industry in which we compete is characterized by very strong leadership positions in specific segments of the EDA market. For example, one company may have a large percentage of sales in the physical verification segment of the market while another may have a similarly strong position in mixed-signal simulation. These strong leadership positions can be maintained for significant periods of time as the software is difficult to master and customers are disinclined to make changes once their employees, as well as others in the industry, have developed familiarity with a particular software product. For these reasons, much of our profitability arises from niche areas in which we are the leader. Conversely, it is difficult for us to achieve significant profits in niche areas where other companies are the leaders. If for any reason we lose our leadership position in a niche, we could be materially adversely impacted.
Accounting rules governing revenue recognition are complex and may change.

The accounting rules governing software revenue recognition are complex and have been subject to authoritative interpretations that have generally made it more difficult to recognize software revenues at the beginning of the license period. If this trend continues, new and revised standards and interpretations could materially adversely impact our ability to meet near-term revenue expectations.

We may have additional tax liabilities.

Significant judgments and estimates are required in determining the provision for income taxes and other tax liabilities. Our tax expense may be impacted if our intercompany transactions, which are required to be computed on an arm’s-length basis, are challenged and successfully disputed by the tax authorities. Also, our tax expense could be impacted depending on the applicability of withholding taxes on software licenses and related intercompany transactions in certain jurisdictions. In determining the adequacy of income taxes, we assess the likelihood of adverse outcomes resulting from the Internal Revenue Service (IRS) and other tax authorities’ examinations. The IRS and tax authorities in countries where we do business regularly examine our tax returns. The ultimate outcome of these examinations cannot be predicted with certainty. Should the IRS or other tax authorities assess additional taxes as a result of examinations, we may be required to record charges to operations that could have a material impact on the results of operations, financial position, or cash flows.

Forecasting our income tax rate is complex and subject to uncertainty.

The computation of income tax expense (benefit) is complex as it is based on the laws of numerous taxing jurisdictions and requires significant judgment on the application of complicated rules governing accounting for tax provision under U.S. generally accepted accounting principles. Income tax expense (benefit) for interim quarters is based on a forecast of our global tax rate for the year, which includes forward looking financial projections, including the expectations of profit and loss by jurisdiction, and contains numerous assumptions. Various items cannot be accurately forecasted, and may be treated as discrete accounting. Examples of items which could cause variability in the rate include tax deductions for stock option expense, application of transfer pricing rules, and changes in our valuation allowance for deferred tax assets. Future events, such as changes in our business and the tax law in the jurisdictions where we do business, could also affect our rate. For these reasons, our global tax rate may be materially different than our forecast.

There are limitations on the effectiveness of controls.

We do not expect that disclosure controls or internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s 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 materially adversely impact us.

We may not realize revenues as a result of our investments in research and development.

We incur substantial expense to develop new software products. Research and development activities are often performed over long periods of time. This effort may not result in a successful product offering. As a result, we could realize little or no revenues related to our investment in research and development.

We may acquire other companies and may not successfully integrate them.

The industry in which we compete has experienced significant consolidation in recent years. During this period, we have acquired numerous businesses and have frequently been in discussions with potential acquisition candidates, and we may acquire other businesses in the future. While we expect to carefully analyze all potential transactions before committing to them, we cannot assure that any transaction that is completed will result in long-term benefits to us or our shareholders or that we will be able to manage the acquired businesses effectively. In addition, growth through acquisition involves a number of risks. If any of the following events occurs after we acquire another business, it could materially adversely impact us:

- Difficulties in combining previously separate businesses into a single unit;
- The substantial diversion of management’s attention from ongoing business when integrating the acquired business;
• The discovery after the acquisition has been completed of previously unknown liabilities assumed with the acquired business;
• The failure to realize anticipated benefits, such as cost savings and increases in revenues;
• The failure to retain key personnel of the acquired business;
• Difficulties related to assimilating the products of an acquired business in, for example, distribution, engineering, and customer support areas;
• Unanticipated costs;
• Unanticipated litigation in connection with or as a result of an acquisition, including claims from terminated employees, customers, or third parties;
• Adverse impacts on existing relationships with suppliers and customers; and
• Failure to understand and compete effectively in markets in which we have limited experience.

Acquired businesses may not perform as projected, which could result in impairment of acquisition-related intangible assets. Additional challenges include integration of sales channels, training and education of the sales force for new product offerings, integration of product development efforts, integration of systems of internal controls, and integration of information systems. Accordingly, in any acquisition there will be uncertainty as to the achievement and timing of projected synergies, cost savings, and sales levels for acquired products. All of these factors could impair our ability to forecast, meet revenues and earnings targets, and manage effectively our business for long-term growth. We cannot assure that we can effectively meet these challenges.

We may not adequately protect our proprietary rights or we may fail to obtain software or other intellectual property licenses.

Our success depends, in large part, upon our proprietary technology. We generally rely on patents, copyrights, trademarks, trade secret laws, licenses, and restrictive agreements to establish and protect our proprietary rights in technology and products. Despite precautions we may take to protect our intellectual property, we cannot assure that third parties will not try to challenge, invalidate, or circumvent these protections. The companies in the EDA industry, as well as entities and persons outside the industry, are obtaining patents at a rapid rate. Many of these entities have substantially larger patent portfolios than we have. As a result, we may on occasion be forced to engage in costly patent litigation to protect our rights or defend our customers’ rights. We may also need to settle these claims on terms that are unfavorable; such settlements could result in the payment of significant damages or royalties, or force us to stop selling or redesign one or more products. We cannot assure that the rights granted under our patents will provide us with any competitive advantage, that patents will be issued on any of our pending applications, or that future patents will be sufficiently broad to protect our technology. Furthermore, the laws of foreign countries may not protect our proprietary rights in those countries to the same extent as U.S. law protects these rights in the U.S.

Some of our products include software or other intellectual property licensed from third parties, and we may have to seek new licenses or renew existing licenses for software and other intellectual property in the future. Failure to obtain software or other intellectual property licenses or rights from third parties on favorable terms could materially adversely impact us.

Our use of open source software could negatively impact our ability to sell our products and confusion regarding open source software may harm the market for our products.

The products, services or technologies we acquire, license, provide or develop may incorporate or use open source software. We monitor our use of open source software in an effort to avoid unintended consequences, such as reciprocal license grants, patent retaliation clauses, and the requirement to license our products at no cost. There is little or no legal precedent for interpreting the terms of these open source licenses, therefore we may be subject to unanticipated obligations regarding our products which incorporate open source software. In addition, some customers may falsely believe that their source code will be made public if used with our open source products. This confusion and misperception may harm the market for our products or services which use open source software.
Our failure to attract and retain key employees may harm us.

We depend on the efforts and abilities of our senior management, our research and development staff, and a number of other key management, sales, support, technical, and services personnel. Competition for experienced, high-quality personnel is intense, and we cannot assure that we can continue to recruit and retain such personnel. Our failure to hire and retain such personnel could impair our ability to develop new products and manage our business effectively.

We have global sales and research and development offices in parts of the world that are not as politically stable as the United States.

We have global sales and research and development offices, some of which are in parts of the world that are not as politically stable as the United States. As a result, we may face a greater risk of business interruption as a result of terrorist acts or military conflicts than businesses located domestically.

Oregon law may have anti-takeover effects.

The Oregon Control Share Act and the Business Combination Act limit the ability of parties who acquire a significant amount of voting stock to exercise control over us. These provisions may have the effect of lengthening the time required to acquire control of us through a proxy contest or the election of a majority of the Board of Directors. The provisions of the Oregon Control Share Act and the Business Combination Act could have the effect of delaying, deferring, or preventing a change of control of us, could discourage bids for our common stock at a premium over the market price of our common stock and could materially adversely impact the market price of, and the voting and other rights of the holders of, our common stock.

We have a substantial level of indebtedness.

As of April 30, 2010, we had $225.2 million of outstanding indebtedness, which includes $32.3 million of Floating Rate Convertible Subordinated Debentures (Floating Rate Debentures) due 2023, $165.0 million of 6.25% Convertible Subordinated Debentures (6.25% Debentures) due 2026, and $20.0 million under a term loan, and $6.6 million in short-term borrowings. This level of indebtedness among other things could:

- Make it difficult for us to satisfy our payment obligations on our debt;
- Make it difficult for us to incur additional indebtedness or obtain any necessary financing in the future for working capital, capital expenditures, debt service, acquisitions, or general corporate purposes;
- Limit our flexibility in planning for or reacting to changes in our business;
- Reduce funds available for use in our operations;
- Make us more vulnerable in the event of a downturn in our business;
- Make us more vulnerable in the event of an increase in interest rates if we must incur new debt to satisfy our obligations under the Floating Rate Debentures, 6.25% Debentures, and term loan; and
- Place us at a possible competitive disadvantage relative to less leveraged competitors and competitors that have greater access to capital resources.

If we experience a decline in revenues, we could have difficulty paying amounts due on our indebtedness. Any default under our indebtedness could have a material adverse impact on our business, operating results, and financial condition.

Our stock price could become more volatile, and your investment could lose value.

All of the factors discussed in this section could affect our stock price. The timing of announcements in the public market regarding new products, product enhancements, or technological advances by our competitors or us, and any announcements by us of acquisitions, major transactions, or management changes could also affect our stock price. Our stock price is subject to speculation in the press and the analyst community, changes in recommendations or earnings estimates by financial analysts, changes in investors’ or analysts’ valuation measures for our stock, our credit ratings, and market trends unrelated to our performance. A significant drop in our stock price could also expose us to the risk of securities class actions lawsuits, which could result in substantial costs and divert management’s attention and resources, which could adversely affect our business.

Our revolving credit facility has financial and non-financial covenants, and default of any covenant could materially adversely impact us.

Our bank revolving credit facility imposes operating restrictions on us in the form of financial and non-financial covenants. Financial covenants include adjusted quick ratio, minimum tangible net worth, leverage ratio, senior leverage ratio, and
minimum cash and accounts receivable ratio. If we were to fail to comply with the financial covenants and did not obtain a waiver from our lenders, we would be in default under the revolving credit facility and our lenders could terminate the facility and demand immediate repayment of all outstanding loans under the revolving credit facility. The declaration of an event of default could have a material adverse effect on our financial condition. We could also find it difficult to obtain other bank lines or credit facilities on comparable terms.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On March 18, 2010, we acquired all of the outstanding common shares of Valor Computerized Systems, Ltd., an Israeli company (Valor). Under the terms of the merger agreement, Valor shareholders received aggregate consideration of $87 million, comprised of $33 million in cash and 5.6 million shares of our common stock worth $47 million based on the $8.39 per share closing price of our common stock on March 18, 2010. Additionally, under the merger agreement, we converted Valor’s outstanding stock options into options to purchase shares of our common stock, resulting in additional consideration of $7 million.

We relied on the exemption from registration in Section 3(a)(10) of the Securities Act of 1933 for the offer and issuance of our common stock to shareholders of Valor. An Israeli district court held a hearing open to all Valor shareholders on February 16, 2010 and, after the hearing, determined that the merger was procedurally and substantively fair to Valor shareholders and approved the issuance of our shares of common stock to Valor shareholders in the merger. Before the hearing, we and Valor advised the court that we would rely on the 3(a)(10) exemption based on the court’s approval of the transaction.
Item 6. Exhibits

4.L  Election dated as of March 31, 2010 to reduce commitment under revolving Credit Agreement between the Company, Bank of America, N.A., as agent, and the other lenders.

4.M  Credit Agreement for $20 million term loan dated as of April 6, 2010 between the Company, Bank of America, N.A., as agent, and the other lenders.


31.1 Certification of Chief Executive Officer of Registrant Pursuant to SEC Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer of Registrant Pursuant to SEC Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32  Certifications of Chief Executive Officer and Chief Financial Officer of Registrant Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
SIGNATURES

Pursuant to the requirements 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.

Dated: June 8, 2010

MENTOR GRAPHICS CORPORATION
(Registrant)

/S/ GREGORY K. HINCKLEY
Gregory K. Hinckley
President, Chief Financial Officer
March 31, 2010

Bank of America, N.A., as Agent
Mail Code: CA5-701-05-19
1455 Market Street, 5th Floor
San Francisco, California 94103

Attention: Robert J. Rittelmeyer

Ladies and Gentlemen:

Reference is hereby made to the Credit Agreement (as amended, restated, supplemented or otherwise modified and in effect from time to time, the “Credit Agreement”), dated as of June 1, 2005, among Mentor Graphics Corporation, an Oregon corporation (the “Borrower”), the Banks party thereto, and Bank of America, N.A., as Agent (the “Agent”). Unless otherwise defined herein, capitalized terms used in this letter have the meanings ascribed thereto in the Credit Agreement.

Pursuant to Section 2.05 of the Credit Agreement, the Borrower hereby elects, solely upon the occurrence of the Closing Date under that certain Credit Agreement for a $20 million term loan facility, dated on or about April 6, 2010, by and among Borrower, the Agent, and the other financial institutions party thereto, to reduce the Commitments under the Credit Agreement from One Hundred Forty Million Dollars ($140,000,000.00) to One Hundred Million Dollars ($100,000,000.00).

[Signature Page Follows]
Sincerely,

Mentor Graphics Corporation, an Oregon corporation

By: /s/ ETHAN MANUEL
Name: Ethan Manuel
Title: Treasurer
CREDIT AGREEMENT
DATED AS OF APRIL 6, 2010

BY AND AMONG

MENTOR GRAPHICS CORPORATION,
BANK OF AMERICA, N.A.,

AS AGENT,

AND

THE OTHER FINANCIAL INSTITUTIONS PARTY HERETO
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>ARTICLE I</th>
<th>DEFINITIONS</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.01</td>
<td>Certain Defined Terms</td>
<td>1</td>
</tr>
<tr>
<td>1.02</td>
<td>Other Interpretive Provisions</td>
<td>15</td>
</tr>
<tr>
<td>1.03</td>
<td>Accounting Principles</td>
<td>16</td>
</tr>
<tr>
<td>1.04</td>
<td>Designation of Unrestricted Subsidiaries</td>
<td>17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ARTICLE II</th>
<th>THE LOAN</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.01</td>
<td>Term Loan</td>
<td>18</td>
</tr>
<tr>
<td>2.02</td>
<td>Loan Accounts</td>
<td>18</td>
</tr>
<tr>
<td>2.03</td>
<td>Loan Funding; Conversion and Continuation Elections</td>
<td>18</td>
</tr>
<tr>
<td>2.04</td>
<td>Optional Prepayments; Application of Payments</td>
<td>19</td>
</tr>
<tr>
<td>2.05</td>
<td>Repayment of Principal</td>
<td>19</td>
</tr>
<tr>
<td>2.06</td>
<td>Interest</td>
<td>20</td>
</tr>
<tr>
<td>2.07</td>
<td>Fees</td>
<td>20</td>
</tr>
<tr>
<td>2.08</td>
<td>Computation of Fees and Interest</td>
<td>20</td>
</tr>
<tr>
<td>2.09</td>
<td>Payments Generally</td>
<td>21</td>
</tr>
<tr>
<td>2.10</td>
<td>Sharing of Payments, Etc</td>
<td>22</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ARTICLE III</th>
<th>TAXES, YIELD PROTECTION AND ILLEGALITY</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.01</td>
<td>Taxes</td>
<td>22</td>
</tr>
<tr>
<td>3.02</td>
<td>Illegality</td>
<td>23</td>
</tr>
<tr>
<td>3.03</td>
<td>Increased Costs and Reduction of Return</td>
<td>24</td>
</tr>
<tr>
<td>3.04</td>
<td>Funding Losses</td>
<td>25</td>
</tr>
<tr>
<td>3.05</td>
<td>Inability to Determine Rates</td>
<td>25</td>
</tr>
<tr>
<td>3.06</td>
<td>Reserves on Offshore Rate Loans</td>
<td>25</td>
</tr>
</tbody>
</table>
TABLE OF CONTENTS
(continued)

3.07 Certificates of Banks 26
3.08 Delay 26
3.09 Replacement of Banks 26
3.10 Survival 26

ARTICLE IV CONDITIONS PRECEDENT 26
4.01 Conditions of Loan 26

ARTICLE V REPRESENTATIONS AND WARRANTIES 28
5.01 Corporate Existence and Power 28
5.02 Corporate Authorization; No Contravention 29
5.03 Governmental Authorization 29
5.04 Binding Effect 29
5.05 Litigation 30
5.06 No Default 30
5.07 ERISA Compliance 30
5.08 Use of Proceeds; Margin Regulations 31
5.09 Title to Properties 31
5.10 Taxes 31
5.11 Financial Condition 31
5.12 Environmental Matters 32
5.13 Regulated Entities 32
5.14 No Burdensome Restrictions 32
5.15 Copyrights, Patents, Trademarks and Licenses, Etc 32
5.16 Subsidiaries 32
5.17 Insurance 33
### TABLE OF CONTENTS
(continued)

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.18</td>
<td>Swap Obligations</td>
<td>33</td>
</tr>
<tr>
<td>5.19</td>
<td>Full Disclosure</td>
<td>33</td>
</tr>
<tr>
<td>5.20</td>
<td>Tax Shelter Regulations</td>
<td>33</td>
</tr>
<tr>
<td>ARTICLE VI</td>
<td>AFFIRMATIVE COVENANTS</td>
<td>33</td>
</tr>
<tr>
<td>6.01</td>
<td>Financial Statements</td>
<td>33</td>
</tr>
<tr>
<td>6.02</td>
<td>Certificates; Other Information</td>
<td>34</td>
</tr>
<tr>
<td>6.03</td>
<td>Notices</td>
<td>35</td>
</tr>
<tr>
<td>6.04</td>
<td>Preservation of Corporate Existence, Etc</td>
<td>36</td>
</tr>
<tr>
<td>6.05</td>
<td>Maintenance of Property</td>
<td>37</td>
</tr>
<tr>
<td>6.06</td>
<td>Insurance</td>
<td>37</td>
</tr>
<tr>
<td>6.07</td>
<td>Payment of Obligations</td>
<td>39</td>
</tr>
<tr>
<td>6.08</td>
<td>Compliance with Laws</td>
<td>40</td>
</tr>
<tr>
<td>6.09</td>
<td>Compliance with ERISA</td>
<td>40</td>
</tr>
<tr>
<td>6.10</td>
<td>Inspection of Property and Books and Records</td>
<td>40</td>
</tr>
<tr>
<td>6.11</td>
<td>Environmental Laws</td>
<td>40</td>
</tr>
<tr>
<td>6.12</td>
<td>Use of Proceeds</td>
<td>41</td>
</tr>
<tr>
<td>6.13</td>
<td>Additional Guarantors</td>
<td>41</td>
</tr>
<tr>
<td>6.14</td>
<td>Inspections and Appraisals of the Property</td>
<td>41</td>
</tr>
<tr>
<td>6.15</td>
<td>Use of the Property</td>
<td>41</td>
</tr>
<tr>
<td>6.16</td>
<td>Indemnity Regarding Use of Property</td>
<td>41</td>
</tr>
<tr>
<td>6.17</td>
<td>Survival of Revolving Credit Agreement Covenants</td>
<td>41</td>
</tr>
<tr>
<td>ARTICLE VII</td>
<td>NEGATIVE COVENANTS</td>
<td>42</td>
</tr>
<tr>
<td>7.01</td>
<td>Limitation on Liens</td>
<td>42</td>
</tr>
<tr>
<td>7.02</td>
<td>Use of Proceeds</td>
<td>42</td>
</tr>
</tbody>
</table>
### TABLE OF CONTENTS
(continued)

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.03</td>
<td>Minimum Cash</td>
<td>43</td>
</tr>
<tr>
<td><strong>ARTICLE VIII</strong></td>
<td>EVENTS OF DEFAULT</td>
<td></td>
</tr>
<tr>
<td>8.01</td>
<td>Event of Default</td>
<td>43</td>
</tr>
<tr>
<td>8.02</td>
<td>Remedies</td>
<td>45</td>
</tr>
<tr>
<td>8.03</td>
<td>Rights Not Exclusive</td>
<td>46</td>
</tr>
<tr>
<td>8.04</td>
<td>Application of Funds</td>
<td>46</td>
</tr>
<tr>
<td><strong>ARTICLE IX</strong></td>
<td>THE AGENT</td>
<td></td>
</tr>
<tr>
<td>9.01</td>
<td>Appointment and Authority</td>
<td>46</td>
</tr>
<tr>
<td>9.02</td>
<td>Rights as a Bank</td>
<td>46</td>
</tr>
<tr>
<td>9.03</td>
<td>Exculpatory Provisions</td>
<td>47</td>
</tr>
<tr>
<td>9.04</td>
<td>Reliance by Agent</td>
<td>47</td>
</tr>
<tr>
<td>9.05</td>
<td>Delegation of Duties</td>
<td>48</td>
</tr>
<tr>
<td>9.06</td>
<td>Resignation of Agent</td>
<td>48</td>
</tr>
<tr>
<td>9.07</td>
<td>Non-Reliance on Agent and Other Banks</td>
<td>49</td>
</tr>
<tr>
<td>9.08</td>
<td>No Other Duties, Etc</td>
<td>49</td>
</tr>
<tr>
<td>9.09</td>
<td>Agent May File Proofs of Claim</td>
<td>49</td>
</tr>
<tr>
<td>9.10</td>
<td>Guaranty Matters</td>
<td>50</td>
</tr>
<tr>
<td><strong>ARTICLE X</strong></td>
<td>MISCELLANEOUS</td>
<td></td>
</tr>
<tr>
<td>10.01</td>
<td>Amendments and Waivers</td>
<td>50</td>
</tr>
<tr>
<td>10.02</td>
<td>Notices</td>
<td>51</td>
</tr>
<tr>
<td>10.03</td>
<td>No Waiver; Cumulative Remedies</td>
<td>53</td>
</tr>
<tr>
<td>10.04</td>
<td>Expenses; Indemnity; Damage Waiver</td>
<td>53</td>
</tr>
<tr>
<td>10.05</td>
<td>Payments Set Aside</td>
<td>55</td>
</tr>
<tr>
<td>10.06</td>
<td>Successors and Assigns</td>
<td>55</td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
<td>Page</td>
</tr>
<tr>
<td>---------</td>
<td>--------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>10.07</td>
<td>Withholding Tax</td>
<td>57</td>
</tr>
<tr>
<td>10.08</td>
<td>Treatment of Certain Information; Confidentiality</td>
<td>59</td>
</tr>
<tr>
<td>10.09</td>
<td>Set-off</td>
<td>60</td>
</tr>
<tr>
<td>10.10</td>
<td>Automatic Debits of Fees</td>
<td>60</td>
</tr>
<tr>
<td>10.11</td>
<td>Notification of Addresses, Lending Offices, Etc</td>
<td>60</td>
</tr>
<tr>
<td>10.12</td>
<td>Release of Guaranty</td>
<td>60</td>
</tr>
<tr>
<td>10.13</td>
<td>Counterparts</td>
<td>61</td>
</tr>
<tr>
<td>10.14</td>
<td>Severability</td>
<td>61</td>
</tr>
<tr>
<td>10.15</td>
<td>No Third Parties Benefited</td>
<td>61</td>
</tr>
<tr>
<td>10.16</td>
<td>Replacement of Banks</td>
<td>61</td>
</tr>
<tr>
<td>10.17</td>
<td>Governing Law and Jurisdiction</td>
<td>62</td>
</tr>
<tr>
<td>10.18</td>
<td>Waiver of Jury Trial</td>
<td>62</td>
</tr>
<tr>
<td>10.19</td>
<td>Survival of Representations and Warranties</td>
<td>62</td>
</tr>
<tr>
<td>10.20</td>
<td>USA PATRIOT Act Notice</td>
<td>63</td>
</tr>
<tr>
<td>10.21</td>
<td>Entire Agreement</td>
<td>63</td>
</tr>
</tbody>
</table>
### SCHEDULES

<table>
<thead>
<tr>
<th>Schedule</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.01</td>
<td>Commitments and Pro Rata Shares</td>
</tr>
<tr>
<td>5.05</td>
<td>Litigation</td>
</tr>
<tr>
<td>5.07</td>
<td>ERISA</td>
</tr>
<tr>
<td>5.12</td>
<td>Environmental Matters</td>
</tr>
<tr>
<td>5.15</td>
<td>Intellectual Property Matters</td>
</tr>
<tr>
<td>5.16</td>
<td>Subsidiaries and Equity Investments</td>
</tr>
<tr>
<td>5.17</td>
<td>Insurance Matters</td>
</tr>
<tr>
<td>7.01</td>
<td>Liens</td>
</tr>
<tr>
<td>10.02</td>
<td>Offshore and Domestic Lending Offices, Addresses for Notices</td>
</tr>
<tr>
<td>10.06</td>
<td>Processing and Recordation Fees</td>
</tr>
</tbody>
</table>

### EXHIBITS

<table>
<thead>
<tr>
<th>Exhibit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Form of Compliance Certificate</td>
</tr>
<tr>
<td>B</td>
<td>Form of Assignment and Assumption Agreement</td>
</tr>
<tr>
<td>C</td>
<td>Form of Promissory Note</td>
</tr>
<tr>
<td>D</td>
<td>Form of Notice of Designation of Unrestricted Subsidiary</td>
</tr>
<tr>
<td>E</td>
<td>Form of Guaranty</td>
</tr>
</tbody>
</table>

vi
CREDIT AGREEMENT

This CREDIT AGREEMENT is entered into as of April 6, 2010, among Mentor Graphics Corporation, an Oregon corporation (the “Company”), the several financial institutions from time to time party to this Agreement (collectively, the “Banks”; individually, a “Bank”), and Bank of America, N.A., as administrative agent for the Banks.

WHEREAS, the Banks have agreed to make available to the Company a term loan facility upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties agree as follows:

ARTICLE I

DEFINITIONS

1.01 Certain Defined Terms. The following terms have the following meanings:

“Act” has the meaning specified in Section 10.20.

“Administrative Questionnaire” means an administrative questionnaire in a form supplied by the Agent.

“Affiliate” means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, membership interests, by contract, or otherwise.

“Agent” means Bank of America in its capacity as administrative agent for the Banks hereunder, and any successor administrative agent arising under Section 9.06.

“Agent Parties” has the meaning specified in Section 10.02(c).

“Agent’s Payment Office” means the address for payments set forth on Schedule 10.02 or such other address as the Agent may from time to time specify.

“Agreement” means this Credit Agreement.

“Applicable Margin” means 4.50% per annum with respect to any Offshore Rate Loan and 3.50% per annum with respect to any Base Rate Loan.

“Appraisal” means (a) the Initial Appraisal, or (b) any subsequent written statement (including an update to the Initial Appraisal) setting forth an opinion of the market value of the Property on the same basis used in the Initial Appraisal, so long as such statement or update has been independently and impartially prepared by the appraiser who prepared the Initial Appraisal or another qualified appraiser directly engaged by the Agent.
“Appraised Value” means the market value of the Property, as set forth in the most current Appraisal.

“Approved Fund” means any Fund that is administered or managed by (a) a Bank, (b) an Affiliate of a Bank or (c) an entity or an Affiliate of an entity that administers or manages a Bank.

“Assignee Group” means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

“Assignment and Assumption” means an Assignment and Assumption substantially in the form of Exhibit B.

“Attorney Costs” means and includes all fees and disbursements of any law firm or other external counsel, the reasonable allocated cost of internal legal services and all disbursements of internal counsel.

“Bank” has the meaning specified in the introductory clause hereto.

“Bank of America” means Bank of America, N.A., a national banking association.


“Base Rate” means, for any day, a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 0.50% plus the Federal Funds Rate for such day and (iii) except during an Offshore Rate Unavailability Period, the Offshore Rate plus 1.00%.

“Base Rate Loan” means any portion of the Loan that bears interest based on the Base Rate.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks in New York City, San Francisco, California, or Portland, Oregon, are authorized or required by law to close and, if the applicable Business Day relates to any Offshore Rate Loan, means such a day on which dealings are carried on in the applicable offshore dollar interbank market.

“Capital Adequacy Regulation” means any guideline, request or directive of any central bank or other Governmental Authority, or any other law, rule or regulation, whether or not having the force of law, in each case, regarding capital adequacy of any bank or of any corporation controlling a bank.
“Cash Equivalents” means:

(a) securities issued or fully guaranteed or insured by the United States Government or any agency thereof having maturities of not more than 12 months from the date of acquisition by the Company or any of its Subsidiaries;

(b) certificates of deposit, time deposits, Eurodollar time deposits, repurchase agreements, reverse repurchase agreements, or bankers’ acceptances, having in each case maturities of not more than 12 months from the date of acquisition by the Company or any of its Subsidiaries, issued by (i) any U.S. commercial bank or any commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (but including, in any event, China, Egypt, India, Israel, Pakistan, Singapore and Taiwan), or a political subdivision of any such country, in each case having combined capital and surplus of not less than $100,000,000 and whose short-term securities are rated at least A-1 by S&P or at least P-1 by Moody’s, or (ii) any Bank;

(c) taxable and tax-exempt commercial paper of an issuer rated at least A-1 by S&P or at least P-1 by Moody’s and in either case having maturities of not more than 270 days from the date of acquisition by the Company or any of its Subsidiaries;

(d) medium term notes of an issuer rated at least AA by S&P or at least Aa2 by Moody’s and having maturities of not more than 12 months from the date of acquisition by the Company or any of its Subsidiaries;

(e) municipal notes and bonds which are rated at least SP-2 or AA by S&P or at least MIG-2 or Aa by Moody’s and having maturities of not more than 12 months from the date of acquisition by the Company or any of its Subsidiaries;

(f) investments in taxable or tax-exempt money market funds with assets greater than $500,000,000 and whose assets have average maturities less than or equal to 180 days and are rated at least A-1 by S&P or at least P-1 by Moody’s;

(g) money market preferred instruments of an issuer rated at least A-1 by S&P or at least P-1 by Moody’s and having maturities of not more than 12 months from the date of acquisition by the Company or any of its Subsidiaries;

(h) solely with respect to Cash Equivalents held by Foreign Subsidiaries, similar investments to those set forth in clauses (a) through (g) in the applicable foreign market; or

(i) other similar investments, subject to the Majority Banks’ prior written approval.

“Change of Control” means (a) any “person” (as such term is used in subsections 13(d) and 14(d) of the Exchange Act) or group of persons on or after the Closing Date is or becomes the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing 35% or more of the combined voting power of the Company’s then-outstanding voting securities, or (b) the existing directors for any reason cease to constitute a majority of the Company’s board of directors.

“Existing directors” means (x) individuals constituting the Company’s board of directors on the Closing Date, and (y) any subsequent director whose election by the board of directors or nomination for election by the Company’s shareholders was approved by a vote of at least a majority of the directors then in office, which directors either were directors on the Closing Date or whose election or nomination for election was previously so approved.
“Closing Date” means the date on which all conditions precedent set forth in Article IV are satisfied or waived by all Banks (or, in the case of Section 4.01(e), waived by the Person entitled to receive such payment).


“Commitment”, as to each Bank, has the meaning specified in Section 2.01(a).

“Company Materials” has the meaning specified in Section 6.02.

“Compliance Certificate” means a certificate substantially in the form of Exhibit A.

“Contingent Obligation” means, as to any Person, any direct or indirect liability of that Person, whether or not contingent, with or without recourse, (a) with respect to any Indebtedness, lease, dividend, letter of credit or other obligation (the “primary obligations”) of another Person (the “primary obligor”), including any obligation of that Person (i) to purchase, repurchase or otherwise acquire such primary obligations or any security therefor, (ii) to advance or provide funds for the payment or discharge of any such primary obligation, or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise to assure or hold harmless the holder of any such primary obligation against loss in respect thereof (each, a “Guaranty Obligation”); (b) with respect to any Surety Instrument issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings or payments; (c) to purchase any materials, supplies or other property from, or to obtain the services of, another Person if the relevant contract or other related document or obligation requires that payment for such materials, supplies or other property, or for such services, shall be made regardless of whether delivery of such materials, supplies or other property is ever made or tendered, or such services are ever performed or tendered, or (d) in respect of any Swap Contract. The amount of any Contingent Obligation shall, in the case of Guaranty Obligations, be deemed equal to the stated or determinable amount of the primary obligation at the time of such determination in respect of which such Guaranty Obligation is made or, if not stated or if indeterminable, the maximum reasonably anticipated liability in respect thereof at the time of such determination, and in the case of other Contingent Obligations other than in respect of Swap Contracts, shall be equal to the maximum reasonably anticipated liability in respect thereof and, in the case of Contingent Obligations in respect of Swap Contracts, shall be equal to the Swap Termination Value at the time of such determination.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument, document or agreement to which such Person is a party or by which it or any of its property is bound.
“Conversion/Continuation Date” means any date on which, under Section 2.03, 3.02(b) or 3.05, any Base Rate Loan is automatically converted into an Offshore Rate Loan.

“Deed of Trust” means the Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing of even date herewith with respect to the Property executed by the Company in favor of the Agent.

“Default” means any event or circumstance which, with the giving of notice, the lapse of time, or both, would (if not cured or otherwise remedied during such time) constitute an Event of Default.

“Default Rate” a fluctuating rate per annum equal to the Base Rate, plus the Applicable Margin, plus 2%.

“Defaulting Bank” means any Bank that (a) has failed to fund any portion of the Loan required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder, (b) has otherwise failed to pay over to the Agent or any other Bank any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute, or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

“Dollars”, “dollars” and “$” each mean lawful money of the United States.

“Domestic Subsidiary” means any Subsidiary of the Company that is incorporated or organized under the laws of the United States of America, any state thereof or the District of Columbia.

“Eligible Assignee” means (a) a Bank; (b) an Affiliate of a Bank; (c) an Approved Fund; and (d) any other Person (other than a natural person) approved by (i) the Agent, and (ii) unless an Event of Default has occurred and is continuing, the Company (each such approval not to be unreasonably withheld or delayed); provided that notwithstanding the foregoing, “Eligible Assignee” shall not include the Company or any of the Company’s Affiliates or Subsidiaries.

“Environmental Claims” means all claims, however asserted, by any Governmental Authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, including for release or injury to the environment.

“Environmental Indemnity Agreement” means the Environmental Indemnity Agreement of even date herewith with respect to the Property executed by the Company in favor of the Agent, as amended from time to time.

“Environmental Laws” means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authorities, in each case relating to environmental, health, safety and land use matters.

5
“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Company or any of its Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.


“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with any Loan Party within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by any Loan Party or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations which is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by any Loan Party or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which is reasonably expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA in excess of $1,000,000, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon any Loan Party or any ERISA Affiliate.

“Event of Default” means any of the events or circumstances specified in Section 8.01.


“Existing Revolving Credit Agreement” means that certain Credit Agreement, dated as of June 1, 2005, as amended, restated or otherwise modified from time to time, by and among the Company, the financial institutions from time to time party thereto and the Agent, as administrative agent, providing for a revolving credit facility for the Company.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a
Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the weighted average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by the Agent.

“Fee Letter” has the meaning specified in Section 2.07.

“Foreign Plan” means any employee benefit plan maintained or contributed to by a Loan Party that is mandated or governed by any law, rule or regulation of any Governmental Authority other than the United States of America, any state thereof or any other political subdivision thereof.

“Foreign Subsidiary” means any Subsidiary of the Company that is not a Domestic Subsidiary.

“FRB” means the Board of Governors of the Federal Reserve System, and any Governmental Authority succeeding to any of its principal functions.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

“Further Taxes” means any and all present or future taxes, levies, assessments, imposts, duties, deductions, fees, withholdings or similar charges (including, without limitation, net income taxes and franchise taxes), and all liabilities with respect thereto, imposed by any jurisdiction on account of amounts payable or paid pursuant to Section 3.01.

“GAAP” means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

“Guarantors” means, collectively, the Material Domestic Subsidiaries of the Company that execute and deliver a counterpart of the Guaranty on the Closing Date or from time to time thereafter pursuant to Section 6.13.

“Guaranty” means the Guaranty made by the Guarantors in favor of the Agent and the Banks, substantially in the form of Exhibit E.
“Guaranty Obligation” has the meaning specified in the definition of “Contingent Obligation.”

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated as such pursuant to any Environmental Law.

“Indebtedness” of any Person means, without duplication, (a) all indebtedness for borrowed money; (b) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the ordinary course of business on ordinary terms); (c) all non-contingent reimbursement or payment obligations with respect to Surety Instruments; (d) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses; (e) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to property acquired by the Person (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property); (f) all obligations with respect to capital leases; (g) all indebtedness referred to in clauses (a) through (f) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contracts rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; and (h) all Guaranty Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (g) above. Provided, Indebtedness shall not include sales of Permitted Receivables sold pursuant to Permitted Receivables Purchase Facilities and indemnification, recourse or repurchase obligations thereunder. For all purposes of this Agreement, the Indebtedness of any Person shall include all recourse Indebtedness of any partnership or joint venture in which such Person is a general partner or a joint venturer.

“Indemnified Liabilities” has the meaning specified in Section 10.04.

“Indemnitee” has the meaning specified in Section 10.04.

“Independent Auditor” has the meaning specified in Section 6.01(a).

“Information” has the meaning specified in Section 10.08.

“Initial Appraisal” means the appraisal of the Property delivered to and accepted by the Agent on the Closing Date.

“Insolvency Proceeding” means, with respect to any Person, (a) any case, action or proceeding with respect to such Person before any court or other Governmental Authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors, or (b) any general assignment for the benefit of creditors, composition, marshalling of assets for creditors, or other, similar arrangement in respect of its creditors generally or any substantial portion of its creditors; undertaken under U.S. Federal, state or foreign law, including the Bankruptcy Code.
“Interest Payment Date” means the last Business Day of each of February, May, August, and November of each year.

“Interest Period” means, with respect to (a) the Offshore Rate Loan made on the Closing Date, the period commencing on the Closing Date and ending on the next subsequent Interest Payment Date, (b) any Loan converted into an Offshore Rate Loan pursuant to the provisions hereof, the period commencing on the date of such conversion and ending on the next subsequent Interest Payment Date, and (c) any Loan automatically continued as an Offshore Rate Loan, the period commencing on the date of such continuation and ending on the next subsequent Interest Payment Date; provided that, no Interest Period for any Loan shall extend beyond the Maturity Date.

“IRS” means the Internal Revenue Service, and any Governmental Authority succeeding to any of its principal functions under the Code.

“Lending Office” means, as to any Bank, the office or offices of such Bank described as such in such Bank’s Administrative Questionnaire, or such other office or offices as a Bank may from time to time notify the Company and the Agent.

“Lien” means any security interest, mortgage, deed of trust, pledge, hypothecation, assignment, charge or deposit arrangement, encumbrance, lien (statutory or other) or preferential arrangement of any kind or nature whatsoever in respect of any property (including those created by, arising under or evidenced by any conditional sale or other title retention agreement, the interest of a lessor under a capital lease, any financing lease having substantially the same economic effect as any of the foregoing, or the filing of any financing statement naming the owner of the asset to which such lien relates as debtor, under the Uniform Commercial Code or any comparable law) and any contingent or other agreement to provide any of the foregoing, but not including the interest of a lessor under an operating lease or the interest of a purchaser of Permitted Receivables under any Permitted Receivables Purchase Facility.

“Loan” means a term loan in the principal amount of Twenty Million Dollars ($20,000,000), which shall be comprised of one or more Base Rate Loans and/or one or more Offshore Rate Loans (each, a “Type” of Loan).

“Loan Documents” means this Agreement, any Notes, the Fee Letter, the Deed of Trust, the Environmental Indemnity Agreement, the Guaranty and all other documents delivered to the Agent or any Bank in connection herewith.

“Loan Parties” means, collectively, the Company and the Guarantors.

“Loan to Value Ratio” means, as of any date, the ratio, expressed as a percentage, of (a) the outstanding principal balance of the Loan on such date to (b) the Appraised Value as of such date.
“Majority Banks” means at any time at least two Banks then holding more than 50% of the then aggregate unpaid principal amount of the Loan, or, if no such principal amount is then outstanding, at least two Banks then holding more than 50% of the Commitments.

“Margin Stock” means “margin stock” as such term is defined in Regulation T, U or X of the FRB.

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties or condition (financial or otherwise) of the Company and its Subsidiaries taken as a whole; (b) a material impairment of the ability of the Loan Parties to perform under the Loan Documents and to avoid any Event of Default; or (c) a material impairment of the rights of or benefits available to the Banks or the Agent under any Loan Document.

“Material Domestic Subsidiary” means any Domestic Subsidiary that is a Material Subsidiary.

“Material Subsidiary” means any Subsidiary which (a) for any period, has revenues equal to or greater than 5% of the consolidated revenues of the Company and its Subsidiaries, taken as a whole, or (b) as of the end of any period, has assets equal to or greater than 5% of the consolidated assets of the Company and its Subsidiaries, take as a whole, but in any event shall not include any Unrestricted Subsidiary.

“Maturity Date” means April 6, 2013.

“Moody’s” means Moody’s Investor Service, Inc.

“Multiemployer Plan” means a “multiemployer plan”, within the meaning of Section 4001(a)(3) of ERISA, to which any Loan Party or any ERISA Affiliate makes, is making, or is obligated to make contributions or, during the preceding three calendar years, has made, or been obligated to make, contributions.

“Note” means a promissory note executed by the Company in favor of a Bank pursuant to Section 2.02(b), in substantially the form of Exhibit D.

“Notice of Designation” has the meaning specified in Section 1.04(b).

“Obligations” means all advances, debts, liabilities, obligations, covenants and duties arising under any Loan Document owing by any Loan Party to any Bank, the Agent, or any Indemnitee, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising.

“Offshore Rate” means,

(a) for any Interest Period with respect to an Offshore Rate Loan, (i) the rate per annum equal to the British Bankers Association LIBOR Rate (“BBA LIBOR”), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior
to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, or (ii) if such rate is not available at such time for any reason, then the rate per annum determined by the Agent to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Offshore Rate Loan being made, continued or converted by Bank of America and with a term equivalent to such Interest Period would be offered by Bank of America’s London Branch to major banks in the London interbank offshore market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period; and

(b) for any day with respect to a Base Rate Loan, the rate per annum equal to (A) BBA LIBOR for Dollar deposits being delivered in the London interbank market for a term of one month commencing that day (or, if such day is not a Business Day, on the next preceding Business Day) or (B) if such published rate is not available at such time for any reason, the rate determined by the Agent to be the rate at which deposits in Dollars for delivery on such day (or, if such day is not a Business Day, on the next preceding Business Day) in same day funds in the approximate amount of the Base Rate Loan being made, continued or converted by Bank of America and with a term equal to one month would be offered by Bank of America’s London Branch to major banks in the London interbank offshore market at their request at the date and time of determination.

“Offshore Rate Loan” means any portion of the Loan which bears interest at a rate determined by reference to the Offshore Rate (excluding, other than for purposes of the definition of “Business Day”, any portion of the Loan that bears interest based on clause (iii) of the definition of Base Rate).

“Offshore Rate Unavailability Period” means any period of time during which a notice delivered to the Company in accordance with Section 3.05 shall remain in force and effect.

“Organization Documents” means, (a) for any corporation, the certificate or articles of incorporation, the bylaws, any certificate of determination or instrument relating to the rights of preferred shareholders of such corporation, any shareholder rights agreement, and all applicable resolutions of the board of directors (or any committee thereof) of such corporation and (b) for any Person not a corporation, the partnership agreement, operating agreement and/or such other documents which govern such Person.

“Other Taxes” means any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery, performance, enforcement or registration of, or otherwise with respect to, this Agreement or any other Loan Documents.

“Participant” has the meaning specified in Section 10.06(d).

“PBGC” means the Pension Benefit Guaranty Corporation, or any Governmental Authority succeeding to any of its principal functions under ERISA.
“Pension Plan” means a pension plan (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA which any Loan Party or ERISA Affiliate sponsors, maintains, or to which it makes, is making, or is obligated to make contributions, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions at any time during the immediately preceding five plan years.

“Permitted Liens” has the meaning provided in the Revolving Credit Agreement then in effect.

“Permitted Receivables” shall mean all obligations of any obligor (whether now existing or hereafter arising) under a contract for sale of goods or services by the Company or any of its Subsidiaries, including any obligation of such obligor (whether now existing or hereafter arising) to pay interest, finance charges or amounts with respect thereto, and, with respect to any of the foregoing receivables or obligations, (a) all of the interest of the Company or any of its Subsidiaries in the goods (including returned goods) the sale of which gave rise to such receivable or obligation after the passage of title thereto to any obligor, (b) all other Liens and property subject thereto from time to time purporting to secure payment of such receivables or obligations, and (c) all guarantees, insurance, letters of credit and other agreements or arrangements of whatever character from time to time supporting or securing payment of any such receivables or obligations.

“Permitted Receivables Purchase Facility” shall mean any agreement of the Company or any of its Subsidiaries providing for sales, transfers or conveyances of Permitted Receivables purporting to be sales (and considered sales under GAAP) that do not provide, directly or indirectly, for recourse against the seller of such Permitted Receivables (or against any of such seller’s Affiliates) by way of a guaranty or any other support arrangement, with respect to the amount of such Permitted Receivables (based on the financial condition or circumstances of the obligor thereunder), other than such limited recourse as is reasonable given market standards for transactions of a similar type, taking into account such factors as product performance and product acceptance.

“Permitted Swap Obligations” means all obligations (contingent or otherwise) of the Company or any Subsidiary existing or arising under Swap Contracts, provided that each of the following criteria is satisfied: (a) such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments or assets held by such Person, or changes in the value of securities issued by such Person in conjunction with a securities repurchase program not otherwise prohibited hereunder, and not for purposes of speculation or taking a “market view;” and (b) such Swap Contracts do not contain (i) any provision (“walk-away” provision) exonerating the non-defaulting party from its obligation to make payments on outstanding transactions to the defaulting party, or (ii) any provision creating or permitting the declaration of an event of default, termination event or similar event upon the occurrence of an Event of Default hereunder (other than an Event of Default under Section 8.01(a)).

“Person” means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or Governmental Authority.
“Plan” means an employee benefit plan (as defined in Section 3(3) of ERISA) which any Loan Party sponsors or maintains or to which any Loan Party makes, is making, or is obligated to make contributions and includes any Pension Plan.

“Platform” has the meaning specified in Section 6.02.

“Prime Rate” means the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate.” The “prime rate” is a rate set by Bank of America based upon various factors including Bank of America’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

“Property” means the Company’s principal facility and headquarters, consisting of approximately 54.49 acres of real property, located at 27788 S.W. Parkway Avenue, Wilsonville, Oregon 97070 and 8205 S.W. Boeckman Road, Wilsonville, Oregon, 97070 and identified as assessor’s parcel numbers 31W11 00500 and 31W12 00501, respectively.

“Pro Rata Share” means, as to any Bank at any time, the percentage equivalent (expressed as a decimal, rounded to the ninth decimal place) at such time of such Bank’s Commitment divided by the combined Commitments of all Banks (or, if all Commitments have been terminated, the aggregate principal amount of the portion of the Loan held by such Bank divided by the aggregate principal amount of the Loan then held by all Banks). As of the Closing Date, the Pro Rata Shares of the Banks are as set forth on Schedule 2.01.

“Public Bank” has the meaning specified in Section 6.02.

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person’s Affiliates.

“Register” has the meaning specified in Section 10.06(c).

“Replacement Revolving Credit Agreement” means any agreement pursuant to which the credit facility provided for in the Existing Revolving Credit Agreement or any other Replacement Revolving Credit Facility is replaced or refinanced in whole and in part and either (a) Bank of America or one or more of its Affiliates is the administrative agent for the lenders therein or (b) each of (i) Bank of America or one or more of its Affiliates and (ii) U.S. Bank or one or more of its Affiliates is a lender.

“Reportable Event” means, any of the events set forth in Section 4043(c) of ERISA or the regulations thereunder, other than any such event for which the 30-day notice requirement under ERISA has been waived in regulations issued by the PBGC.

“Requirement of Law” means, as to any Person, any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or of a Governmental Authority, in each case applicable to or binding upon the Person or any of its property or to which the Person or any of its property is subject.
“Responsible Officer” means the chief financial officer, the chief operating officer or the treasurer of a Loan Party, or any other officer having substantially the same authority and responsibility; or, with respect to compliance with financial covenants, any of the above officers or the chief accounting officer of a Loan Party, or any other officer having substantially the same authority and responsibility.

“Revolving Credit Agreement” means the Existing Revolving Credit Agreement or any Replacement Revolving Credit Agreement.

“S&P” means Standard & Poor’s Corporation.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“Subordinated Indebtedness” means Indebtedness of the Company incurred from time to time and subordinated in right of payment to the Obligations hereunder.

“Subsidiary” of a Person means any corporation, association, partnership, limited liability company, joint venture or other business entity of which more than 50% of the voting stock, membership interests or other equity interests (in the case of Persons other than corporations), is owned or controlled directly or indirectly by the Person, or one or more of the Subsidiaries of the Person, or a combination thereof, but in any event shall not include any Unrestricted Subsidiary other than for purposes of Section 6.01. Unless the context otherwise clearly requires, references herein to a “Subsidiary” refer to a Subsidiary of the Company.

“Surety Instruments” means all letters of credit (including standby and commercial), banker’s acceptances, bank guaranties, shipside bonds, surety bonds and similar instruments.

“Survey” means an ALTA/ASCM survey of the Property in form and substance reasonably satisfactory to the Agent.

“Swap Contract” means any agreement, whether or not in writing, relating to any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other, similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing, and, unless the context otherwise clearly requires, any master agreement relating to or governing any or all of the foregoing.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a) the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined by the Company based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include any Bank).
“Taxes” means any and all present or future taxes, levies, assessments, imposts, duties, deductions, fees, withholdings or similar charges, and all liabilities with respect thereto, excluding, in the case of each Bank and the Agent, (i) taxes imposed on or measured by its net income by the jurisdiction (or any political subdivision thereof) under the laws of which such Bank or the Agent, as the case may be, is organized or maintains a lending office, (ii) any withholding tax that is in effect and would apply to a payment to such Bank or the Agent at the time such Person becomes a party to this Agreement, and (iii) any tax that would not have been imposed but for the failure of a Bank to comply with the certification requirements described in Section 10.07 (unless such failure results from a change in applicable law after the date on which such Bank becomes a party to this Agreement, which precludes such Bank from satisfying any such requirements or otherwise from qualifying for a reduction in or exemption from such withholding Tax).

“Title Company” means First American Title Insurance Company.

“Title Policy” means an ALTA Lender’s Policy of Title Insurance in form and substance reasonably satisfactory to the Agent issued by the Title Company in the amount of the Loan insuring the Deed of Trust as a first priority lien on the Property, containing such endorsements as the Agent may request, excepting only such items as shall be reasonably acceptable to the Agent.

“Trade Date” has the meaning specified in Section 10.06(b).

“Type” has the meaning specified in the definition of “Loan.”

“Unfunded Pension Liability” means the excess of a Plan’s benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Plan’s assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

“United States” and “U.S.” each means the United States of America.

“Unrestricted Subsidiary” shall mean any Subsidiary designated as such by the Company in accordance with Section 1.04.


1.02 Other Interpretive Provisions.

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.
(b) The words “hereof,” “herein,” “hereunder” and similar words refer to this Agreement as a whole and not to any particular provision of this Agreement; and subsection, Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(i) The term “documents” includes any and all instruments, documents, agreements, certificates, indentures, notices and other writings, however evidenced.

(ii) The term “including” is not limiting and means “including without limitation.”

(iii) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including”; the words “to” and “until” each mean “to but excluding,” and the word “through” means “to and including.”

(c) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments, restatements and other modifications thereto, but only to the extent such amendments, restatements and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting the statute or regulation.

(d) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

(e) This Agreement and other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms. Unless otherwise expressly provided, any reference to any action of the Agent or the Banks by way of consent, approval or waiver shall be deemed modified by the phrase “in its/their sole discretion.”

(f) This Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Agent, the Company and the other parties, and are the products of all parties. Accordingly, they shall not be construed against the Banks or the Agent merely because of the Agent’s or Banks’ involvement in their preparation.

1.03 Accounting Principles.

(a) Unless the context otherwise clearly requires, all accounting terms not expressly defined herein shall be construed, and all financial computations required under this Agreement shall be made, in accordance with GAAP, consistently applied.

(b) If the Company or the Majority Banks notify the Agent that the Company or the Majority Banks, as the case may be, desire to amend any covenant in Article VII or any covenant incorporated herein pursuant to Section 6.17, or any definition relating thereto, to
eliminate the effect of any change in GAAP occurring after the Closing Date on the operation of any such covenant, then the Company’s compliance with such covenant shall be determined in accordance with GAAP as in effect immediately prior to such change in GAAP until either such notice is withdrawn or such covenant or related definition is amended in a manner reasonably satisfactory to the Company and the Majority Banks.

1.04 Designation of Unrestricted Subsidiaries.

(a) The Company, at its option, may from time to time designate any Subsidiary as an “Unrestricted Subsidiary” for purposes hereof in accordance with the following: (i) any Subsidiary that is not a Material Subsidiary may be designated by the Company as an Unrestricted Subsidiary in its sole discretion and (ii) any Material Subsidiary may be designated by the Company as an Unrestricted Subsidiary only with the prior written consent of the Majority Banks; provided, however, no Subsidiary may be designated as an Unrestricted Subsidiary if (A) immediately after giving effect to any such designation, the aggregate revenues for the most recently ended fiscal quarter of all Unrestricted Subsidiaries (including any Subsidiary being newly designated as an Unrestricted Subsidiary), taken as a whole, shall exceed 15% of the aggregate revenues for such fiscal quarter of the Company, its Subsidiaries and its Unrestricted Subsidiaries, taken as a whole, (B) immediately after giving effect to any such designation, the aggregate assets of all Unrestricted Subsidiaries (including any Subsidiary being newly designated as an Unrestricted Subsidiary), taken as a whole, shall exceed 15% of the aggregate assets of the Company, its Subsidiaries and its Unrestricted Subsidiaries, taken as a whole, or (C) any Default or Event of Default then exists (unless such designation would cure such Default or Event of Default) or would result from any such designation.

(b) Whenever the Company desires to designate a Subsidiary as an Unrestricted Subsidiary, the Company shall provide to the Agent a Notice of Designation of Unrestricted Subsidiary (a “Notice of Designation”) in substantially the form of Exhibit D signed by a Responsible Officer. Subject to the preceding subsection (a), any designation by the Company of an Unrestricted Subsidiary shall become effective (i) in the case of any Subsidiary that is not a Material Subsidiary, three Business Days after the Agent’s receipt of a completed Notice of Designation in respect of such Subsidiary, and (ii) in the case of any Material Subsidiary, upon the written consent of the Majority Banks. In the case of the preceding clause (ii), the Majority Banks shall use good-faith efforts to consent to or deny the Company’s request to designate a Material Subsidiary as an Unrestricted Subsidiary within 30 days of the Agent’s receipt of a completed Notice of Designation in respect of such Material Subsidiary.

(c) The Company may from time to time redesignate any Unrestricted Subsidiary as a “Subsidiary” for purposes hereof by delivering to the Agent prior written notice of such redesignation signed by a Responsible Officer.
ARTICLE II

THE LOAN

2.01 Term Loan. Each Bank severally agrees that it shall, on the terms and conditions set forth herein, make its pro rata portion of the Loan to the Company on the Closing Date. Subject to the terms and conditions set forth herein, each Bank severally agrees that it shall fund the portion of the Loan equal to the amount of its Commitment set forth on Schedule 2.01 (such amount, the “Commitment” of such Bank) on the Closing Date. Any portion of the Loan that is repaid or prepaid may not be reborrowed.

2.02 Loan Accounts.

(a) The portion of the Loan made by each Bank shall be evidenced by one or more loan accounts or records maintained by such Bank in the ordinary course of business. The loan accounts or records maintained by the Agent and each Bank shall be conclusive absent manifest error of the amount of the Loan made by the Banks to the Company and the interest and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Company hereunder to pay any amount owing with respect to the Loan.

(b) Upon the request of any Bank made through the Agent, the portion of the Loan made by such Bank may be evidenced by one or more Notes, instead of or in addition to loan accounts. Each such Bank shall endorse on the schedules annexed to its Note(s) the date, amount and maturity of the portion of the Loan made by it and the amount of each payment of principal made by the Company with respect thereto. Each such Bank is irrevocably authorized by the Company to endorse its Note(s) and each Bank’s record shall be conclusive absent manifest error; provided, however, that the failure of a Bank to make, or an error in making, a notation thereon with respect to the Loan shall not limit or otherwise affect the obligations of the Company hereunder or under any such Note to such Bank.

2.03 Loan Funding; Continuation and Conversion.

(a) The Loan made on the Closing Date shall be an Offshore Rate Loan with an Interest Period commencing on the Closing Date and ending on the next subsequent Interest Payment Date. Each Bank will make the amount of its Pro Rata Share of the Loan available to the Agent for the account of the Company at the Agent’s Payment Office by 12:00 noon (San Francisco time) on the Closing Date in funds immediately available to the Agent. The proceeds of such Loan will then be made available to the Company by the Agent at such office by crediting the account of the Company on the books of Bank of America with the aggregate of the amount of the Loan made available to the Agent by the Banks and in like funds as received by the Agent.

(b) Effective as of each Interest Payment Date, the Loan shall automatically be continued as an Offshore Rate Loan with an Interest Period ending on the next subsequent Interest Payment Date. All such automatic continuations shall be made ratably according to the respective outstanding principal amounts of the continued Offshore Rate Loan held by each Bank.
(c) During the existence of a Default or an Event of Default, the Agent may, with the consent of the Majority Banks, suspend the obligation of the Banks to make, maintain or continue Offshore Rate Loans by providing written notice to the Company of such suspension. Upon receipt of such notice, the Company shall convert all Offshore Rate Loans to Base Rate Loans, either on the last day of the Interest Period therefor, or immediately, as required by the Agent. The obligation of the Banks to make Offshore Rate Loans shall be suspended until the Agent has confirmed that the Default or Event of Default no longer exists at which time the Company may, upon written notice to the Agent, elect to convert any Base Rate Loans to Offshore Rate Loans.

2.04 Optional Prepayments; Application of Payments. Subject to Section 3.04, the Company may, at any time or from time to time, (a) in the case of Offshore Rate Loans, upon not less than three (3) Business Days’ irrevocable notice to the Agent, ratably prepay the Loan in whole or in part, in minimum amounts of $2,000,000 or any multiple of $250,000 in excess thereof, or (b) in the case of Base Rate Loans, upon irrevocable notice to the Agent given no later than 9:00 a.m. (San Francisco time) on the date of prepayment, ratably prepay the Loan in whole or in part, in minimum amounts of $2,000,000 or any multiple of $250,000 in excess thereof. Such notice of prepayment shall specify the date and amount of such prepayment and the Type(s) of Loan to be prepaid. The Agent will promptly notify each Bank of its receipt of any such notice, and of such Bank’s Pro Rata Share of such prepayment. If such notice is given by the Company, the Company shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein, together with accrued interest to each such date on the amount prepaid and any amounts required pursuant to Section 3.04. Each optional prepayment pursuant to this Section 2.04 shall be applied to the remaining installments of principal of the Loan as directed by the Borrower, or if the Borrower does not give direction, pro rata to each subsequent installment of principal.

2.05 Repayment of Principal.

(a) The Company shall make a principal payment of the Loan in the amount of $500,000.00 on each Interest Payment Date.

(b) On the Maturity Date, the Company will repay the remaining principal balance of the Loan plus any accrued but unpaid interest thereon.

(c) If at any time the Loan to Value Ratio is greater than or equal to fifty five percent (55%), then the Company shall, within ten (10) Business Days after receipt of the Appraisal reflecting the Appraised Value causing the Loan to Value Ratio to exceed such percentage amount, prepay the Loan in an amount sufficient to cause the Loan to Value Ratio to be less than or equal to fifty percent (50%).

(d) Each prepayment of the Loan pursuant to Section 2.05(c) shall be applied pro rata to the remaining installments of principal of the Loan.
2.06 **Interest.**

(a) The Loan shall bear interest on the outstanding principal amount thereof from the Closing Date at a rate per annum equal to the Offshore Rate or the Base Rate, as the case may be (and subject to any conversion of the Loan pursuant to Section 2.03 (c), 3.02 or 3.05), plus the Applicable Margin; provided, however, if any amount of principal of or interest on the Loan, or any other amount payable hereunder or under any other Loan Document is not paid in full when due (whether at stated maturity, by acceleration, demand or otherwise), the Company agrees to pay interest on such unpaid principal or other amount, from the date such amount becomes due until the date such amount is paid in full, and after as well as before any entry of judgment thereon to the extent permitted by law, payable on demand, at the Default Rate.

(b) Interest on the Loan shall be paid in arrears on each Interest Payment Date. All accrued and unpaid interest on the principal amount repaid shall also be paid on the date of each principal payment described in Section 2.05(a) and at the time of each other principal payment of the Loan. During the existence of any Event of Default, interest shall be paid on demand of the Agent at the request or with the consent of the Majority Banks.

(c) Anything herein to the contrary notwithstanding, the obligations of the Company to any Bank hereunder shall be subject to the limitation that payments of interest shall not be required for any period for which interest is computed hereunder, to the extent (but only to the extent) that contracting for or receiving such payment by such Bank would be contrary to the provisions of any law applicable to such Bank limiting the highest rate of interest that may be lawfully contracted for, charged or received by such Bank, and in such event the Company shall pay such Bank interest at the highest rate permitted by applicable law.

2.07 **Fees.** The Company shall (i) pay an annual administrative fee to the Agent for the Agent’s own account, (ii) pay an arrangement fee to the Agent for the Agent’s own account, and (iii) pay an upfront fee to the Agent for the account of each Bank, in each case, as required by the letter agreement ("Fee Letter") between the Company and the Agent dated April 6, 2010.

2.08 **Computation of Fees and Interest.**

(a) All computations of interest for Base Rate Loans when the Base Rate is determined by Bank of America’s prime rate shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more interest being paid than if computed on the basis of a 365-day year). Interest and fees shall accrue during each period during which interest or such fees are computed from the first day thereof to the last day thereof.

(b) Each determination of an interest rate by the Agent shall be conclusive and binding on the Company and the Banks in the absence of manifest error. The Agent will, at the request of the Company or any Bank, deliver to the Company or the Bank, as the case may be, a statement showing the quotations used by the Agent in determining any interest rate and the resulting interest rate.
2.09 Payments Generally.

(a) All payments to be made by the Company shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Company hereunder shall be made to the Agent, for the account of the respective Banks to which such payment is owed, at the Agent’s Payment Office in dollars and in immediately available funds not later than 11:00 a.m. (San Francisco time) on the date specified herein. The Agent will promptly distribute to each Bank its Pro Rata Share (or other applicable share as provided herein) of such payment in like funds as received. All payments received by the Agent after 11:00 a.m. (San Francisco time) shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue.

(b) Unless the Agent shall have received notice from a Bank prior to the Closing Date that such Bank will not make available to the Agent the full amount of such Bank’s Commitment for the Loan, the Agent may assume that such Bank has made the full amount of its Commitment for the Loan available on such date in accordance with Section 2.03(a) and may, in reliance upon such assumption, make available to the Company a corresponding amount. In such event, if a Bank has not in fact made the full amount of its Commitment for the Loan available to the Agent, then the applicable Bank and the Company severally agree to pay to the Agent forthwith on demand the difference between such Bank’s Commitment and the amount of such Commitment actually funded by such Bank in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the Company to but excluding the date of payment to the Agent, at (A) in the case of a payment to be made by such Bank, the greater of the Federal Funds Rate and a rate determined by the Agent in accordance with banking industry rules on interbank compensation and (B) in the case of a payment to be made by the Company, the interest rate applicable to the Loan. If the Company and such Bank shall pay such interest to the Agent for the same or an overlapping period, the Agent shall promptly remit to the Company the amount of such interest paid by the Company for such period. If such Bank pays the full amount of its Commitment for the Loan to the Agent, then the amount so paid shall be included in the Loan. Any payment by the Company shall be without prejudice to any claim the Company may have against a Bank that shall have failed to make such payment to the Agent.

(c) Unless the Company has notified the Agent prior to the date any payment is required to be made by it to the Agent hereunder that the Company will not make such payment, the Agent may assume that the Company has timely made such payment and may (but shall not be so required to), in reliance thereon, make available a corresponding amount to the Person entitled thereto. If and to the extent that such payment was not in fact made to the Agent in immediately available funds, then each Bank shall forthwith on demand repay to the Agent the portion of such assumed payment that was made available to such Bank in immediately available funds, together with interest thereon in respect of each day from and including the date such amount was made available by the Agent to such Bank to the date such amount is repaid to the Agent in immediately available funds at the Federal Funds Rate from time to time in effect. A notice of the Agent to the Banks with respect to any amount owing under this subsection (c) shall be conclusive, absent manifest error.

21
(d) The obligations of the Banks hereunder to make the Loan and to make payments pursuant to Section 10.04(c) are several and not joint. The failure of any Bank to fund its Commitment for the Loan, to fund any such participation or to make any payment under Section 10.04(c) on any date required hereunder shall not relieve any other Bank of its corresponding obligation to do so on such date, and no Bank shall be responsible for the failure of any other Bank to so fund its Commitment for the Loan, to purchase its participation or to make its payment under Section 10.04(c).

(e) Nothing herein shall be deemed to obligate any Bank to obtain the funds for the Loan in any particular place or manner or to constitute a representation by any Bank that it has obtained or will obtain the funds for the Loan in any particular place or manner.

2.10 Sharing of Payments, Etc.

(a) If, other than as expressly provided elsewhere herein, any Bank shall obtain on account of the portion of the Loan made by it any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) in excess of its ratable share (or other share contemplated hereunder), such Bank shall immediately (a) notify the Agent of such fact, and (b) purchase from the other Bank(s) such participations in the Loan made by them as shall be necessary to cause such purchasing Bank to share the excess payment pro rata with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from the purchasing Bank, such purchase shall to that extent be rescinded and each other Bank shall repay to the purchasing Bank the purchase price paid therefor, together with an amount equal to such paying Bank’s ratable share (according to the proportion of (i) the amount of such paying Bank’s required repayment to (ii) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. The Company agrees that any Bank so purchasing a participation from another Bank may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off, but subject to Section 10.09) with respect to such participation as fully as if such Bank were the direct creditor of the Company in the amount of such participation. The Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased under this Section and will in each case notify the Banks following any such purchases or repayments.

ARTICLE III

TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 Taxes.

(a) Any and all payments by the Company to the Agent or any Bank under this Agreement and any other Loan Document shall be made free and clear of, and without deduction or withholding for, any Taxes. In addition, the Company shall pay all Other Taxes.
(b) If the Company shall be required by law to deduct or withhold any Taxes, Other Taxes or Further Taxes from or in respect of any sum payable hereunder to any Bank or the Agent, then:

(i) the sum payable shall be increased as necessary so that, after making all such deductions and withholdings (including deductions and withholdings applicable to additional sums payable under this Section), such Bank or the Agent, as the case may be, receives and retains an amount equal to the sum it would have received and retained had no such deductions or withholdings been made;

(ii) the Company shall make all required deductions and withholdings;

(iii) the Company shall pay the full amount deducted or withheld to the relevant taxing authority or other authority in accordance with applicable law; and

(iv) the Company shall also pay to each Bank or the Agent for the account of such Bank, at the time interest is paid, Further Taxes in the amount that the respective Bank specifies as necessary to preserve the after-tax yield the Bank would have received if such Taxes, Other Taxes or Further Taxes had not been imposed.

(c) The Company agrees to indemnify and hold harmless each Bank and the Agent for the full amount of i) Taxes, ii) Other Taxes, and iii) Further Taxes in the amount that the respective Bank specifies as necessary to preserve the after-tax yield the Bank would have received if such Taxes, Other Taxes or Further Taxes had not been imposed, and any liability (including penalties, interest, additions to tax and expenses) arising therefrom or with respect thereto, whether or not such Taxes, Other Taxes or Further Taxes were correctly or legally asserted. Payment under this indemnification shall be made within 30 days after the date the Bank or the Agent makes written demand therefor.

(d) Within 30 days after the date of any payment by the Company of Taxes, Other Taxes or Further Taxes, the Company shall furnish to each Bank or the Agent the original or a certified copy of a receipt evidencing payment thereof, or other evidence of payment satisfactory to such Bank or the Agent.

(e) If the Company is required to pay any amount to any Bank or the Agent pursuant to subsection (b) or (c) of this Section, then such Bank shall use reasonable efforts (consistent with legal and regulatory restrictions) to change the jurisdiction of its Lending Office so as to eliminate any such additional payment by the Company which may thereafter accrue, if such change in the sole judgment of such Bank is not otherwise disadvantageous to such Bank.

3.02 Illegality.

(a) If any Bank determines that any Requirement of Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Bank or its applicable Lending Office to make, maintain or fund Offshore Rate Loans, or to determine or charge interest rates based upon the Offshore Rate, or any Governmental Authority has imposed material restrictions on the authority of such Bank to purchase or sell, or to take deposits of,
Dollars in the London interbank market, then, on notice thereof by such Bank to the Company through the Agent, any obligation of
such Bank to make or continue Offshore Rate Loans, or to convert Base Rate Loans to Offshore Rate Loans, or, if such notice relates
to the unlawfulness or asserted unlawfulness of charging interest based on the Offshore Rate, to make Base Rate Loans as to which
the interest rate is determined with reference to the Offshore Rate shall be suspended until such Bank notifies the Agent and the
Company that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Company shall,
upon demand from such Bank (with a copy to the Agent), prepay or, if applicable, convert all Offshore Rate Loans of such Bank and
Base Rate Loans as to which the interest rate is determined with reference to the Offshore Rate to Base Rate Loans as to which the
rate of interest is not determined with reference to the Offshore Rate, either on the last day of the Interest Period therefor, if such
Bank may lawfully continue to maintain such Offshore Rate Loans to such day, or immediately, if such Bank may not lawfully
continue to maintain such Offshore Rate Loans or Base Rate Loans. Notwithstanding the foregoing and despite the illegality for such
a Bank to make, maintain or fund Offshore Rate Loans or Base Rate Loans. Notwithstanding the foregoing and despite the illegality for such
a Bank to make, maintain or fund Offshore Rate Loans or Base Rate Loans as to which the interest rate is determined with reference
to the Offshore Rate, that Bank shall remain committed to make Base Rate Loans and shall be entitled to recover interest at the Base
Rate. Upon any such prepayment or conversion, the Company shall also pay accrued interest on the amount so prepaid or converted.

(b) Before giving any notice to the Agent under this Section, the affected Bank shall designate a different Lending Office
with respect to its Offshore Rate Loans if such designation will avoid the need for giving such notice or making such demand and will
not, in the judgment of the Bank, be illegal or otherwise disadvantageous to the Bank.

3.03 Increased Costs and Reduction of Return.

(a) If any Bank determines that, due to either (i) the introduction of or any change (other than any change by way of
imposition of or increase in reserve requirements included in the calculation of the Offshore Rate) in or in the interpretation of any
law or regulation or (ii) the compliance by that Bank with any guideline or request from any central bank or other Governmental
Authority (whether or not having the force of law), there shall be any increase in the cost to such Bank of agreeing to make or
making, funding or maintaining any Offshore Rate Loans, then the Company shall be liable for, and shall from time to time, upon
demand (with a copy of such demand to be sent to the Agent), pay to the Agent for the account of such Bank, additional amounts as are
sufficient to compensate such Bank for such increased costs.

(b) If any Bank shall have determined that (i) the introduction of any Capital Adequacy Regulation, (ii) any change in any
Capital Adequacy Regulation, (iii) any change in the interpretation or administration of any Capital Adequacy Regulation by any
central bank or other Governmental Authority charged with the interpretation or administration thereof, or (iv) compliance by the
Bank (or its Lending Office) or any corporation controlling the Bank with any Capital Adequacy Regulation, affects or would affect
the amount of capital required or expected to be maintained by the Bank or any corporation controlling the Bank and (taking into
consideration such Bank’s or such corporation’s policies with respect to capital adequacy and
such Bank’s desired return on capital) determines that the amount of such capital is increased as a consequence of its Commitment, loans, credits or obligations under this Agreement, then, upon demand of such Bank to the Company through the Agent, the Company shall pay to the Bank, from time to time as specified by the Bank, additional amounts sufficient to compensate the Bank for such increase.

3.04 Funding Losses. The Company shall reimburse each Bank and hold each Bank harmless from any loss or expense which the Bank may sustain or incur as a consequence of:

(a) the failure of the Company to make on a timely basis any payment of principal of any Offshore Rate Loan;
(b) the failure of the Company to make any prepayment in accordance with any notice delivered under Section 2.04; or
(c) the prepayment (including pursuant to Section 2.04) or other payment (including after acceleration thereof) of an Offshore Rate Loan on a day that is not the last day of the relevant Interest Period;

including any such loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain its Offshore Rate Loans or from fees payable to terminate the deposits from which such funds were obtained. For purposes of calculating amounts payable by the Company to the Banks under this Section 3.04, each Offshore Rate Loan made by a Bank (and each related reserve, special deposit or similar requirement) shall be conclusively deemed to have been funded at the Offshore Rate for such Offshore Rate Loan on a day that is not the last day of the relevant Interest Period;

3.05 Inability to Determine Rates. If the Majority Banks determine that for any reason in connection with any request for a conversion to an Offshore Rate Loan or in connection with any automatic continuation thereof that (i) Dollar deposits are not being offered to banks in the London interbank market for the applicable amount and Interest Period of such Offshore Rate Loan, (ii) adequate and reasonable means do not exist for determining the Offshore Rate for any requested Interest Period with respect to a proposed Offshore Rate Loan, or (iii) the Offshore Rate for any requested Interest Period with respect to a proposed Offshore Rate Loan, does not adequately and fairly reflect the cost to such Banks of funding such Offshore Rate Loan, the Agent will promptly so notify the Company and each Bank. Thereafter, the obligation of the Banks to make or maintain Offshore Rate Loans shall be suspended until the Agent (upon the instruction of the Majority Banks) revokes such notice. Upon the Company’s receipt of such notice, any pending automatic continuation of an Offshore Rate Loan shall be suspended and such Offshore Rate Loan shall be converted to a Base Rate Loan.

3.06 Reserves on Offshore Rate Loans. The Company shall pay to each Bank, as long as such Bank shall be required under regulations of the FRB to maintain reserves with respect to liabilities or assets consisting of or including eurocurrency funds or deposits (currently known as “Eurocurrency liabilities”), additional costs on the unpaid principal amount of each
Offshore Rate Loan equal to the actual costs of such reserves allocated to such Offshore Rate Loan by the Bank (as determined by the
Bank in good faith, which determination shall be conclusive absent manifest error), payable on each date on which interest is payable on such Offshore Rate Loan, provided the Company shall have received at least 15 days’ prior written notice (with a copy to the Agent) of such additional interest from the Bank. If a Bank fails to give notice 15 days prior to the relevant Interest Payment Date, such additional interest shall be payable 15 days from receipt of such notice.

3.07 Certificates of Banks. Any Bank claiming reimbursement or compensation under this Article III shall deliver to the Company (with a copy to the Agent) a certificate setting forth in reasonable detail the amount payable to the Bank hereunder and such certificate shall be conclusive and binding on the Company in the absence of manifest error.

3.08 Delay. Failure or delay on the part of any Bank to demand compensation under this Article III shall not constitute a waiver of such Bank’s right to demand such compensation; provided, that no Bank shall be entitled to compensation under this Article III for any increased costs or reductions incurred or suffered with respect to any date unless such Bank shall have notified the Company not more than 90 days after the later of (a) such date and (b) the date on which such Bank shall have become aware of such costs or reductions.

3.09 Replacement of Banks. If any Bank requests compensation under Section 3.03, or if the Company is required to pay any additional amount to any Bank or any Governmental Authority for the account of any Bank pursuant to Section 3.01, the Company may replace such Bank in accordance with Section 10.16.

3.10 Survival. The agreements and obligations of the Company in this Article III shall survive the payment of the Loan and all other Obligations.

ARTICLE IV
CONDITIONS PRECEDENT

4.01 Conditions of Loan. The obligation of each Bank to fund its Commitment for the Loan hereunder is subject to the condition that the Agent shall have received on or before the Closing Date all of the following, in form and substance reasonably satisfactory to the Agent and each Bank, and in sufficient copies for each of the Banks:

(a) Loan Documents. The following Loan Documents executed by a Responsible Officer of each signing Loan Party thereto:

(i) this Agreement;
(ii) the Fee Letter;
(iii) the Deed of Trust; and

26
(iv) the Environmental Indemnity.

(b) Resolutions; Incumbency.
   (i) Copies of the resolutions of the board of directors of the Company authorizing the transactions contemplated hereby, certified as of the Closing Date by the Secretary or an Assistant Secretary of such Loan Party; and
   (ii) A certificate of the Secretary or Assistant Secretary of the Company certifying the names and true signatures of the officers of the Company authorized to execute and deliver this Agreement, and all other Loan Documents to be delivered by it hereunder;

(c) Organization Documents; Good Standing. Each of the following documents:
   (i) the articles of incorporation and the bylaws of the Company as in effect on the Closing Date, certified by the Secretary or Assistant Secretary of the Company as of the Closing Date; and
   (ii) a status certificate for the Company from the Secretary of State of its jurisdiction of organization, in each case, as of a recent date, together with a bring-down certificate transmitted by facsimile or electronic mail, dated on or about the Closing Date.

(d) Legal Opinions. Opinions of the Vice President and General Counsel of the Company, Landye Bennett Blumstein LLP, and Latham & Watkins LLP, each in form and substance reasonably satisfactory to the Agent and its legal counsel and addressed to the Agent and the Banks.

(e) Payment of Fees. Evidence of payment by the Company of all accrued and unpaid fees, costs and expenses to the extent then due and payable on the Closing Date, together with reasonable Attorney Costs of Bank of America to the extent invoiced prior to or on the Closing Date; including any such costs, fees and expenses arising under or referenced in Sections 2.07 and 10.04.

(f) Certificate. A certificate signed by a Responsible Officer, dated as of the Closing Date, stating that:
   (i) the representations and warranties contained in Article V are true and correct on and as of such date, as though made on and as of such date (except to the extent such representations and warranties expressly refer to an earlier date, in which case they shall be true and correct as of such earlier date), and no Default or Event of Default exists on such date or shall result from the Loan; and
(ii) there has occurred since October 31, 2009, no event or circumstance that has resulted or is reasonably expected to result in a Material Adverse Effect.

(g) A duly completed Compliance Certificate as of the end of the fiscal quarter ended October 31, 2009, signed by a Responsible Officer of the Company.

(h) The Title Policy.

(i) The Survey.

(j) INTENTIONALLY OMITTED.

(k) Evidence of the casualty and other insurance coverage required by this Agreement.

(l) Such other documents, property information and other assurances as the Agent may reasonably require concerning the Property.

(m) Written notice to the Agent and the Banks setting forth the name(s) of all Responsible Officers and other individuals authorized to give notices by or on behalf of the Company that the Agent and the Banks shall be entitled to rely and act upon pursuant to Section 10.02(e).

(n) Such other approvals, opinions, documents or materials as the Agent or any Bank may reasonably request.

Without limiting the generality of the provisions of Section 9.04, for purposes of determining compliance with the conditions specified in this Section 4.01, each Bank that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Bank unless the Agent shall have received notice from such Bank prior to the proposed Closing Date specifying its objection thereto.

4.02 Reduction of Commitments under Existing Revolving Credit Agreement. The Company shall have reduced the “Commitments” under the Existing Revolving Credit Agreement to an amount not greater than $100,000,000 in accordance with Section 2.05 of the Existing Revolving Credit Agreement.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Agent and each Bank that:

5.01 Corporate Existence and Power. The Company and each of its Material Subsidiaries:

(a) is an entity duly organized, validly existing and, if applicable in such jurisdiction, in good standing under the laws of the jurisdiction of its incorporation or other establishment;
(b) has (i) the power and authority and (ii) all governmental licenses, authorizations, consents and approvals, in each case, to own its assets, carry on its business and to execute, deliver, and perform its obligations under the Loan Documents to which it is a party;

(c) is duly qualified as a foreign corporation or other entity and is licensed and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification or license; and

(d) is in compliance with all Requirements of Law;

except, in each case referred to in clause (b)(ii), clause (c) or clause (d), to the extent that the failure to do so is not reasonably expected to have a Material Adverse Effect.

5.02 Corporate Authorization; No Contravention. The execution, delivery and performance by each Loan Party of this Agreement and each other Loan Document to which any Loan Party is party, have been duly authorized by all necessary corporate action, and do not and will not:

(a) contravene the terms of any Loan Party’s Organization Documents;

(b) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any Contractual Obligation to which any Loan Party is a party or any order, injunction, writ or decree of any Governmental Authority to which the Company or its property is subject; or

(c) violate any Requirement of Law;

except, in each case referred to in the foregoing clauses (b) and (c), where the conflict, breach, contravention, creation or violation is not reasonably expected to have a Material Adverse Effect.

5.03 Governmental Authorization. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement or any other Loan Document.

5.04 Binding Effect. This Agreement and each other Loan Document to which any Loan Party is a party constitute the legal, valid and binding obligations of each Loan Party thereto, enforceable against each such Loan Party in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors’ rights generally or by equitable principles relating to enforceability.
5.05 Litigation. Except as specifically disclosed in Schedule 5.05, there are no actions, suits, proceedings, claims or disputes pending, or to the best knowledge of the Company, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, against the Company, or its Subsidiaries or any of their respective properties which:

(a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby or thereby; or

(b) is reasonably expected to have a Material Adverse Effect.

No injunction, writ, temporary restraining order or any order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of this Agreement or any other Loan Document, or directing that the transactions provided for herein or therein not be consummated as herein or therein provided.

5.06 No Default. No Default or Event of Default exists or would result from the incurring of any Obligations by any Loan Party. As of the Closing Date, neither the Company nor any Subsidiary is in default under or with respect to any Contractual Obligation in any respect which, individually or together with all such defaults, is reasonably expected to have a Material Adverse Effect, or that would, if such default had occurred after the Closing Date, create an Event of Default under Section 8.01(e).

5.07 ERISA Compliance. Except as specifically disclosed in Schedule 5.07:

(a) Each Plan is in compliance in all respects with the applicable provisions of ERISA, the Code and other applicable federal or state law, except to the extent that the failure to comply is not reasonably expected to have a Material Adverse Effect. Each Plan which is intended to qualify under Section 401(a) of the Code has received or has applied for when due and not been denied a favorable determination letter from the IRS and to the best knowledge of each Loan Party, nothing has occurred which would cause the loss of such qualification. Each Loan Party and each ERISA Affiliate has made or duly provided for all required contributions to any Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of each Loan Party, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan which has resulted or is reasonably expected to result in a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan which has resulted or is reasonably expected to result in a Material Adverse Effect.
(c)(i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither any Loan Party nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither any Loan Party nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither any Loan Party nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

(d) Each Loan Party has made full payment when due of all material required contributions to any Foreign Plans.

5.08 Use of Proceeds; Margin Regulations. The proceeds of the Loan are to be used solely for the purposes set forth in and permitted by Section 6.12. Neither the Company nor any Subsidiary is generally engaged in the business of purchasing or selling Margin Stock or extending credit for the purpose of purchasing or carrying Margin Stock. To the extent that the Company uses Loan proceeds to acquire shares of its own stock which is Margin Stock, the Company will cause such acquired shares to be immediately retired.

5.09 Title to Properties. The Company and each Subsidiary have good record and marketable title in fee simple to, or valid leasehold interests in, the Property and all other real property necessary or used in the ordinary conduct of their respective businesses, except for such defects in title as is not, individually or in the aggregate, reasonably expected to have a Material Adverse Effect. As of the Closing Date, the personal property of the Company and its Material Subsidiaries is subject to no Liens, other than Permitted Liens, and the real property (including the Property) is subject to no Liens, other than Liens permitted pursuant to Section 7.01.

5.10 Taxes. The Company and its Subsidiaries have filed all Federal and other material tax returns and reports required to be filed, and have paid all Federal and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with GAAP. To the best knowledge of the Company, there is no proposed tax assessment against the Company or any Subsidiary that would, if made, have a Material Adverse Effect.

5.11 Financial Condition.

(a) The unaudited consolidated balance sheets of the Company and its Subsidiaries as of January 31, 2010, and the related consolidated statements of operations and cash flows for the fiscal quarter ended on that date:

 (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except for the absence of footnotes and as otherwise expressly noted therein and subject to ordinary, good faith year end audit adjustments; and
(ii) fairly present the financial condition of the Company and its Subsidiaries as of the date thereof and results of operations for the period covered thereby.

(b) The audited financial statements of the Company at January 31, 2009, reflect or disclose all material Indebtedness and other liabilities of the Company and its consolidated Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Contingent Obligations.

(c) Since January 31, 2010, there has been no Material Adverse Effect.

5.12 Environmental Matters. The Company conducts in the ordinary course of business a review of the effect of existing Environmental Laws and existing Environmental Claims on its business, operations and properties, including the Property, and as a result thereof the Company has reasonably concluded that, except as specifically disclosed in Schedule 5.12, such Environmental Laws and Environmental Claims are not, individually or in the aggregate, reasonably expected to have a Material Adverse Effect.

5.13 Regulated Entities. None of the Company, any Person controlling the Company, or any Subsidiary, is an “Investment Company” within the meaning of the Investment Company Act of 1940. The Company is not subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, any state public utilities code, or any other Federal or state statute or regulation limiting its ability to incur Indebtedness.

5.14 No Burdensome Restrictions. Neither the Company nor any Subsidiary is a party to or bound by any Contractual Obligation, or subject to any restriction in any Organization Document, or any Requirement of Law, which is reasonably expected to have a Material Adverse Effect.

5.15 Copyrights, Patents, Trademarks and Licenses, Etc. Except as disclosed on Schedule 5.15, the Company or its Subsidiaries own or are licensed or otherwise have the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other rights that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person. To the best knowledge of each Loan Party, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Company or any Subsidiary infringes upon any rights held by any other Person. Except as specifically disclosed in Schedule 5.05, no claim or litigation regarding any of the foregoing is pending or threatened, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or, to the knowledge of any Loan Party, proposed, which, in either case, is reasonably expected to have a Material Adverse Effect.

5.16 Subsidiaries. As of the Closing Date, the Company has no Subsidiaries other than those specifically disclosed in part (a) of Schedule 5.16 which, identifies with respect to each such Subsidiary whether it is a Material Subsidiary or an Unrestricted Subsidiary. The Company has no material equity investments in any other corporation or entity other than those specifically disclosed in part (b) of Schedule 5.16.
5.17 **Insurance.** Except as specifically disclosed in Schedule 5.17, the properties of the Company and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Company, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Company or such Subsidiary operates.

5.18 **Swap Obligations.** Neither the Company nor any of its Subsidiaries has incurred any outstanding obligations under any Swap Contracts, other than Permitted Swap Obligations. The Company has undertaken its own independent assessment of its consolidated assets, liabilities and commitments and has considered appropriate means of mitigating and managing risks associated with such matters and has not relied on any swap counterparty or any Affiliate of any swap counterparty in determining whether to enter into any Swap Contract.

5.19 **Full Disclosure.** None of the representations or warranties made by the Company or any Subsidiary in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements contained in any exhibit, report, statement or certificate furnished by or on behalf of the Company or any Subsidiary in connection with the Loan Documents, contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

5.20 **Tax Shelter Regulations.** The Company does not intend to treat the Loan and related transactions as being a “reportable transaction” (within the meaning of Treasury Regulation Section 1.6011-4). In the event the Company determines to take any action inconsistent with such intention, it will promptly notify the Agent thereof. If the Company so notifies the Agent, the Company acknowledges that one or more of the Banks may treat its portion of the Loan as part of a transaction that is subject to Treasury Regulation Section 301.6112-1, and such Bank or Banks, as applicable, will maintain the lists and other records required by such Treasury Regulation.

**ARTICLE VI**

**AFFIRMATIVE COVENANTS**

So long as the Loan or any other Obligation shall remain unpaid or unsatisfied, unless the Majority Banks waive compliance in writing:

6.01 **Financial Statements.** The Company shall deliver to the Agent and each Bank, in form and detail reasonably satisfactory to the Agent and the Majority Banks:

(a) as soon as available, but not later than 100 days after the end of each fiscal year, a copy of the audited consolidated balance sheet of the Company and its Subsidiaries as of the end of such year and the related audited consolidated statements of operations and cash flows
for such year, setting forth in each case in comparative form the figures for the previous fiscal year, and accompanied by the opinion of a nationally-recognized independent public accounting firm ("Independent Auditor") which report shall state that such consolidated financial statements present fairly the financial position of the Company and its Subsidiaries on a consolidated basis for the periods indicated in conformity with GAAP consistently applied. Such opinion shall not be qualified or limited because of a restricted or limited examination by the Independent Auditor of any material portion of the Company’s or any Material Subsidiary’s records; and

(b) as soon as available, but not later than 50 days after the end of each of the first three fiscal quarters of each fiscal year, a copy of the unaudited consolidated balance sheet of the Company and its Subsidiaries as of the end of such quarter and the related unaudited consolidated statements of operations and cash flows for the period commencing on the first day and ending on the last day of such quarter, certified by a Responsible Officer as fairly presenting, in accordance with GAAP (subject to the absence of footnotes and ordinary, good faith year-end audit adjustments), the financial position and the results of operations of the Company and its Subsidiaries on a consolidated basis; provided, that if the Company has one or more designated Unrestricted Subsidiaries during any period in respect of which the Company is required to deliver financial statements pursuant to Section 6.01(a) or (b), the Company shall concurrently deliver to the Agent and each Bank corresponding unaudited consolidating financial statements of each such Unrestricted Subsidiary as of the end of and for such period.

6.02 Certificates; Other Information. The Company shall furnish to the Agent and each Bank:

(a) concurrently with the delivery of the financial statements referred to in Sections 6.01(a) and (b), (i) a Compliance Certificate executed by a Responsible Officer and (ii) a schedule listing each Subsidiary that was a Material Subsidiary for, or as of the end of, the period covered by such financial statements;

(b) promptly, but in no event later than 10 days after filing the same, copies of all financial statements and reports that the Company sends to its shareholders, and copies of all financial statements and regular, periodical or special reports (including Forms 10K, 10Q and 8K) that the Company or any Subsidiary may make to, or file with, the SEC;

(c) promptly after the Company has notified the Agent of any intention by the Company to treat the Loan and related transactions as being a “reportable transaction” (within the meaning of Treasury Regulation Section 1.6011-4), a duly completed copy of IRS Form 8886 or any successor form; and

(d) promptly, such additional information regarding the business, financial or corporate affairs of the Company or any Subsidiary as the Agent, at the request of any Bank, may from time to time reasonably request.

Reports required to be delivered pursuant to Sections 6.01(a) or (b) or 6.02(b) shall be deemed to have been delivered on the date on which the Company posts such reports on the Company’s website on the Internet at the website address listed on Schedule 10.02 or when such report is

34
posted on the Securities and Exchange Commission’s website at www.sec.gov.; provided that (x) the Company shall deliver paper copies of such reports to the Agent or any Bank who requests the Company to deliver such paper copies until written request to cease delivering paper copies is given by the Agent or such Bank, (y) the Company shall notify by facsimile or by electronic mail the Agent and each Bank of the posting of any such reports, and (z) in every instance the Company shall provide paper copies of the Compliance Certificates required by Section 6.02(a) to the Agent and each of the Banks. Except for such Compliance Certificates, the Agent shall have no obligation to request the delivery or to maintain copies of the reports referred to above, and in any event shall have no responsibility to monitor compliance by the Company with any such request for delivery, and each Bank shall be solely responsible for requesting delivery to it or maintaining its copies of such reports.

The Company hereby acknowledges that (a) the Agent may make available to the Banks materials and/or information provided by or on behalf of the Company hereunder (collectively, “Company Materials”) by posting the Company Materials on IntraLinks or another similar electronic system (provided that any such similar electronic system is being adopted by the Agent for distribution of such materials and/or information provided by or on behalf of similarly situated borrowers in connection with syndicated credit facilities), (the “Platform”) and (b) certain of the Banks may be “public-side” Banks (i.e., Banks that do not wish to receive material non-public information with respect to the Company or its securities) (each, a “Public Bank”). The Company hereby agrees that (w) all Company Materials that are to be made available to Public Banks shall be clearly and conspicuously marked “PUBLIC” which, at a minimum, shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Company Materials “PUBLIC,” the Company shall be deemed to have authorized the Agent and the Banks to treat such Company Materials as not containing any material non-public information with respect to the Company or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Company Materials constitute Information, they shall be treated as set forth in Section 10.08); (y) all Company Materials marked “PUBLIC” are permitted to be made available through a portion of the Platform designated “Public Investor;” and (z) the Agent shall be entitled to treat any Company Materials that are not marked “PUBLIC” as being suitable only for posting on a portion of the Platform not designated “Public Investor.”

6.03 Notices. The Company shall promptly notify the Agent and each Bank:

(a) of the occurrence of any Default or Event of Default;

(b) as soon as a Responsible Officer of the Company becomes aware thereof, of any matter that is reasonably expected to result in a Material Adverse Effect, including (i) breach or non-performance of, or any default under, a Contractual Obligation of the Company or any Subsidiary; (ii) any dispute, litigation, investigation, proceeding or suspension between the Company or any Subsidiary and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting the Company or any Material Subsidiary; including pursuant to any applicable Environmental Laws;
(c) promptly, but in no event more than 10 days after such event, of the occurrence of any of the following events affecting any Loan Party or any ERISA Affiliate, and deliver to the Agent and each Bank a copy of any notice with respect to such event that is filed with a Governmental Authority and any notice delivered by a Governmental Authority to any Loan Party or any ERISA Affiliate with respect to such event:

(i) an ERISA Event;

(ii) a material increase in the Unfunded Pension Liability of any Pension Plan;

(iii) the adoption of, or the commencement of contributions to, any Plan subject to Section 412 of the Code by any Loan Party or any ERISA Affiliate; or

(iv) the adoption of any amendment to a Plan subject to Section 412 of the Code, if such amendment results in a material increase in contributions or Unfunded Pension Liability; and

(d) upon the request from time to time (but not more frequently than once each fiscal quarter unless a Default or an Event of Default exists) of the Agent, the Swap Termination Values, together with a description of the method by which such values were determined, relating to any then-outstanding Swap Contracts to which the Company or any of its Subsidiaries is party.

Each notice under this Section shall be accompanied by a written statement by a Responsible Officer of the Company setting forth details of the occurrence referred to therein, and stating what action the Company or any affected Subsidiary proposes to take with respect thereto and at what time. Each notice under Section 6.03(a) shall describe with particularity any and all clauses or provisions of this Agreement or other Loan Document that have been breached or violated, but the reasonable failure to identify all such clauses or provisions shall not, of itself, constitute a failure to comply with Section 6.03(a).

6.04 Preservation of Corporate Existence, Etc. The Company shall, and shall cause each Material Subsidiary to:

(a) except as otherwise permitted by this Agreement, preserve and maintain in full force and effect its corporate existence and good standing under the laws of its state or jurisdiction of incorporation;

(b) preserve and maintain in full force and effect all governmental rights, privileges, qualifications, permits, licenses and franchises necessary or desirable in the normal conduct of its business, including all rights, privileges and franchises necessary or desirable for the operation of the Property and the conduct of the Company’s business on the Property, except (i) in connection with transactions permitted by Section 7.03 of the Revolving Credit Agreement (or the applicable section of any Replacement Revolving Credit Agreement) and sales of assets permitted by Section 7.02 of the Revolving Credit Agreement, or (ii) where such failure to preserve or maintain is not reasonably expected to result in a Material Adverse Effect;
(c) use reasonable efforts, in the ordinary course of business, to preserve its business organization and goodwill; and

(d) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which is reasonably expected to have a Material Adverse Effect.

6.05 Maintenance of Property. The Company shall, and shall cause each Subsidiary to, maintain and preserve all of its material property which is used or useful in its business in good working order and condition, ordinary wear and tear excepted. The Company and each Subsidiary shall use the standard of care typical in the industry in the operation and maintenance of its facilities. The Company shall (a) maintain the Property, including the parking and landscaping portions thereof, in good condition and repair, (b) promptly make, or cause tenants to make all necessary structural and non-structural repairs to the Property which are required by any Requirement of Law or required to maintain the Property in good working order and condition, ordinary wear and tear excepted, and (c) not demolish, alter, remove or add to any improvements, except alterations which do not have an adverse effect on the use, value or operation of the Property. The Company shall, and shall cause each Subsidiary to, pay when due all material claims for labor performed and materials furnished therefor in connection with any improvements or construction activities other than those being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Company or such Subsidiary.

6.06 Insurance.

(a) The Company shall maintain, and shall cause each Material Subsidiary to maintain, with financially sound and reputable independent insurers, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons.

(b) In addition, the Company shall maintain the following insurance with respect to the Property:

(i) Insurance against Casualty to the Property under a policy or policies covering such risks as are presently included in “special form” (also known as “all risk”) coverage, including such risks as are ordinarily insured against by similar businesses in similar geographic locations, but in any event including fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke, vandalism, malicious mischief and acts of terrorism. Such insurance shall name the Agent as mortgagee and loss payee. Unless otherwise agreed in writing by the Agent (such agreement not to be unreasonably withheld or delayed), such insurance shall be for the full insurable value of the Property on a replacement cost basis, with a deductible amount, if any, reasonably satisfactory to the Agent (Agent acknowledges that the deductible amount in effect on the date hereof is satisfactory). No policy of insurance shall be written such that the proceeds thereof will produce
less than the minimum coverage required by this Section by reason of co-insurance provisions or otherwise. The term “full insurable value” means one hundred percent (100%) of the actual replacement cost of the Property, including tenant improvements (excluding foundation and excavation costs and costs of underground flues, pipes, drains and other uninsurable items).

(ii) Comprehensive (also known as commercial) general liability insurance on an “occurrence” basis against claims for “personal injury” liability and liability for death, bodily injury and damage to property, products and completed operations, in limits reasonably satisfactory to the Agent with respect to any one occurrence and the aggregate of all occurrences during any given annual policy period (Agent acknowledges that the limits in effect on the date hereof are satisfactory). Such insurance shall name the Agent as an additional insured.

(iii) Workers’ compensation insurance for all employees of the Company in such amount as is required by applicable law and including employer’s liability insurance, if reasonably required by the Agent.

(iv) During any period of construction of tenant improvements, the Company shall maintain, or cause others to maintain, such insurance as may be required by the Agent of the type customarily carried in the case of similar construction for one hundred percent (100%) of the full replacement cost of materials stored at or upon the Property. During any period of other construction upon the Property, the Company shall maintain, or cause others to maintain, builder’s risk insurance (non-reporting form) of the type customarily carried in the case of similar construction for one hundred percent (100%) of the full replacement cost of work in place and materials stored at or upon the Property.

(v) If at any time any portion of any structure on the Property is insurable against Casualty by flood and is located in a Special Flood Hazard Area under the Flood Disaster Protection Act of 1973, as amended, a flood insurance policy in form and amount reasonably acceptable to the Agent but in no amount less than the amount sufficient to meet the requirements of applicable law as such requirements may from time to time be in effect.

(vi) Such other and further insurance as may be required from time to time by the Agent in order to comply with regular requirements and practices of the Agent in similar transactions including, if required by the Agent, boiler and machinery insurance, pollution liability insurance, wind insurance and earthquake insurance, so long as any such insurance is generally available at commercially reasonable premiums.

(c) Each policy of insurance (i) shall be issued by one or more insurance companies each of which must have an A.M. Best Company financial and performance rating of A-IX or better and are qualified or authorized by the laws of the State of Oregon to assume the risks
covered by such policy, (ii) with respect to the insurance described under the Subsections (i), (iv), and (v) of (b) above, shall have attached thereto standard non-contributing, non-reporting mortgagee clauses in favor of and entitling the Agent without contribution to collect any and all proceeds payable under such insurance, either as sole payee or as joint payee with the Company, (iii) shall provide that such policy shall not be canceled or modified for nonpayment of premiums without at least ten (10) days prior written notice to the Agent, or for any other reason without at least thirty (30) days prior written notice to the Agent, and (iv) shall provide that any loss otherwise payable thereunder shall be payable notwithstanding any act or negligence of the Company which might, absent such agreement, result in a forfeiture of all or a part of such insurance payment. The Company shall promptly pay all premiums when due on such insurance and, not less than ten (10) days prior to the expiration dates of each such policy, the Company will deliver to the Agent acceptable evidence of insurance, such as a renewal policy or policies marked “premium paid” or other evidence reasonably satisfactory to the Agent reflecting that all required insurance is current and in force. The Company will immediately give notice to the Agent of any cancellation of, or change in, any insurance policy. The Agent shall not, because of accepting, rejecting, approving or obtaining insurance, incur any liability for (A) the existence, nonexistence, form or legal sufficiency thereof, (B) the solvency of any insurer, or (C) the payment of losses. The Company may satisfy any insurance requirement hereunder by providing one or more “blanket” insurance policies, subject to the Agent’s reasonable approval in each instance as to limits, coverages, forms, deductibles, inception and expiration dates, and cancellation provisions (Agent acknowledges that the “blanket” insurance policies in effect on the date hereof have been approved).

(d) If the Company fails to keep, or cause a Subsidiary to keep, the insurance coverage required pursuant to Section 6.06(b) in effect while the Loan is outstanding, the Agent may procure the coverage at the Company’s expense. The Company will reimburse the Agent, on demand, for all premiums paid by the Agent, which amounts may be added to the principal balance of the Loan and shall bear interest at the Default Rate.

6.07 Payment of Obligations. The Company shall, and shall cause each Material Subsidiary to, pay and discharge as the same shall become due and payable, all their respective obligations and liabilities, including:

(a) unless the same are being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Company or such Subsidiary, all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets;

(b) unless the same are being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Company or such Subsidiary, all lawful claims which, if unpaid, would by law become a Lien upon its property not otherwise permitted hereunder;

(c) all Indebtedness where failure to pay or discharge such Indebtedness is reasonably expected to result in a Material Adverse Effect; and
(d) all Subordinated Indebtedness in an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement), whether individually or collectively, of more than $10,000,000 when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise).

6.08 **Compliance with Laws.** The Company shall comply, and shall cause each Material Subsidiary to comply, in all material respects with all Requirements of Law of any Governmental Authority having jurisdiction over it or its business (including the Federal Fair Labor Standards Act) or property (including the Property), except such as may be contested in good faith or as to which a bona fide dispute may exist or as is not reasonably expected to have a Material Adverse Effect.

6.09 **Compliance with ERISA.** Each Loan Party shall, and shall cause each of its ERISA Affiliates to: (a) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law; (b) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification; and (c) make all required contributions to any Plan subject to Section 412 of the Code, except in each case to the extent that any failure to maintain such compliance or qualification or to make such contributions is not reasonably expected to have a Material Adverse Effect.

6.10 **Inspection of Property and Books and Records.** The Company shall maintain and shall cause each Material Subsidiary to maintain adequate books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Company or such Material Subsidiary. The Company shall permit, and shall cause each Material Subsidiary to permit, representatives and independent contractors of the Agent or any Bank to visit and inspect any of their respective properties, to examine their respective corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss their respective affairs, finances and accounts with their respective directors, officers, and independent public accountants at such reasonable times during normal business hours and as often as may be reasonably necessary upon reasonable advance notice to the Company and, in the case of any discussion with independent public accountants of the Company, or any Material Subsidiary, upon providing the Company’s representatives with a reasonable opportunity to participate in and/or be present at any such discussion; provided, however, when an Event of Default exists the Agent or any Bank may do any of the foregoing at the expense of the Company and at any time during normal business hours without advance notice (except that the Company’s representatives shall be given a reasonable opportunity to participate in and/or be present at any discussions with independent public accountants of the Company, or any Material Subsidiary).

6.11 **Environmental Laws.** The Company shall, and shall cause each Subsidiary to, conduct its operations and keep and maintain its property in compliance, in all material respects, with all Environmental Laws.
6.12 **Use of Proceeds.** The proceeds of the Loan shall be used to reduce the principal amount of the “Loans” outstanding under the Existing Revolving Credit Agreement and to pay fees and expenses due under the Loan Documents.

6.13 **Additional Guarantors.** The Company shall notify the Agent at the time that any Person becomes a Material Domestic Subsidiary of the Company after the date hereof, and promptly thereafter (and in any event within 30 days), cause such Person to (i) become a Guarantor by executing and delivering to the Agent a counterpart of the Guaranty or such other document as the Agent shall reasonably deem appropriate for such purpose, and (ii) deliver to the Agent documents of the types referred to in clauses (b) and (c) of Section 4.01 and favorable legal opinions of counsel to such Person, which shall cover (A) the due organization and good standing of such Subsidiary, (B) the due authorization, execution and delivery by such Subsidiary of such Loan Documents, (C) the enforceability of such Loan Documents against such Subsidiary and (D) such other matters as were contained in the legal opinions delivered pursuant to Section 4.01(d) or that the Agent may otherwise reasonably request, all of the foregoing to be reasonably satisfactory in form and substance to the Agent and its counsel.

6.14 **Inspections and Appraisals of the Property.** The Company shall allow the Agent and its agents to visit the Property at any reasonable time during normal business hours and upon reasonable advance notice for the purpose of inspecting the Property and conducting Appraisals, and deliver to the Agent any financial or other information concerning the Property as the Agent may request. The Agent may, at the Company’s expense, obtain Appraisals of the Property at any time in its sole discretion; provided, however, the Company shall be obligated to pay for the cost of only one (1) Appraisal during each twelve (12) month period that the Loan is outstanding.

6.15 **Use of the Property.** The Company shall occupy the Property for the conduct of its regular business and reasonably related lines of business, and will not change the use of the Property to any other purpose without the Agent’s prior written approval.

6.16 **Indemnity Regarding Use of Property.** The Company shall indemnify, defend with counsel reasonably acceptable to the Agent, and hold the Agent and the Banks harmless from and against all liabilities, claims, actions, damages, costs and expenses (including all reasonable legal fees and expenses of Agent’s counsel) arising out of or resulting from the construction of any improvements on the Property, or the ownership, operation, or use of the Property, whether such claims are based on theories of derivative liability, comparative negligence or otherwise.

6.17 **Survival of Revolving Credit Agreement Covenants.** In the event that at any time the Revolving Credit Agreement shall terminate or at any time any Bank shall cease to be a “Bank” thereunder, then from and after such time the Company shall (a) if the Existing Revolving Credit Agreement is the most recent Revolving Credit Agreement, perform and comply with the provisions of Article VII of the Existing Revolving Credit Agreement, or (b) if the Existing Revolving Credit Agreement is not the most recent Replacement Revolving Credit Agreement, perform and comply with the negative covenants in the most recent Replacement Revolving Credit Agreement.
ARTICLE VII
NEGATIVE COVENANTS

So long as the Loan or any other Obligation shall remain unpaid or unsatisfied, unless the Majority Banks waive compliance in writing:

7.01 Limitation on Liens. The Company shall not, directly or indirectly, make, create, incur, assume or suffer to exist any Lien upon any part of the Property, whether now owned or hereafter acquired, other than the following:

(a) any Lien existing on the Property on the Closing Date and set forth in Schedule 7.01;

(b) any Lien created under any Loan Document;

(c) Liens for taxes, fees, levies, impost, assessments or other governmental charges which are not delinquent or remain payable without penalty, or to the extent that non-payment thereof is permitted by Section 6.07, provided that no notice of lien has been filed or recorded;

(d) carriers’, warehousemen’s, mechanics’, landlords’, materialmen’s, repairmen’s or other similar Liens arising in the ordinary course of business which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the Property;

(e) easements, rights-of-way, zoning or use restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the Property or interfere with the ordinary conduct of the businesses of the Company and its Subsidiaries;

(f) other non-consensual Liens arising in the ordinary course of business the existence or enforcement of which would not result in a Material Adverse Effect; and

(g) Liens consisting of judgment or judicial attachment liens, provided that the enforcement of such Liens is effectively stayed and all such Liens in the aggregate at any time for the Company and its Subsidiaries do not exceed $5,000,000.

7.02 Use of Proceeds. The Company shall not, and shall not suffer or permit any Subsidiary to, use any portion of the Loan proceeds, directly or indirectly, otherwise than in connection with the purchase of shares of its own stock for immediate retirement, (i) to purchase or carry Margin Stock, (ii) to repay or otherwise refinance indebtedness of the Company or others incurred to purchase or carry Margin Stock, (iii) to extend credit for the purpose of
purchasing or carrying any Margin Stock, in the case of each of the preceding clauses (i), (ii) and (iii) in violation of Regulation T, U or X of the FRB, or (iv) to acquire any security in any transaction that is subject to Section 13(d) or 14(d) of the Exchange Act unless such transaction has been duly approved in advance by the board of directors of the issuer of such security.

7.03 **Minimum Cash.** The Company shall not as of the last day of any fiscal quarter suffer or permit the sum of its cash plus the value (valued in accordance with GAAP) of all Cash Equivalents of the Company and its Subsidiaries to be less than $45,000,000.

**ARTICLE VIII**

**EVENTS OF DEFAULT**

8.01 **Event of Default.** Any of the following shall constitute an “Event of Default”:

(a) **Non-Payment.** Any Loan Party fails to pay, (i) when and as required to be paid herein, any amount of principal of the Loan, or (ii) within five days after the same becomes due, any interest, fee or any other amount payable hereunder or under any other Loan Document; or

(b) **Representation or Warranty.** Any representation or warranty by the Company or any Subsidiary made or deemed made herein, in any other Loan Document, or which is contained in any certificate, document or financial or other statement by the Company, any Subsidiary, or any Responsible Officer of any Loan Party, furnished at any time under this Agreement, or in or under any other Loan Document, is incorrect in any material respect on or as of the date made or deemed made; or

(c) **Specific Defaults.** The Company fails to perform or observe any term, covenant or agreement contained in any of Section 6.01, 6.03(a), 6.07(d), 6.12 or 6.17 or in Article VII; or

(d) **Other Defaults.** Any Loan Party fails to perform or observe any other term or covenant contained in this Agreement or any other Loan Document, and such default shall continue unremedied for a period of 30 days after the earlier of (i) the date upon which a Responsible Officer of such Loan Party knew of such failure or (ii) the date upon which written notice thereof is given to the Company by the Agent or any Bank; or

(e) **Cross-Acceleration.** (i) The Company or any Material Subsidiary (A) fails to make any payment in respect of any Indebtedness or Contingent Obligation (other than in respect of Swap Contracts), (1) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than $10,000,000 or (2) arising under the Revolving Credit Agreement in either case when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure, or (B) fails to perform or observe any other condition or covenant, or any other event shall occur or
condition exist, under (1) any agreement or instrument relating to any such Indebtedness or Contingent Obligation or (2) the Revolving Credit Agreement, and, in either case, such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure, and as a result of such failure, event or condition under the preceding clauses (A) or (B) such Indebtedness has been declared or become due or has been required to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be required to be made, prior to its stated maturity, or such Contingent Obligation to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (1) any event of default under such Swap Contract as to which the Company or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (2) any Termination Event (as defined in such Swap Contract) as to which the Company or any Subsidiary is an Affected Party (as defined in such Swap Contract), and, in either event, the Swap Termination Value owed by the Company or such Subsidiary as a result thereof is greater than $10,000,000; or

(f) **Insolvency; Voluntary Proceedings.** Any Loan Party or any of their respective Material Subsidiaries (i) ceases or fails to be solvent, or generally fails to pay, or admits in writing its inability to pay, its debts as they become due, subject to applicable grace periods, if any, whether at stated maturity or otherwise; (ii) voluntarily ceases to conduct its business in the ordinary course; (iii) commences any Insolvency Proceeding with respect to itself; or (iv) takes any action to effectuate or authorize any of the foregoing; or

(g) **Involuntary Proceedings.** (i) Any involuntary Insolvency Proceeding is commenced or filed against the Company or any Material Subsidiary, or any writ, judgment, warrant of attachment, execution or similar process, is issued or levied against a substantial part of the Company’s or any Material Subsidiary’s properties, and any such proceeding or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded within 60 days after commencement, filing or levy; (ii) the Company or any Material Subsidiary admits the material allegations of a petition against it in any Insolvency Proceeding, or an order for relief (or similar order under non-U.S. law) is ordered in any Insolvency Proceeding; or (iii) the Company or any Material Subsidiary acquiesces in the appointment of a receiver, trustee, custodian, conservator, liquidator, mortgagee in possession (or agent therefor), or other similar Person for itself or a substantial portion of its property or business; or

(h) **ERISA.** (i) An ERISA Event shall occur with respect to a Pension Plan or Multiemployer Plan which has resulted or is reasonably expected to result in liability of any Loan Party under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of $10,000,000; (ii) the aggregate amount of Unfunded Pension Liability among all Pension Plans at any time exceeds $10,000,000; or (iii) any Loan Party or any ERISA Affiliate shall fail to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of $10,000,000; or
(i) **Monetary Judgments.** One or more non-interlocutory judgments, non-interlocutory orders, decrees or arbitration awards is entered against the Company or any Subsidiary involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related series of transactions, incidents or conditions, of $20,000,000 or more, and the same shall remain unsatisfied, unvacated and unstayed pending appeal for a period of 10 days after the entry thereof; or

(j) **Non-Monetary Judgments.** Any non-monetary judgment, order or decree is entered against the Company or any Subsidiary which has a Material Adverse Effect, and there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(k) **Change of Control.** There occurs any Change of Control; or

(l) **Invalidity of Subordination Provisions.** The subordination provisions of any agreement or instrument governing any Subordinated Indebtedness and subordinating such Subordinated Indebtedness to the Obligations hereunder is for any reason revoked, invalidated or otherwise breached by the Company or any Subsidiary, or otherwise ceases to be in full force and effect as a result of any act or omission of the Company or any Subsidiary, or the Company or any Subsidiary otherwise contests in any manner the validity or enforceability thereof or denies that it has any further liability or obligation thereunder, in each case unless the Company can satisfy the Agent, in its reasonable discretion, that such Indebtedness would be permitted under the covenants applicable pursuant to Section 6.17 absent such subordination provisions; or

(m) **Invalidity of Loan Documents.** Any Loan Party declares that it intends not to comply with any material provision of the Loan Documents; or any Loan Party denies that it has any further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any Loan Document.

8.02 **Remedies.** If any Event of Default occurs, the Agent shall, at the request of, or may, with the consent of, the Majority Banks,

(a) declare the unpaid principal amount of the Loan, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Company; and

(b) exercise on behalf of itself and the Banks all rights and remedies available to it and the Banks under the Loan Documents or applicable law;

provided, however, that upon the occurrence of any event specified in Section 8.01(f) or (g) (in the case of clause (i) of Section 8.01 (g) upon the expiration of the 60-day period mentioned therein), the unpaid principal amount of the Loan and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the Agent or any Bank.
8.03 **Rights Not Exclusive.** The rights provided for in this Agreement and the other Loan Documents are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law or in equity, or under any other instrument, document or agreement now existing or hereafter arising.

8.04 **Application of Funds.** After the exercise of remedies provided for in Section 8.02 (or after the Loan has automatically become due and payable as set forth in the proviso to Section 8.02), any amounts received, whether from the Company, any Guarantor or otherwise, on account of the Obligations shall be applied by the Agent in the following order:

(a) **First**, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including Attorney Costs and amounts payable under Article III) payable to the Agent in its capacity as such;

(b) **Second**, to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal and interest) payable to the Banks (including Attorney Costs and amounts payable under Article III), ratably among them in proportion to the amounts described in this clause (b) payable to them;

(c) **Third**, to payment of that portion of the Obligations constituting unpaid principal of the Loan, ratably among the Banks in proportion to the respective amounts described in this clause (c) held by them; and

(d) **Last**, the balance, if any, after all of the Obligations have been paid in full, to the Company or as otherwise required by law.

**ARTICLE IX**

**THE AGENT**

9.01 **Appointment and Authority.** Each of the Banks hereby irrevocably appoints Bank of America to act on its behalf as the Agent hereunder and under the other Loan Documents and authorizes the Agent to take such actions on its behalf and to exercise such powers as are delegated to the Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Article (except for Section 9.06) are solely for the benefit of the Agent, the Banks, and none of the Loan Parties shall have rights as a third party beneficiary of any of such provisions.

9.02 **Rights as a Bank.** The Person serving as the Agent hereunder shall have the same rights and powers in its capacity as a Bank as any other Bank and may exercise the same as though it were not the Agent and the term “Bank” or “Banks” shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Company or any Subsidiary or other Affiliate thereof as if such Person were not the Agent hereunder and without any duty to account therefor to the Banks.
9.03 **Exculpatory Provisions.** The Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Agent is required to exercise as directed in writing by the Majority Banks (or such other number or percentage of the Banks as shall be expressly provided for herein or in the other Loan Documents), provided that the Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Agent to liability or that is contrary to any Loan Document or applicable law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Company or any of its Affiliates that is communicated to or obtained by the Person serving as the Agent or any of its Affiliates in any capacity.

The Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Majority Banks (or such other number or percentage of the Banks as shall be necessary, or as the Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 10.01 and 8.02) or (ii) in the absence of its own gross negligence or willful misconduct. The Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Agent by the Company, or a Bank.

The Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Agent.

9.04 **Reliance by Agent.** The Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not
incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of the Loan, that by its terms must be fulfilled to the satisfaction of a Bank, the Agent may presume that such condition is satisfactory to such Bank unless the Agent shall have received notice to the contrary from such Bank prior to the making of the Loan. The Agent may consult with legal counsel (who may be counsel for the Company), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

9.05 Delegation of Duties. The Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Agent. The Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as the Agent.

9.06 Resignation of Agent. The Agent may at any time give notice of its resignation to the Banks and the Company. Upon receipt of any such notice of resignation, the Majority Banks shall have the right, with the consent of the Company at all times other than during the existence of an Event of Default (which consent shall not be unreasonably withheld or delayed), to appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States. If no such successor shall have been so appointed by the Majority Banks, shall have been consented to by the Company (to the extent required) and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may on behalf of the Banks, appoint a successor Agent meeting the qualifications set forth above; provided that if the Agent shall notify the Company and the Banks that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (1) the retiring Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents and (2) all payments, communications and determinations provided to be made by, to or through the Agent shall instead be made by or to each Bank directly, until such time as the Majority Banks appoint and, to the extent required, the Company consents to, a successor Agent as provided for above in this Section. Upon the acceptance of a successor’s appointment as the Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Agent, and the retiring Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Company to a successor Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Company and such successor. After the retiring Agent’s resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 10.04 shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Agent was acting as the Agent.
9.07 **Non-Reliance on Agent and Other Banks.** Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Agent or any other Bank or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

9.08 **No Other Duties, Etc.** Anything herein to the contrary notwithstanding, the Agent shall not have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Agent, or a Bank hereunder.

9.09 **Agent May File Proofs of Claim.** In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to any Loan Party, the Agent (irrespective of whether the principal of the Loan shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Agent shall have made any demand on the Company) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loan and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Banks and the Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Banks and the Agent and their respective agents and counsel and all other amounts due the Banks and the Agent under Sections 2.09 and 10.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Bank to make such payments to the Agent and, in the event that the Agent shall consent to the making of such payments directly to the Banks, to pay to the Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Agent and its agents and counsel, and any other amounts due the Agent under Sections 2.09 and 10.04.

Nothing contained herein shall be deemed to authorize the Agent to authorize or consent to or accept or adopt on behalf of any Bank any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Bank or to authorize the Agent to vote in respect of the claim of any Bank in any such proceeding.
9.10 Guaranty Matters. The Banks irrevocably authorize the Agent, at its option and in its discretion, to release any Guarantor from its obligations under the Guaranty if such Person ceases to be a Subsidiary or a Material Domestic Subsidiary as a result of a transaction permitted hereunder, provided, however, that no such release shall be authorized where the sale or other disposition of substantially all of the equity interest of a Guarantor is to an Affiliate of the Company. Upon request by the Agent at any time, the Majority Banks will confirm in writing the Agent’s authority to release any Guarantor from its obligations under the Guaranty pursuant to this Section 9.10.

Anything contained in any of the Loan Documents to the contrary notwithstanding, the Company, the Agent and each Bank hereby agree that no Bank shall have any right individually to enforce the Guaranty, it being understood and agreed that all powers, rights and remedies under the Guaranty may be exercised solely by the Agent for the benefit of the Banks in accordance with the terms thereof.

ARTICLE X

MISCELLANEOUS

10.01 Amendments and Waivers. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by any Loan Party therefrom, shall be effective unless in writing signed by the Majority Banks and the applicable Loan Party, as the case may be, and acknowledged by the Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall:

   (a) waive any condition set forth in Article IV without the written consent of each Bank;

   (b) extend or increase the Commitment of any Bank without the written consent of such Bank;

   (c) postpone any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees or other amounts due to the Banks (or any of them) hereunder or under any other Loan Document without the written consent of each Bank directly affected thereby;

   (d) reduce the principal of, or the rate of interest specified herein on, the Loan, or (subject to clause (ii) of the second proviso to this Section 10.01) any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Bank directly affected thereby; provided, however, that only the consent of the Majority Banks shall be necessary (i) to amend the definition of “Default Rate” or to waive any obligation of the Company to pay interest at the Default Rate or (ii) to amend any financial covenant hereunder (or any defined term used therein) even if the effect of such amendment would be to reduce the rate of interest on the Loan or to reduce any fee payable hereunder;

   (e) change Section 2.10 or Section 8.04 in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Bank;
(f) change any provision of this Section or the definition of “Majority Banks” or any other provision hereof specifying the number or percentage of Banks required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder without the written consent of each Bank;

(g) release all or substantially all of the value of the Guaranty without the written consent of each Bank;

and, provided further, that (i) no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Banks required above, affect the rights or duties of the Agent under this Agreement or any other Loan Document; and (ii) the [Fee Letter] may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Bank shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Commitment of such Bank may not be increased or extended without the consent of such Bank.

10.02 Notices.

(a) Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to the Company or the Agent, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 10.02; and

(ii) if to any other Bank, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Banks hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Agent, provided that the foregoing shall not apply to notices to any Bank pursuant to Article II if such Bank, as applicable, has notified the Agent that it is incapable of receiving notices under such Article by electronic communication. The Agent or the Company may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.
Unless the Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon
the sender’s receipt of an acknowledgement from the intended recipient (such as by the “return receipt requested” function, as
available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the
normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on
the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed
received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification
that such notice or communication is available and identifying the website address therefor.

(c) The Platform. THE PLATFORM IS PROVIDED “AS IS” AND “AS AVAILABLE.” THE AGENT PARTIES DO
NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE COMPANY MATERIALS OR THE ADEQUACY OF THE
PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE COMPANY
MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF
MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR
FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH
THE COMPANY MATERIALS OR THE PLATFORM. In no event shall the Agent or any of its Related Parties (collectively, the
“Agent Parties”) have any liability to the Company, any Bank or any other Person for losses, claims, damages, liabilities or expenses
of any kind (whether in tort, contract or otherwise) arising out of the Company’s or the Agent’s transmission of Company Materials
through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court
of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of
such Agent Party; provided, however, that in no event shall any Agent Party have any liability to the Company, any Bank or any other
Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(d) Change of Address, Etc. Each of the Company and the Agent may change its address, telecopier or telephone number
for notices and other communications hereunder by notice to the other parties hereto. Each other Bank may change its address,
telecopier or telephone number for notices and other communications hereunder by notice to the Company and the Agent. In addition,
each Bank agrees to notify the Agent from time to time to ensure that the Agent has on record (i) an effective address, contact name,
telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and
(ii) accurate wire instructions for such Bank.

(e) Reliance by Agent and Banks. The Agent and the Banks shall be entitled to rely and act upon any notices believed in
good faith by the Agent or the Banks to have been given by or on behalf of the Company by a Responsible Officer or other individual
authorized
for such purpose in a written notice to the Agent signed by a Responsible Officer of the Company even if (i) such notices were not
made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or
(ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Company shall indemnify the Agent,
each Bank and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such
Person on each notice believed in good faith to have been given by or on behalf of the Company. All telephonic notices to and other
telephonic communications with the Agent may be recorded by the Agent, and each of the parties hereto hereby consents to such
recording.

10.03 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Agent or any
Bank, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any
right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy,
power or privilege.

10.04 Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. The Company shall pay (i) all reasonable out-of-pocket expenses incurred by the Agent and its
Affiliates (including the reasonable fees, charges and disbursements of counsel for the Agent), in connection with the syndication of
the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the
other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the
transactions contemplated hereby or thereby shall be consummated), and (ii) following an Event of Default, all out-of-pocket
expenses incurred by the Agent, or any Bank (including the fees, charges and disbursements of any counsel for the Agent, or any
Bank), in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan
Documents, including its rights under this Section 10.04, or (B) in connection with the Loan made hereunder, including all such out-
of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loan.

(b) Indemnification by the Company. The Company shall indemnify the Agent (and any sub-agent thereof), each Bank, and
each Related Party of any of the foregoing Persons (each such Person being called an “Indemnitee”) against, and hold each
Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and
disbursements of any counsel for any Indemnitee), and shall indemnify and hold harmless each Indemnitee from all fees and time
charges and disbursements for attorneys who may be employees of any Indemnitee, incurred by any Indemnitee or asserted against
any Indemnitee by any third party or any Loan Party arising out of, in connection with, or as a result of (i) the execution or delivery of
this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the
parties hereto of their respective obligations hereunder or thereunder, the consummation of the transactions contemplated hereby or
thereby, or, in the case of the Agent (and any sub-agent thereof) and its Related Parties only, the administration of this Agreement and
the other Loan Documents, (ii) the Loan or the use or proposed use of the proceeds therefrom, (iii) any actual or alleged
presence or release of Hazardous Materials on or from any property (including the Property) owned or operated by the Company or any of its Subsidiaries, or any Environmental Liability related in any way to the Company or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by any Loan Party, and regardless of whether any Indemnitee is a party thereto (all the foregoing, the “Indemnified Liabilities”), in all cases, whether or not caused by or arising, in whole or in part, out of the comparative, contributory or sole negligence of the Indemnitee; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such Indemnified Liabilities (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by any Loan Party against an Indemnitee for breach of such Indemnitee’s obligations hereunder or under any other Loan Document, if such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

(c) Reimbursement by Banks. To the extent that the Company for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by it to the Agent (or any sub-agent thereof) or any Related Party of any of the foregoing, each Bank severally agrees to pay to the Agent (or any such sub-agent) or such Related Party, as the case may be, such Bank’s Pro Rata Share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Agent (or any such sub-agent) in its capacity as such, or against any Related Party of any of the foregoing acting for the Agent (or any such sub-agent) in connection with such capacity. The obligations of the Banks under this subsection (c) are subject to the provisions of Section 2.11(c).

(d) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, the Company shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, the Loan or the use of the proceeds thereof. No Indemnitee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

(e) Payments. All amounts due under this Section shall be payable not later than ten Business Days after demand therefor.

(f) Survival. The agreements in this Section shall survive the resignation of the Agent, the replacement of any Bank, and the repayment, satisfaction or discharge of the Loan and all of the other Obligations.

54
10.05 **Payments Set Aside.** To the extent that any Loan Party makes a payment to the Agent or the Banks, or the Agent or the Banks exercise their right of set-off, and such payment or the proceeds of such set-off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Agent or such Bank in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any Insolvency Proceeding or otherwise, then (a) to the extent of such recovery the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred, and (b) each Bank severally agrees to pay to the Agent upon demand its pro rata share of any amount so recovered from or repaid by the Agent.

10.06 **Successors and Assigns.**

(a) **Successors and Assigns Generally.** The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that no Loan Party may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Agent and each Bank and no Bank may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Agent and the Banks) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) **Assignments by Banks.** Any Bank may at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loan at the time owing to it); provided that

(i) except in the case of an assignment of the entire remaining amount of the assigning Bank’s Commitment and the Loan at the time owing to it or in the case of an assignment to a Bank or an Affiliate of a Bank or an Approved Fund with respect to a Bank, the aggregate amount of the Commitment (which for this purpose includes the Loan outstanding thereunder) or, if the Commitment is not then in effect, the principal outstanding balance of the Loan of the assigning Bank subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Agent or, if “Trade Date” is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than $5,000,000 unless each of the Agent and, so long as no Event of Default has occurred and is continuing, the Company otherwise consents (each such consent not to be unreasonably withheld or delayed); provided, however, that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single Eligible Assignee (or to an Eligible Assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met;
(ii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Bank’s rights and obligations under this Agreement with respect to the Loan or the Commitment assigned;

(iii) any assignment of a Commitment must be approved by the Agent unless the Person that is the proposed assignee is itself a Bank (whether or not the proposed assignee would otherwise qualify as an Eligible Assignee); and

(iv) the parties to each assignment shall execute and deliver to the Agent an Assignment and Assumption, together with a processing and recordation fee in the amount, if any, required as set forth in Schedule 10.06, and the Eligible Assignee, if it shall not be a Bank, shall deliver to the Agent an Administrative Questionnaire.

Subject to acceptance and recording thereof by the Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Bank under this Agreement, and the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Bank’s rights and obligations under this Agreement, such Bank shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.03, 3.04, and 10.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Company (at its expense) shall execute and deliver a Note to the assignee Bank. Any assignment or transfer by a Bank of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Bank of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Register. The Agent, acting solely for this purpose as an agent of the Company, shall maintain at the Agent’s Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Banks, and the Commitments of, and principal amounts of the Loan owing to, each Bank pursuant to the terms hereof from time to time (the “Register”). The entries in the Register shall be conclusive, and the Company, the Agent and the Banks may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by each of the Company at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Bank may request and receive from the Agent a copy of the Register.
(d) **Participations.** Any Bank may at any time, without the consent of, or notice to, the Company or the Agent, sell participations to any Person (other than a natural person or the Company or any of the Company’s Affiliates or Subsidiaries) (each, a “Participant”) in all or a portion of such Bank’s rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loan owing to it); provided that (i) such Bank’s obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Company, the Agent, the Banks shall continue to deal solely and directly with such Bank in connection with such Bank’s rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Bank sells such a participation shall provide that such Bank shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Bank will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 10.01 that affects such Participant. Subject to subsection (e) of this Section, the Company agrees that each Participant shall be entitled to the benefits of Sections 3.01, 3.03 and 3.04 to the same extent as if it were a Bank and had acquired its interest by assignment pursuant to subsection (b) of this Section.

(e) **Limitations upon Participant Rights.** A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.03 than the applicable Bank would have been entitled to receive with respect to the participation sold to such Participant. A Participant that would be a foreign Bank if it were a Bank shall not be entitled to the benefits of Section 3.01 unless the Company is notified of the participation sold to such Participant and such Participant complies with Section 10.07 as though it were a Bank.

(f) **Certain Pledges.** Any Bank may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Bank, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Bank from any of its obligations hereunder or substitute any such pledgee or assignee for such Bank as a party hereto.

(g) **Electronic Execution of Assignments.** The words “execution,” “signed,” “signature,” and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

10.07 **Withholding Tax.**

(a) If any Bank is a “foreign corporation, partnership or trust” within the meaning of the Code and such Bank claims exemption from, or a reduction of, U.S. withholding tax under Sections 1441 or 1442 of the Code, such Bank agrees with and in favor of the Agent, to deliver to the Agent:

(i) if such Bank claims an exemption from, or a reduction of, withholding tax under a United States tax treaty, two properly completed and executed copies of IRS Form W-8BEN before the payment of any interest in the first calendar year and before the payment of any interest in each third succeeding calendar year during which interest may be paid under this Agreement;

57
(ii) if such Bank claims that interest paid under this Agreement is exempt from United States withholding tax because it is effectively connected with a United States trade or business of such Bank, two properly completed and executed copies of IRS Form W-8ECI before the payment of any interest is due in the first taxable year of such Bank and in each succeeding taxable year of such Bank during which interest may be paid under this Agreement; and

(iii) such other form or forms as may be required under the Code or other laws of the United States as a condition to exemption from, or reduction of, United States withholding tax.

Such Bank agrees to promptly notify the Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(b) If any Bank claims exemption from, or reduction of, withholding tax under a United States tax treaty by providing IRS Form W-8BEN and such Bank sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Company to such Bank, such Bank agrees to notify the Agent of the percentage amount in which it is no longer the beneficial owner of Obligations of the Company to such Bank. To the extent of such percentage amount, the Agent will treat such Bank’s IRS Form W-8BEN as no longer valid.

(c) If any Bank claiming exemption from United States withholding tax by filing IRS Form W-8ECI with the Agent sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Company to such Bank, such Bank agrees to undertake sole responsibility for complying with the withholding tax requirements imposed by Sections 1441 and 1442 of the Code.

(d) If any Bank is entitled to a reduction in the applicable withholding tax, the Agent may withhold from any interest payment to such Bank an amount equivalent to the applicable withholding tax after taking into account such reduction. However, if the forms or other documentation required by subsection (a) of this Section are not delivered to the Agent, then the Agent may withhold from any interest payment to such Bank not providing such forms or other documentation an amount equivalent to the applicable withholding tax imposed by Sections 1441 and 1442 of the Code, without reduction.

(e) If the IRS or any other Governmental Authority of the United States or other jurisdiction asserts a claim that the Agent did not properly withhold tax from amounts paid to or for the account of any Bank (because the appropriate form was not delivered or was not properly executed, or because such Bank failed to notify the Agent of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other
reason) such Bank shall indemnify the Agent fully for all amounts paid, directly or indirectly, by the Agent as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to the Agent under this Section, together with all costs and expenses (including reasonable Attorney Costs). The obligation of the Banks under this subsection shall survive the payment of all Obligations and the resignation or replacement of the Agent.

10.08 Treatment of Certain Information; Confidentiality. Each of the Agent and the Banks agrees to maintain the confidentiality of the Information, except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates’ respective partners, directors, officers and employees (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the agents, advisors and representatives of any Person identified in the foregoing clause (a) (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and will either have a legal obligation to keep the Information confidential or enter into an agreement to keep the Information confidential), (c) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (d) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (e) to any other party hereto, (f) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (g) subject to an agreement containing provisions substantially the same as those of this Section 10.08, to (i) any Eligible Assignee of or Participant in, or any prospective Eligible Assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its professional advisors who have a legal obligation to keep the Information confidential or enter into an agreement to keep the Information confidential) to any swap or derivative transaction relating to the Company and its obligations, (h) with the written consent of the Company or (i) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Agent, any Bank or any of their respective Affiliates on a nonconfidential basis from a source other than the Company provided that such source is not bound by a confidentiality agreement with the Company known to the Agent or such Bank, as the case may be.

For purposes of this Section, “Information” means all information received from the Company or any Subsidiary relating to the Company or any Subsidiary or any of their respective businesses, other than any such information that is available to the Agent, any Bank on a nonconfidential basis prior to disclosure by the Company or any Subsidiary, provided that, in the case of information received from the Company or any Subsidiary after the date hereof, such information is clearly identified at the time of delivery as confidential or secret. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.
Each of the Agent and the Banks acknowledges that (a) the Information may include material non-public information concerning the Company or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable law, including Federal and state securities laws.

10.09 **Set-off.** In addition to any rights and remedies of the Banks provided by law, if an Event of Default exists or the Loan has been accelerated, each Bank is authorized at any time and from time to time, without prior notice to the Company, any such notice being waived by the Company to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, such Bank to or for the credit or the account of the Company against any and all Obligations owing to such Bank, now or hereafter existing, irrespective of whether or not the Agent or such Bank shall have made demand under this Agreement or any Loan Document and although such Obligations may be contingent or unmatured. Each Bank agrees promptly to notify the Company and the Agent after any such set-off and application made by such Bank; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application.

10.10 **Automatic Debits of Fees.** With respect to any commitment fee, arrangement fee, or other fee, or any other cost or expense (including Attorney Costs) due and payable to the Agent, or Bank of America under the Loan Documents, the Company hereby irrevocably authorizes Bank of America to debit any deposit account of the Company with Bank of America in an amount such that the aggregate amount debited from all such deposit accounts does not exceed such fee or other cost or expense. If there are insufficient funds in such deposit accounts to cover the amount of the fee or other cost or expense then due, such debits will be reversed (in whole or in part, in Bank of America’s sole discretion) and such amount not debited shall be deemed to be unpaid. No such debit under this Section shall be deemed a set-off.

10.11 **Notification of Addresses, Lending Offices, Etc.** Each Bank shall notify the Agent in writing of any changes in the address to which notices to the Bank should be directed, of addresses of any Lending Office, of payment instructions in respect of all payments to be made to it hereunder and of such other administrative information as the Agent shall reasonably request.

10.12 **Release of Guaranty.** In the event that any Subsidiary that was a Material Domestic Subsidiary ceases to be a Material Domestic Subsidiary as of the last Business Day of any fiscal quarter, so long as no Default shall have occurred and be continuing, the Agent shall, as of the first Business Day of the subsequent fiscal quarter, be deemed to have released the Guaranty. In such event, or in the event that any Guarantor ceases to be a Subsidiary of the Company in accordance with the terms of this Agreement, the Agent shall, at such Subsidiary’s expense, execute and deliver such releases of such Guaranty, as may be reasonably requested by such Subsidiary.
10.13 **Counterparts.** This Agreement may be executed in any number of separate counterparts, each of which, when so executed, shall be deemed an original, and all of said counterparts taken together shall be deemed to constitute but one and the same instrument.

10.14 **Severability.** The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

10.15 **No Third Parties Benefited.** This Agreement is made and entered into for the sole protection and legal benefit of the Company, the Banks, the Agent and the Agent Parties and the Indemnitees, and their permitted successors and assigns, and no other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents.

10.16 **Replacement of Banks.** If any Bank requests compensation under Section 3.03, or if the Company is required to pay any additional amount to any Bank or any Governmental Authority for the account of any Bank pursuant to Section 3.01, or if any Bank is a Defaulting Bank, then the Company may, at its sole expense and effort, upon notice to such Bank and the Agent, require such Bank to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 10.06), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Bank, if a Bank accepts such assignment), provided that:

   (a) the Agent shall have been paid the assignment fee specified in Section 10.06(b);

   (b) such Bank shall have received payment of an amount equal to the outstanding principal of the portion of the Loan owed to it, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 3.04) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Company (in the case of all other amounts);

   (c) in the case of any such assignment resulting from a claim for compensation under Section 3.03 or payments required to be made pursuant to Section 3.01, such assignment will result in a reduction in such compensation or payments thereafter; and

   (d) such assignment does not conflict with applicable Laws.

A Bank shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Bank or otherwise, the circumstances entitling the Company to require such assignment and delegation cease to apply.
10.17 Governing Law and Jurisdiction.

(a) THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES THAT WOULD REQUIRE APPLICATION OF ANOTHER LAW; PROVIDED THAT THE AGENT AND THE BANKS SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF CALIFORNIA OR OREGON OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF CALIFORNIA OR OREGON, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE COMPANY, THE AGENT AND THE BANKS CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE COMPANY, THE AGENT AND THE BANKS IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. THE COMPANY, THE AGENT AND THE BANKS EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY CALIFORNIA LAW.

10.18 Waiver of Jury Trial.

EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

10.19 Survival of Representations and Warranties.

All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Agent and each Bank, regardless of any investigation made by the Agent or any Bank or on their behalf and notwithstanding that the Agent or any Bank may have had notice or knowledge of any Default on the Closing Date, and shall continue in full force and effect as of each date made as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied.
10.20 **USA PATRIOT Act Notice.** Each Bank that is subject to the Act (as hereinafter defined) and the Agent (for itself and not on behalf of any Bank) hereby notifies the Company that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow such Bank or the Agent, as applicable, to identify the Company in accordance with the Act.

10.21 **Entire Agreement.** This Agreement, together with the other Loan Documents, embodies the entire agreement and understanding among the Company, the Banks and the Agent, and supersedes all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof.

[Signature pages follow.]

63
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered in San Francisco, California, by their proper and duly authorized officers as of the day and year first above written.

MENTOR GRAPHICS CORPORATION

By:  /s/ Dean Freed_________________________
Name:  Dean Freed
Title:  VP & General Counsel

and

By:  /s/ Ethan Manuel_________________________
Name:  Ethan Manuel
Title:  Treasurer
BANK OF AMERICA, N.A.,
as Agent

By:    /s/ Robert Rittelmeyer
Name:  Robert Rittelmeyer
Title:  Vice President
BANK OF AMERICA, N.A.,

as a Bank

By: /s/ Kevin McMahan
Name: Kevin McMahan
Title: Senior Vice President
U.S. BANK NATIONAL ASSOCIATION,
as a Bank

By: /s/ Richard J. Ameny, Jr.
Name: Richard J. Ameny, Jr.
Title: Vice President
SCHEDULE 5.05
TO
CREDIT AGREEMENT

LITIGATION

None.
(a) None
SCHEDULE 5.12
TO
CREDIT AGREEMENT

ENVIRONMENTAL MATTERS

None.
None.
SCHEDULE 5.16
TO
CREDIT AGREEMENT

SUBSIDIARIES AND OTHER EQUITY INVESTMENTS

A. Subsidiaries¹
EverCAD Software Corporation
Expert Dynamics Ltd.
Flomerics Italy
Limited Liability Company Embedded Alley Solutions RUS
Logicvision International Inc.
Mentor Graphics (Asia) Private Limited
Mentor Graphics (Canada) Limited
Mentor Graphics Denmark, Branch of Scandinavia
Mentor Graphics (Deutschland) GmbH
Mentor Graphics Development Crolles
Mentor Graphics Development (Deutschland) GmbH*
Mentor Graphics Development Services CJSC
Mentor Graphics Development Services (Ireland) Saint Petersburg Branch
Mentor Graphics Development Services Limited
Mentor Graphics (Egypt)
Mentor Graphics (Espana) SA
Mentor Graphics (Finland) OY
Mentor Graphics (France) SARL
Mentor Graphics (Holdings) Limited
Mentor Graphics (India) Private Limited
Mentor Graphics (Ireland), Austria Branch
Mentor Graphics (Ireland) Danish Branch
Mentor Graphics (Ireland), Finnish Branch
Mentor Graphics (Ireland), French Branch
Mentor Graphics (Ireland) Limited*
Mentor Graphics Ireland Limited, Filial Sweden
Mentor Graphics (Ireland), Taiwan Branch

¹ "*" denotes Material Subsidiaries. "+" denotes Unrestricted Subsidiaries.
Mentor Graphics (Ireland), UK Branch
Mentor Graphics (Israel) Limited
Mentor Graphics (Japan) Company Limited*
Mentor Korea Company, Limited*
Mentor Graphics Magyarorszag Kft. (Hungary)
Mentor Graphics (Netherlands Antilles) N.V.
Mentor Graphics (Netherlands) B.V.
Mentor Graphics Pakistan Development (Private) Limited
Mentor Graphics Polska Sp. Z.o.o.
Mentor Graphics (Sales and Services) Private Limited
Mentor Graphics (Scandinavia) AB
Mentor Graphics (Schweiz) AG
Mentor Graphics (Shanghai) Electronic Technology Company Limited
Mentor Graphics (UK) Limited
Mentor Italia S.R.L. Branch
Meta Systems SARL
MicReD Kft
Moscow Branch Office of Mentor Graphics Development Services Limited
Volcano Communications Technologies AB (Sweden)
VR Acquisition Ltd.

INACTIVE OR IN LIQUIDATION:
Embedded Alley Solutions, Inc.
Flomerics France
Flomerics Germany
Flomerics Group Limited (formerly PLC)
Flomerics Incorporated
Flomerics India Private Limited
Flomerics Japan Limited
Flomerics Limited
Flomerics Nordic AB
Flomerics Asia Limited
Mentor Graphics Development (Ireland) Limited
Nika GmbH
Nika Software 000 (Russia)
Nika France Sarl
Logicvision (Canada) Inc.
Logicvision (Europe) Ltd.
Logicvision Inc.
Logicvision Japan KK
Logicvision India Pvt. Ltd.
Pextra Corporation
Sierra Design Automation Private Limited
Sierra Design Automation SARL
Veribest International Limited UK

B. Other Material Equity Investments

M2000 S.A. – minority equity investment of 10% ownership
None.
None.
## SCHEDULE 2.01

**COMMITMENTS AND PRO RATA SHARES**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Commitment</th>
<th>Pro Rata Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of America, N.A.</td>
<td>$11,400,000.00</td>
<td>57.00%</td>
</tr>
<tr>
<td>U.S. Bank National Association</td>
<td>$8,600,000.00</td>
<td>43.00%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$20,000,000.00</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>
MENTOR GRAPHICS CORPORATION

Address for Notices:
Mentor Graphics Corporation
8005 S.W. Boeckman Road
Wilsonville, OR 97070-7777
Attention: Dennis Weldon
Telephone: (503) 685-7830
Facsimile: (503) 685-7707
Website: www.mentorg.com

BANK OF AMERICA, N.A., as the Agent

Notices of Conversion/Continuation:
Bank of America, N.A.
Credit Services West
Mail Code: CA4-702-02-25
2001 Clayton Road, Building B
Concord, California 94520-2405
Attention: G.K. Lapitan
Telephone: (925) 675-8205
Facsimile: (888) 969-9170
Email: g.k.lapitan@baml.com

Agent’s Payment Office:
Bank of America, N.A.
ABA No.: 026009593
Account No.: 3750836479
Reference: Mentor Graphics Corp.
Attention: G.K. Lapitan, Credit Services West
Mail Code: CA4-702-02-25
2001 Clayton Road, Building B
Concord, California 94520-2405
All Other Notices:
Bank of America, N.A.,
Mail Code CA5-701-05-19
1455 Market Street, 5th Floor
San Francisco, California 94103
Attention: Robert J. Rittelmeyer, Vice President
Telephone: (415) 436-2616
Facsimile: (415) 503-5099
Email: robert.j.rittelmeyer@baml.com

BANK OF AMERICA, N.A., as a Bank

Domestic and Offshore Lending Office:
Bank of America, N.A.
Credit Services West
Mail Code: CA4-702-02-25
2001 Clayton Road, Building B
Concord, California 94520-2405
Attention: G.K. Lapitan
Telephone: (925) 675-8205
Facsimile: (888) 969-9170
Email: g.k.lapitan@baml.com

Notices (other than Notices of Conversion/Continuation):
Bank of America, N.A.,
Mail Code CA5-704-06-37
315 Montgomery Street - 6th Floor
San Francisco, California 94104
Attention: Kevin McMahon, Senior Vice President
Telephone: (415) 913-2794
Facsimile: (415) 913-2358
Email: kevin.mcMahon@baml.com
SCHEDULE 10.06

PROCESSING AND RECORDATION FEES

The Agent will charge a processing and recordation fee (an “Assignment Fee”) in the amount of $2,500 for each assignment; provided, however, that in the event of two or more concurrent assignments to members of the same Assignee Group (which may be effected by a suballocation of an assigned amount among members of such Assignee Group) or two or more concurrent assignments by members of the same Assignee Group to a single Eligible Assignee (or to an Eligible Assignee and members of its Assignee Group), the Assignment Fee will be $2,500 plus the amount set forth below:

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Assignment Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>First four concurrent assignments or suballocations to members of an Assignee Group (or from members of an Assignee Group, as applicable)</td>
<td>-0-</td>
</tr>
<tr>
<td>Each additional concurrent assignment or suballocation to a member of such Assignee Group (or from a member of such Assignee Group, as applicable)</td>
<td>$ 500</td>
</tr>
</tbody>
</table>
CERTIFICATIONS

I, Walden C. Rhines, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mentor Graphics Corporation, the registrant;

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 we 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 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.

Dated: June 8, 2010

/S/ WALDEN C. RHINES
Walden C. Rhines
Chief Executive Officer
CERTIFICATIONS

I, Gregory K. Hinckley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mentor Graphics Corporation, the registrant;

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 we 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 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.

Dated: June 8, 2010

/S/ GREGORY K. HINCKLEY
Gregory K. Hinckley
President, Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Mentor Graphics Corporation (the “Company”) hereby certifies to such officer’s knowledge that:

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended April 30, 2010 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 8, 2010

/s/ WALDEN C. RHINES
Walden C. Rhines
Chief Executive Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to Mentor Graphics Corporation and will be retained by Mentor Graphics Corporation and furnished to the Securities and Exchange Commission or its staff upon request.


Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Mentor Graphics Corporation (the “Company”) hereby certifies to such officer’s knowledge that:

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended April 30, 2010 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 8, 2010

/s/ GREGORY K. HINCKLEY
Gregory K. Hinckley
President, Chief Financial Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to Mentor Graphics Corporation and will be retained by Mentor Graphics Corporation and furnished to the Securities and Exchange Commission or its staff upon request.