OLD POINT FINANCIAL CORP
Form 10-Q
November 09, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from ______ to ______

Commission File Number: 000-12896

OLD POINT FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

VIRGINIA	**54-1265373**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1 West Mellen Street, Hampton, Virginia 23663

(Address of principal executive offices) (Zip Code)

(757) 728-1200

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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. x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

4,922,592 shares of common stock ($5.00 par value) outstanding as of October 31, 2007

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Old Point Financial Corporation and Subsidiaries

Consolidated Balance Sheets

	September 30, 2007 (unaudited)	December 31, 2006
Assets		
Cash and due from banks	$ 14,266,662	$ 18,571,359
Federal funds sold	38,182,740	18,213,002
Cash and cash equivalents	52,449,402	36,784,361
Securities available-for-sale, at fair value	143,112,713	184,806,097
Securities held-to-maturity (fair value approximates $3,670,701 and $3,454,019)	3,632,000	3,432,000
Loans, net of allowance for loan losses of $5,133,009 and $4,783,685	581,870,509	578,809,269
Premises and equipment, net	26,665,380	26,409,594
Bank-owned life insurance	12,632,868	10,608,106
Other assets	7,214,658	6,671,859
	$ 827,577,530	$ 847,521,286
Liabilities & Stockholders Equity		
Deposits:		
Noninterest-bearing deposits	$ 96,997,425	$ 96,652,975
Savings deposits	189,949,008	201,273,300
Time deposits	313,751,567	290,488,326
Total deposits	600,698,000	588,414,601
Federal funds purchased, repurchase agreements and other borrowings	55,404,558	57,052,656
Federal Home Loan Bank advances	90,000,000	125,000,000
Accrued expenses and other liabilities	3,356,949	2,388,777
Total liabilities	749,459,507	772,856,034
Stockholders equity:		
Common stock, $5 par value, 10,000,000 shares authorized; 3,944,711 and 3,992,155 shares issued	19,723,555	19,960,775
Additional paid-in capital	15,296,590	14,718,903
Retained earnings	44,095,213	42,245,413
Accumulated other comprehensive loss	(997,335)	(2,259,839)
Total stockholders equity	78,118,023	74,665,252
	$ 827,577,530	$ 847,521,286

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation and Subsidiaries

Consolidated Statements of Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
		(unaudited)		
Interest and Dividend Income:				
Interest and fees on loans	$ 10,654,274	$ 9,822,512	$ 31,361,052	$ 27,126,679
Interest on federal funds sold	346,426	102,069	643,702	235,233
Interest on securities:				
Taxable	1,009,048	1,275,902	3,383,776	3,841,542
Tax-exempt	305,910	349,971	953,561	1,105,211
Dividends and interest on all other securities	102,052	112,799	323,413	291,797
Total interest and dividend income	12,417,710	11,663,253	36,665,504	32,600,462
Interest Expense:				
Interest on savings deposits	630,233	608,301	1,923,466	1,672,906
Interest on time deposits	3,599,098	2,936,614	10,253,897	7,742,252
Interest on federal funds purchased, securities sold under agreement to repurchase and other borrowings	489,580	496,439	1,467,325	1,368,653
Interest on Federal Home Loan Bank advances	1,171,954	1,405,214	3,807,247	3,543,260
Total interest expense	5,890,865	5,446,568	17,451,935	14,327,071
Net interest income	6,526,845	6,216,685	19,213,569	18,273,391
Provision for loan losses	200,000	300,000	700,000	900,000
Net interest income after provision for loan losses	6,326,845	5,916,685	18,513,569	17,373,391
Noninterest Income:				
Income from fiduciary activities	766,967	652,676	2,346,658	1,991,576
Service charges on deposit accounts	1,388,681	1,338,497	4,231,504	4,063,994
Other service charges, commissions and fees	608,760	461,678	1,775,907	1,715,315
Income from bank-owned life insurance	158,745	140,332	455,091	407,060
Gain on available-for-sale securities, net	0	5,406	3,168	7,302
Other operating income	112,717	114,892	435,298	340,504
Total noninterest income	3,035,870	2,713,481	9,247,626	8,525,751
Noninterest Expense:				
Salaries and employee benefits	3,981,943	3,830,050	11,924,354	11,366,697
Occupancy and equipment	928,315	861,492	2,716,096	2,638,802
Service fees	94,042	174,322	260,083	543,508
Data processing	223,340	195,525	646,852	550,797
Marketing	187,964	167,620	564,346	498,827
Customer development	176,599	171,316	515,663	465,645
Employee professional development	174,607	170,645	500,211	461,929
Other	817,623	717,668	2,355,925	2,247,847
Total noninterest expenses	6,584,433	6,288,638	19,483,530	18,774,052
Income before income taxes	2,778,282	2,341,528	8,277,665	7,125,090
Income tax expense	798,062	630,500	2,353,220	1,917,872

Net income	$ 1,980,220	$ 1,711,028	$ 5,924,445	$ 5,207,218
Basic Earnings per Share:				
Average shares outstanding	4,939,269	4,990,103	4,971,784	4,989,881
Net income per share of common stock	$ 0.40	$ 0.34	$ 1.19	$ 1.04
Diluted Earnings per Share:				
Average shares outstanding	4,974,275	5,059,145	5,014,856	5,063,658
Net income per share of common stock	$ 0.40	$ 0.34	$ 1.18	$ 1.03

See Notes to Consolidated Financial Statements.

Note - Per share data adjusted for 5 for 4 stock split in the form of a dividend declared on August 16, 2007 and paid on October 1, 2007.

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Old Point Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity

(Unaudited)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
FOR NINE MONTHS ENDED SEPTEMBER 30, 2007						
Balance at beginning of period	3,992,155	$ 19,960,775	$ 14,718,903	$ 42,245,413	$ (2,259,839)	$ 74,665,252
Comprehensive income:						
Net income				5,924,445		5,924,445
Unrealized holding gains arising during the period (net of tax, $651,458)					1,264,595	1,264,595
Reclassification adjustment (net of tax, $1,077)					(2,091)	(2,091)
Total comprehensive income				5,924,445	1,262,504	7,186,949
Sale of common stock	17,741	88,705	548,909	(482,693)		154,921
Repurchase and retirement of common stock	(65,185)	(325,925)		(1,366,560)		(1,692,485)
Nonqualified stock options			28,778			28,778
Cash dividends ($0.56 per share)				(2,225,392)		(2,225,392)
Balance at end of period	3,944,711	$ 19,723,555	$ 15,296,590	$ 44,095,213	$ (997,335)	$ 78,118,023
FOR NINE MONTHS ENDED SEPTEMBER 30, 2006						
Balance at beginning of period	4,013,553	$ 20,067,765	$ 14,319,580	$ 39,074,325	$ (2,405,624)	$ 71,056,046
Comprehensive income:						
Net income				5,207,218		5,207,218
Unrealized holding gains arising during the period (net of tax, $68,727)					133,412	133,412
Reclassification adjustment (net of tax, $2,483)					(4,819)	(4,819)
Total comprehensive income				5,207,218	128,593	5,335,811
Sale of common stock	12,215	61,075	358,107	(260,476)		158,706
Repurchase and retirement of common stock	(33,613)	(168,065)		(799,624)		(967,689)
Nonqualified stock options			41,216			41,216
Cash dividends ($0.52 per share)				(2,074,228)		(2,074,228)
Balance at end of period	3,992,155	$ 19,960,775	$ 14,718,903	$ 41,147,215	$ (2,277,031)	$ 73,549,862

See Notes to Consolidated Financial Statements.

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Old Point Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2007	2006
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,924,445	$ 5,207,218
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,267,151	1,174,308
Provision for loan losses	700,000	900,000
Net gain on sale of available-for-sale securities	(3,168)	(7,302)
Net accretion of securities	(49,408)	(38,806)
Loss (gain) on disposal of equipment	(14,873)	4,954
Changes in assets/liabilities:		
Increase in bank-owned life insurance	(2,024,762)	(1,007,667)
Increase in other assets	(1,193,178)	(1,172,343)
Increase in other liabilities	968,172	1,367,976
Net cash provided by operating activities	5,574,379	6,428,338
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(14,797,010)	(4,690,555)
Purchases of held-to-maturity securities	(800,000)	(500,000)
Proceeds from maturities and calls of securities	56,470,854	9,415,950
Proceeds from sales of available-for-sale securities	2,585,000	1,895,000
Loans made to customers	(202,955,665)	(243,719,248)
Principal payments received on loans	199,194,424	164,260,571
Purchases of premises and equipment	(1,508,064)	(6,397,912)
Net cash provided by (used in) investing activities	38,189,539	(79,736,194)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in noninterest-bearing deposits	344,450	2,605,928
Increase in savings deposits	(11,324,292)	(379,483)
Proceeds from the sale of time deposits	109,041,988	143,077,065
Payments for maturing time deposits	(85,778,747)	(112,806,401)
Increase (decrease) in federal funds purchased and repurchase agreements	(1,606,163)	12,948,341
Increase (decrease) in Federal Home Loan Bank advances	(35,000,000)	35,000,000
Decrease in interest-bearing demand notes and other borrowed money	(41,935)	(1,162,063)
Proceeds from issuance of common stock	154,921	158,706
Repurchase and retirement of common stock	(1,692,485)	(967,689)
Effect of nonqualified stock options	28,778	41,216
Cash dividends paid on common stock	(2,225,392)	(2,074,228)
Net cash provided by (used in) financing activities	(28,098,877)	76,441,392
Net increase in cash and cash equivalents	15,665,041	3,133,536
Cash and cash equivalents at beginning of period	36,784,361	15,606,024
Cash and cash equivalents at end of period	$ 52,449,402	$ 18,739,560
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		

Cash payments for:		
Interest	$ 17,491,823	$ 13,704,747
Income tax	$ 2,475,000	$ 1,975,000
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Unrealized gain on investment securities	$ 1,912,885	$ 194,837
Loans transferred to other real estate owned	$ 240,000	$

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. General

The accompanying unaudited consolidated financial statements of Old Point Financial Corporation (the Company) and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. All significant intercompany balances and transactions have been eliminated. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications consisting of a normal and recurring nature considered necessary to present fairly the financial positions at September 30, 2007 and December 31, 2006, the results of operations for the three months and nine months ended September 30, 2007 and 2006, and statements of cash flows and changes in stockholders equity for the nine months ended September 30, 2007 and 2006. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

On August 16, 2007 the Company declared a 5 for 4 stock split in the form of a dividend payable October 1, 2007. All per share data presented in this Form 10-Q has been updated to reflect the 5 for 4 stock split in the form of a dividend.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2006. Certain previously reported amounts have been reclassified to conform to current period presentation.

The Company maintains a website on the Internet at www.oldpoint.com. The Company makes available free of charge, on or through its website, its proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). The information available at the Company s Internet address is not part of this Form 10-Q or any other report filed by the Company with the SEC. The public may read and copy any documents the Company files at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company s SEC filings can also be obtained on the SEC s website on the Internet at www.sec.gov.

Note 2. Securities

Amortized costs and fair values of securities held-to-maturity at September 30, 2007 and December 31, 2006 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
September 30, 2007				
Obligations of U.S. Government agencies	$ 2,900	$ 4	$ (5)	$ 2,899
Obligations of state and political subdivisions	732	40		772
Total	$ 3,632	$ 44	$ (5)	$ 3,671
December 31, 2006				
Obligations of U.S. Government agencies	$ 2,700	$	$ (24)	$ 2,676
Obligations of state and political subdivisions	732	46		778
Total	$ 3,432	$ 46	$ (24)	$ 3,454

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Amortized costs and fair values of securities available-for-sale at September 30, 2007 and December 31, 2006 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
September 30, 2007				
U.S. Treasury securities	$ 994	$ 1	$	$ 995
Obligations of U.S. Government agencies	109,759	22	(845)	108,936
Obligations of state and political subdivisions	25,999	298		26,297
Money market investments	1,011			1,011
Federal Home Loan Bank stock restricted	5,565			5,565
Federal Reserve Bank stock restricted	169			169
Other marketable equity securities	168		(28)	140
Total	$ 143,665	$ 321	$ (873)	$ 143,113
December 31, 2006				
U.S. Treasury securities	$ 981	$	$	$ 981
Obligations of U.S. Government agencies	148,981		(2,895)	146,086
Obligations of state and political subdivisions	29,157	458		29,615
Money market investments	721			721
Federal Home Loan Bank stock restricted	7,094			7,094
Federal Reserve Bank stock restricted	169			169
Other marketable equity securities	168		(28)	140
Total	$ 187,271	$ 458	$ (2,923)	$ 184,806

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Information pertaining to securities with gross unrealized losses at September 30, 2007 and December 31, 2006, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	September 30, 2007					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Securities Available-for-Sale						
Debt securities:						
Obligations of U.S. Government agencies	$	$	$ 845	$ 98,914	$ 845	$ 98,914
Total debt securities			845	98,914	845	98,914
Other marketable equity securities			28	22	28	22
Total securities available-for-sale	$	$	$ 873	$ 98,936	$ 873	$ 98,936
Securities Held-to-Maturity						
Obligations of U.S. Government agencies	$	$	$ 5	$ 1,095	$ 5	$ 1,095
Total securities held-to-maturity	$	$	$ 5	$ 1,095	$ 5	$ 1,095
Total	$	$	$ 878	$ 100,031	$ 878	$ 100,031

	December 31, 2006					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)					
Securities Available-for-Sale						
Debt securities:						
Obligations of U.S. Government agencies	$	$	$ 2,895	$ 146,087	$ 2,895	$ 146,087
Total debt securities			2,895	146,087	2,895	146,087
Other marketable equity securities			28	22	28	22
Total securities available-for-sale	$	$	$ 2,923	$ 146,109	$ 2,923	$ 146,109
Securities Held-to-Maturity						
Obligations of U.S. Government agencies	$ 1	$ 499	$ 23	$ 1,677	$ 24	$ 2,176
Total securities held-to-maturity	$ 1	$ 499	$ 23	$ 1,677	$ 24	$ 2,176
Total	$ 1	$ 499	$ 2,946	$ 147,786	$ 2,947	$ 148,285

The Company has the ability and intent to hold these securities until maturity. The securities are impaired primarily due to rising interest rates after the securities were purchased. None of the securities are impaired due to credit issues. Therefore, securities with a loss are considered temporarily impaired.

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Note 3. Loans

Loans at September 30, 2007 and December 31, 2006 are summarized as follows:

	September 30, 2007	December 31, 2006
	(in thousands)	
Commercial and other loans	$ 69,221	$ 67,697
Real estate loans:		
Construction	63,681	81,227
Farmland	47	220
Equity lines of credit	32,037	26,809
1-4 family residential	121,496	120,915
Multifamily residential	7,075	5,898
Nonfarm nonresidential	235,837	213,606
Installment loans to individuals	54,232	63,670
Tax-exempt loans	3,114	3,191
Total loans	586,740	583,233
Less: Allowance for loan losses	(5,133)	(4,784)
Net deferred loan costs	264	360
Loans, net	$ 581,871	$ 578,809

Note 4. Allowance for Loan Losses

The following summarizes activity in the allowance for loan losses for the nine months ended September 30, 2007 and for the year ended December 31, 2006:

	September 30, 2007	December 31, 2006
	(in thousands)	
Balance, beginning of year	$ 4,784	$ 4,448
Recoveries	204	331
Provision for loan losses	700	1,200
Loans charged off	(555)	(1,195)
Balance, end of period	$ 5,133	$ 4,784

Note 5. Share-Based Compensation

Share-based compensation arrangements include stock options, restricted stock awards, performance-based awards, stock appreciation rights and employee stock purchase plans. Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment (SFAS No. 123R) requires all share-based payments to employees to be valued using a fair value method on the date of grant and to be expensed based on that fair value over the applicable vesting period. The Company adopted SFAS No. 123R as of January 1, 2006. As of September 30, 2007, the Company had not issued any new options since SFAS No. 123R became effective.

The Company has stock option plans which have 476,086 shares of common stock reserved for grants to key employees and directors. Options to purchase 250,056 shares of common stock from these plans are outstanding at September 30, 2007. The common stock reserved for grants and common stock outstanding have been adjusted for the 5 for 4 stock split in the form of a dividend paid on October 1, 2007. The exercise price of each option equals the market price of the Company s common stock on the date of the grant, and an option s maximum term is ten years.

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Stock option plan activity for the nine months ended September 30, 2007 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Options outstanding, January 1	304,676	$ 17.82		
Granted				
Exercised	(30,870)	11.19		
Canceled or expired	(23,750)	20.05		
Options outstanding, September 30	250,056	18.43	3.90	$ 834,427
Options exercisable, September 30	250,056	$ 18.43	3.90	$ 834,427

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on September 30, 2007. This amount changes based on changes in the market value of the Company s stock.

The total proceeds of options exercised during the nine months ended September 30, 2007 was $345 thousand. The intrinsic value for options exercised during the nine months ended September 30, 2007 was $327 thousand.

As of September 30, 2007, there was no unrecognized compensation expense because all outstanding options were vested.

SFAS No. 123R requires the benefits of tax deductions in excess of grant-date fair value to be reported as a financing cash flow. The Company had a $29 thousand tax benefit deduction from the exercise of stock options in the first nine months of 2007.

Note 6. Pension Plan

The Company provides pension benefits for eligible participants through a non-contributory defined benefits pension plan. The plan was frozen effective September 30, 2006; therefore no additional participants will be added to the plan. The components of net periodic pension cost are as follows:

Three months ended September 30,	2007	2006
	Pension Plan Cost (Benefit)	
Service cost	$	$ 126,049
Interest cost	71,948	83,788
Expected return on plan assets	(102,902)	(96,067)
Amortization of prior service cost		320
Amortization of net loss	8,606	44,789
Net periodic pension plan cost (benefit)	$ (22,348)	$ 158,879

Nine months ended September 30,	2007	2006
	Pension Plan Cost (Benefit)	
Service cost	$	$ 378,147
Interest cost	215,843	251,364
Expected return on plan assets	(308,705)	(288,201)
Amortization of prior service cost		960
Amortization of net loss	25,817	134,367
Net periodic pension plan cost (benefit)	$ (67,045)	$ 476,637

The Company has not made and, does not expect to make, any contributions to the plan in 2007.

Note 7. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, including the effect of dilutive potential common shares attributable to outstanding stock options.

Potential common shares outstanding attributable to stock options of 146 thousand were not included in the diluted earnings per share calculation because they were antidilutive. The number of shares has been adjusted for the 5 for 4 stock split in the form of a stock dividend paid October 1, 2007.

Note 8. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but may change current practice for some entities. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The Company does not expect the implementation of SFAS 157 to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument and is irrevocable. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company is in the process of evaluating the impact SFAS No. 159 may have on its consolidated financial statements.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
The following discussion is intended to assist readers in understanding and evaluating the financial condition, changes in financial condition and the results of operations of the Company. The Company consists of the parent company and its wholly-owned subsidiaries, The Old Point National Bank of Phoebus (the Bank) and Old Point Trust & Financial Services, N. A. (Trust), collectively referred to as the Company. This discussion should be read in conjunction with the consolidated financial statements and other financial information contained elsewhere in this report.

Caution About Forward-Looking Statements

In addition to historical information, this report may contain forward-looking statements. For this purpose, any statement that is not a statement of historical fact may be deemed to be a forward-looking statement. These forward-looking statements may include statements regarding profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, growth strategy and financial and other goals. Forward-looking statements often use words such as believes, expects, plans, may, will, should, projects, contemplates, ant forecasts, intends or other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, and actual results could differ materially from historical results or those anticipated by such statements.

Factors that could have a material adverse effect on the operations and future prospects of the Company include, but are not limited to, changes in: interest rates, general economic conditions, monetary and fiscal policies of the U.S. Government, including policies of the Office of the Comptroller of the Currency, U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein, and readers are cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made. In addition, past results of operations are not necessarily indicative of future results.

General

The Company is the parent company of the Bank and Trust. The Bank is a locally owned and managed community bank serving the Hampton Roads localities of Hampton, Newport News, Norfolk, Virginia Beach, Chesapeake, Williamsburg/James City County, York County and Isle of Wight County. The Bank currently has 19 branch offices. Trust is a wealth management services provider.

Critical Accounting Policies and Estimates

As of September 30, 2007, there have been no significant changes with regard to the critical accounting policies and estimates disclosed in the Company s annual report on Form 10-K for the year ended December 31, 2006. That disclosure included a discussion of the accounting policy that requires management s most difficult, subjective or complex judgments: the allowance for loan losses.

Earnings Summary

Net income for the third quarter of 2007 was $2.0 million as compared with $1.7 million earned in the comparable quarter in 2006, an increase of 15.73%. Basic and diluted earnings per share for the third quarter 2007 were $0.40. Basic and diluted earnings per share for the third quarter of 2006 were $0.34.

Net income for the nine months ending September 30, 2007 was $5.9 million as compared to $5.2 million, an increase of 13.77%. Basic and diluted earnings per share for the nine months ending September 30, 2007 were $1.19 and $1.18 as compared to $1.04 and $1.03 for the nine months ending September 30, 2006.

Net Interest Income

The principal source of earnings for the Company is net interest income. Net interest income is the difference between interest and fees generated by earning assets and interest expense paid to fund them. Changes in the volume and mix of interest-earning assets and interest-bearing liabilities, as well as their respective yields and rates, have a significant impact on the level of net interest income. The net interest margin is calculated by dividing tax equivalent net interest income by average earning assets.

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Net interest income, on a fully tax equivalent basis, was $6.7 million in the third quarter of 2007, an increase of $286 thousand from the third quarter of 2006. The net interest margin was 3.50% in the third quarter of 2007 and 3.37% in the third quarter of 2006.

Tax equivalent interest income increased $730 thousand, or 6.15%, in the third quarter of 2007 compared to the same period of 2006. Average earning assets grew $6.0 million, or 0.79%. The average yield on earning assets during the third quarter of 2007 was 33 basis points higher than during the third quarter of 2006.

For the nine months ended September 30, 2007, net interest income on a fully tax equivalent basis increased $861 thousand, or 4.56%, over the comparable period in 2006. Comparing the first nine months of 2007 to 2006, average loans increased $53.9 million, or 10.13%, while investment securities decreased $24.4 million, or 12.47%. Average earning assets increased $39.7 million, or 5.42%, for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006. The net interest yield decreased 2 basis points from 3.43% in 2006 to 3.41% in 2007.

Interest expense increased $444 thousand, or 8.15%, and average interest-bearing liabilities increased $9.1 million, or 1.43%, in the third quarter of 2007 compared to the same period of 2006. The cost of funding those liabilities increased 23 basis points. For the nine months ended September 30, 2007, interest expense increased $3.1 million, or 28.81%, over the same period in 2006.

The following table shows an analysis of average earning assets, interest-bearing liabilities and rates and yields. Nonaccrual loans are included in loans outstanding.

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AVERAGE BALANCE SHEETS, NET INTEREST INCOME* AND RATES*

	For the quarter ended September 30, 2007 Average Balance	Interest Income/ Expense	Yield/ Rate**	2006 Average Balance	Interest Income/ Expense	Yield/ Rate**
			(in thousands)			
Loans	$ 586,207	$ 10,673	7.28%	$ 558,962	$ 9,844	7.04%
Investment securities:						
Taxable	127,249	1,111	3.49%	163,953	1,388	3.39%
Tax-exempt	26,291	463	7.05%	30,203	530	7.02%
Total investment securities	153,540	1,574	4.10%	194,156	1,918	3.95%
Federal funds sold	27,125	347	5.12%	7,778	102	5.25%
Total earning assets	766,872	$ 12,594	6.57%	760,896	$ 11,864	6.24%
Reserve for loan losses	(5,167)			(4,586)		
Other nonearning assets	56,913			51,966		
Total assets	$ 818,618			$ 808,276		
Time and savings deposits:						
Interest-bearing transaction accounts	$ 10,339	$ 7	0.27%	$ 8,863	$ 6	0.27%
Money market deposit accounts	147,987	574	1.55%	149,007	552	1.48%
Savings accounts	38,792	49	0.51%	40,059	51	0.51%
Time deposits, $100,000 or more	113,744	1,427	5.02%	96,592	1,106	4.58%
Other time deposits	189,742	2,172	4.58%	173,314	1,830	4.22%
Total time and savings deposits	500,604	4,229	3.38%	467,835	3,545	3.03%
Federal funds purchased, repurchase agreements and other borrowings	50,535	490	3.88%	49,244	497	4.04%
Federal Home Loan Bank advances	90,000	1,172	5.21%	115,000	1,405	4.89%
Total interest-bearing liabilities	641,139	5,891	3.68%	632,079	5,447	3.45%
Demand deposits	96,559			100,291		
Other liabilities	3,248			2,673		
Stockholders equity	77,672			73,233		
Total liabilities and stockholders equity	$ 818,618			$ 808,276		
Net interest income/yield		$ 6,703	3.50%		$ 6,417	3.37%

For the nine months ended September 30, 2007 Average Balance	Interest Income/ Expense	Yield/ Rate**	2006 Average Balance	Interest Income/ Expense	
Three Months Ended			Six Months Ended		
July 3, 2010	July 4, 2009	Change	July 3, 2010	July 4, 2009	Change
		(In millions)			

Product	$	117.1	$	101.8	$	15.3	$	219.8	$	189.4	$	30.4
Services		25.3		27.8		(2.5)		51.2		57.0		(5.8)
Maintenance		84.7		80.3		4.4		178.0		169.8		8.2
Total revenue	$	227.1	$	209.9	$	17.2	$	449.0	$	416.2	$	32.8

Product revenue increased during the three and six months ended July 3, 2010, as compared to the three and six months ended July 4, 2009, primarily because of higher business levels due to the timing of contract renewals with existing customers and from contracts executed in prior quarters due to our continued transition to a ratable license mix. Services revenue decreased during the three and six months ended July 3, 2010, as compared to the three and six months ended July 4, 2009, primarily because of lower business levels in the services business.

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Revenue by Product Group

The following table shows for the past five consecutive quarters the percentage of product and related maintenance revenue contributed by each of our five product groups, and Services and other:

	Three Months Ended				
	July 3, 2010	April 3, 2010	January 2, 2010	October 3, 2009	July 4, 2009
Functional Verification	26%	22%	22%	21%	23%
Digital IC Design	21%	21%	22%	19%	24%
Custom IC Design	26%	27%	28%	28%	25%
System Interconnect	10%	9%	11%	11%	10%
Design for Manufacturing	6%	9%	7%	9%	5%
Services and other	11%	12%	10%	12%	13%
Total	100%	100%	100%	100%	100%

As described under the heading Critical Accounting Estimates in our Annual Report on Form 10-K for the fiscal year ended January 2, 2010, certain of our licenses allow customers the ability to remix among software products. Additionally, we have licensed a combination of our products to customers with the actual product selection and number of licensed users to be determined at a later date. For these arrangements, we estimate the allocation of the revenue to product groups based upon the expected usage of our products by these customers. The actual usage of our products by these customers may differ and, if that proves to be the case, the revenue allocation in the above table would differ.

Although we believe the methodology of allocating revenue to product groups is reasonable, there can be no assurance that such allocated amounts reflect the amounts that would result if the customer had individually licensed each specific software solution at the outset of the arrangement.

Revenue by Geography

	Three Months Ended			Six Months Ended		
	July 3, 2010	July 4, 2009	Change	July 3, 2010	July 4, 2009	Change
	(In millions)					
United States	$ 94.7	$ 93.9	$ 0.8	$ 177.3	$ 175.9	$ 1.4
Other Americas	8.4	5.4	3.0	13.5	10.0	3.5
Europe, Middle East and Africa	52.9	44.6	8.3	102.1	93.2	8.9
Japan	31.8	36.1	(4.3)	82.9	75.4	7.5
Asia	39.3	29.9	9.4	73.2	61.7	11.5
Total revenue	$ 227.1	$ 209.9	$ 17.2	$ 449.0	$ 416.2	$ 32.8

The increase in revenue in Asia is primarily due to the economic growth in the Asia region, resulting in increased business levels and cash collections.

Revenue by Geography as a Percent of Total Revenue

	Three Months Ended	Six Months Ended

	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
United States	42%	45%	40%	42%
Other Americas	4%	3%	3%	3%
Europe, Middle East and Africa	23%	21%	23%	22%
Japan	14%	17%	18%	18%
Asia	17%	14%	16%	15%
Total	100%	100%	100%	100%

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Most of our revenue is transacted in the United States dollar. However, certain revenue transactions are in foreign currencies, primarily the Japanese yen, and we recognize additional revenue in periods when the United States dollar weakens in value against the Japanese yen and reduced revenue in periods when the United States dollar strengthens against the Japanese yen. For an additional description of how changes in foreign exchange rates affect our Condensed Consolidated Financial Statements, see the discussion under the heading Item 3. Quantitative and Qualitative Disclosures About Market Risk Disclosures About Market Risk Foreign Currency Risk.

Stock-based Compensation Expense Summary

Stock-based compensation expense is reflected throughout our costs and expenses as follows:

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
	(In millions)			
Cost of product	$ ----	$ ----	$ 0.1	$ 0.1
Cost of services	0.5	1.1	1.0	1.8
Cost of maintenance	0.3	0.7	0.7	1.1
Marketing and sales	2.4	3.7	4.6	6.4
Research and development	4.5	8.0	8.9	14.4
General and administrative	2.7	3.0	5.5	5.4
Total	$ 10.4	$ 16.5	$ 20.8	$ 29.2

Stock-based compensation expense decreased by $6.1 million during the three months ended July 3, 2010, as compared to the three months ended July 4, 2009, and $8.4 million during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009, due to the following:

The decrease in the maximum purchase limits under our Employee Stock Purchase Plan, or ESPP, and a lower grant date fair value of purchase rights granted;

A decrease in the number of equity awards, including restricted stock awards and restricted stock units, collectively referred to as restricted stock, and stock options;

A decrease in stock bonuses; and

A decrease in expense for restricted stock and stock options primarily due to lower grant date fair values because of a lower grant date stock price.

Cost of Revenue

	Three Months Ended			Six Months Ended		
	July 3, 2010	July 4, 2009	Change	July 3, 2010	July 4, 2009	Change
	(In millions)					
Product	$ 7.1	$ 9.8	$ (2.7)	$ 12.4	$ 17.4	$ (5.0)
Services	$ 21.6	$ 24.4	$ (2.8)	$ 43.5	$ 48.5	$ (5.0)
Maintenance	$ 10.5	$ 11.9	$ (1.4)	$ 21.9	$ 24.3	$ (2.4)

The following table shows cost of revenue as a percentage of related revenue for the three and six months ended July 3, 2010 and July 4, 2009:

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Product	6%	10%	6%	9%
Services	85%	88%	85%	85%
Maintenance	12%	15%	12%	14%

Cost of Product

Cost of product includes costs associated with the sale or lease of our hardware and licensing of our software products. Cost of product primarily includes the cost of employee salary, benefits and other employee-related costs, including stock-based compensation expense, amortization of acquired intangibles directly related to our products, the cost of technical documentation and royalties payable to third-party vendors. Cost of product associated with our hardware products also includes materials, assembly and overhead. These additional manufacturing costs make our cost of hardware product higher, as a percentage of revenue, than our cost of software product.

A summary of Cost of product is as follows:

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
	(In millions)			
Product related costs	$ 6.5	$ 8.9	$ 11.2	$ 14.3
Amortization of acquired intangibles	0.6	0.9	1.2	3.1
Total Cost of product	$ 7.1	$ 9.8	$ 12.4	$ 17.4

Product related costs decreased during the three and six months ended July 3, 2010, as compared to the three and six months ended July 4, 2009, primarily due to a decrease in hardware revenue. Amortization of acquired intangibles decreased during the three and six months ended July 3, 2010, as compared to the three and six months ended July 4, 2009 because certain acquired intangible assets became fully amortized.

Cost of product depends primarily upon the extent to which we acquire intangible assets, acquire licenses and incorporate third party technology in our products that are licensed or sold in any given period, and the actual mix of hardware and software product sales in any given period. We expect the Amortization of acquired intangibles component of Cost of product to increase by $1.2 million in future periods due to our acquisition of intangibles from Denali in June 2010.

Cost of Services

Cost of services primarily includes employee salary, benefits and other employee-related costs, costs to maintain the infrastructure necessary to manage a services organization, and provisions for contract losses, if any. Cost of services decreased by $2.8 million during the three months ended July 3, 2010, as compared to the three months ended July 4, 2009, and $5.0 million during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009, due to the following:

	Change	
	Three Months Ended	Six Months Ended
	(In millions)	
Professional services	$ (1.3)	$ (1.4)
Salary, benefits and other employee-related costs	(0.5)	(1.7)
Other individually insignificant items	(1.0)	(1.9)
	$ (2.8)	$ (5.0)

Cost of Maintenance

Cost of maintenance includes the cost of customer services, such as telephonic and on-site support, employee salary, benefits and other employee-related costs, and documentation of maintenance updates, as well as amortization of intangible assets directly related to our maintenance contracts. There were no material fluctuations in these components of Cost of maintenance during the three and six months ended July 3, 2010, as compared to the three and six months ended July 4, 2009.

Operating Expenses

	Three Months Ended			Six Months Ended		
	July 3, 2010	July 4, 2009	Change	July 3, 2010	July 4, 2009	Change
			(In millions)			
Marketing and sales	$ 71.5	$ 71.4	$ 0.1	$ 146.3	$ 146.3	$ ----
Research and development	91.9	90.7	1.2	181.3	185.3	(4.0)
General and administrative	17.1	34.2	(17.1)	39.9	72.6	(32.7)
Total operating expenses	$ 180.5	$ 196.3	$ (15.8)	$ 367.5	$ 404.2	$ (36.7)

The decrease in our operating expenses for the three and six months ended July 3, 2010, as compared to the three and six months ended July 4, 2009, is primarily due to the decrease in bad debt expense. Bad debt expense decreased by $20.6 million during the three months ended July 3, 2010, as compared to the three months ended July 4, 2009, due to the prior year period increase in our allowance for doubtful accounts of $10.4 million as a result of our assessment of the increased risk of customer delays or defaults on payment obligations and the current year release of $10.2 million of the reserve as a result of collections on certain receivables that were previously included in our allowance for doubtful accounts.

Bad debt expense decreased by $33.4 million during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009, due to the prior year period increase in our allowance for doubtful accounts of $20.7 million as a result of our assessment of the increased risk of customer delays or defaults on payment obligations and the current year release of $12.7 million of the reserve as a result of collections on certain receivables that were previously included in our allowance for doubtful accounts.

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The following table shows operating expenses as a percentage of total revenue for the three and six months ended July 3, 2010 and July 4, 2009:

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Marketing and sales	31%	34%	33%	35%
Research and development	40%	43%	40%	45%
General and administrative	8%	16%	9%	17%

Marketing and Sales

Marketing and sales expense increased by $0.1 million during the three months ended July 3, 2010, as compared to the three months ended July 4, 2009, but was substantially the same during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009, due to the following:

	Change	
	Three Months Ended	Six Months Ended
	(In millions)	
Depreciation	$ (1.9)	$ (3.7)
Stock-based compensation	(1.3)	(1.8)
Facilities and other infrastructure costs	0.1	(1.3)
Professional services	1.0	1.1
Other discretionary spending	1.0	2.1
Salary, commissions, benefits and other employee-related costs	1.3	3.5
Other individually insignificant items	(0.1)	0.1
	$ 0.1	$ ----

Research and Development

Research and development expense increased by $1.2 million during the three months ended July 3, 2010, as compared to the three months ended July 4, 2009, and decreased by $4.0 million during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009, due to the following:

	Change	
	Three Months Ended	Six Months Ended
	(In millions)	
Salary, benefits and other employee-related costs	$ 5.1	$ 5.0
Facilities and other infrastructure costs	1.1	(0.9)
Professional services	(0.4)	(0.9)
Computer equipment lease costs and maintenance costs associated with third-party software	(1.2)	(1.7)
Stock-based compensation	(3.5)	(5.5)
Other individually insignificant items	0.1	----

	$	1.2	$	(4.0)

We expect Research and development expense to increase in future periods due to our acquisition of Denali in June 2010.

General and Administrative

General and administrative expense decreased by $17.1 million during the three months ended July 3, 2010, as compared to the three months ended July 4, 2009, and $32.7 million during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009, due to the following:

	Change	
	Three Months Ended	Six Months Ended
	(In millions)	
Bad debt expense	$ (20.6)	$ (33.4)
Facilities and other infrastructure costs	(0.6)	(1.9)
Impairment of property, plant, and equipment	----	(3.5)
Professional services	2.1	0.9
Salary, benefits and other employee-related costs	2.5	5.3
Other individually insignificant items	(0.5)	(0.1)
	$ (17.1)	$ (32.7)

Bad debt expense decreased by $20.6 million during the three months ended July 3, 2010, as compared to the three months ended July 4, 2009, due to the prior year period increase in our allowance for doubtful accounts of $10.4 million as a result of our assessment of the increased risk of customer delays or defaults on payment obligations and the current year release of $10.2 million of the reserve as a result of collections on certain receivables that were previously included in our allowance for doubtful accounts.

Bad debt expense decreased by $33.4 million during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009, due to the prior year period increase in our allowance for doubtful accounts of $20.7 million as a result of our assessment of the increased risk of customer delays or defaults on payment obligations and the current year release of $12.7 million of the reserve as a result of collections on certain receivables that were previously included in our allowance for doubtful accounts.

We expect General and administrative expense to increase during the second half of fiscal 2010 because we do not expect such releases of reserves during this period.

Amortization of Acquired Intangibles

	Three Months Ended			Six Months Ended		
	July 3, 2010	July 4, 2009	Change	July 3, 2010	July 4, 2009	Change
			(In millions)			
Amortization of acquired intangibles	$ 2.6	$ 2.8	$ (0.2)	$ 5.2	$ 6.0	$ (0.8)

Amortization of acquired intangibles decreased by $0.2 million during the three months ended July 3, 2010, as compared to the three months ended July 4, 2009, and $0.8 million during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009, due to net effect of certain assets becoming fully amortized and certain acquired assets beginning to amortize. We expect Amortization of acquired intangibles to increase by $1.7 million in future periods due to our acquisition of intangibles from Denali in June 2010.

Restructuring and Other Charges (Credits)

We have initiated multiple restructuring plans since 2001, including the 2009 Restructuring Plan, which includes restructuring activities initiated during the second quarter of fiscal 2009, as well as

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restructuring activities initiated during the fourth quarter of fiscal 2009. The $0.3 million credit to Restructuring and other charges (credits) during the three months ended July 3, 2010 was primarily due to certain severance and related benefits costs that were less than previously estimated.

The $1.4 million credit to Restructuring and other charges (credits) during the six months ended July 3, 2010 was primarily due to a $1.9 million credit for severance and related benefits costs that were less than previously estimated, offset by charges of $0.5 million related to facilities that we vacated during the six months ended July 3, 2010 and $0.1 million for assets related to these vacated facilities. See Note 6 to our Condensed Consolidated Financial Statements for additional details of these restructuring plans.

Because the restructuring charges and related benefits are derived from management s estimates made during the formulation of the restructuring plans, based on then-currently available information, our restructuring plans may not achieve the benefits anticipated on the timetable or at the level contemplated. Demand for our products and services and, ultimately, our future financial performance, is difficult to predict with any degree of certainty and is especially difficult to predict in light of the current economic challenges and uncertainty. Accordingly, additional actions, including further restructuring of our operations, may be required in the future.

Interest Expense

The components of Interest expense for the three and six months ended July 3, 2010 and July 4, 2009 were as follows:

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
	(In millions)			
Contractual cash interest expense:				
Convertible Senior Notes	$ 1.7	$ 1.8	$ 3.5	$ 3.6
2015 Notes	0.4	----	0.4	----
Amortization of debt discount:				
Convertible Senior Notes	4.7	4.8	9.8	9.6
2015 Notes	0.6	----	0.6	----
Amortization of deferred financing costs:				
Convertible Senior Notes	0.4	0.4	0.8	0.8
2015 Notes	0.1	----	0.1	----
Other interest expense	0.1	0.3	0.2	0.3
Total interest expense	$ 8.0	$ 7.3	$ 15.4	$ 14.3

We expect Interest expense to be approximately $20.9 million during the remainder of fiscal 2010 due to our issuance of the 2015 Notes. See Note 2 to our Condensed Consolidated Financial Statements for additional details of the 2015 Notes.

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Other Income (Expense), net

Other income (expense), net, for the three and six months ended July 3, 2010 and July 4, 2009 was as follows:

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
	(In millions)			
Interest income	$ 0.3	$ 0.8	$ 0.5	$ 1.8
Gains on sale of non-marketable securities	0.2	----	4.8	----
Gains (losses) on trading securities in the non-qualified deferred compensation trust	1.1	(1.6)	2.2	(8.0)
Gains (losses) on foreign exchange	2.0	(0.9)	2.2	2.4
Equity losses from investments	----	(0.1)	(0.1)	(0.2)
Write-down of investments	(1.5)	(0.6)	(1.5)	(4.6)
Loss on early extinguishment of debt	(5.3)	----	(5.3)	----
Other income (expense)	0.1	(0.1)	0.1	(0.1)
Total other income (expense), net	$ (3.1)	$ (2.5)	$ 2.9	$ (8.7)

During the six months ended July 3, 2010, we recorded gains totaling $4.8 million for five cost method investments that were liquidated.

We determined that certain of our non-marketable securities were other-than-temporarily impaired and we wrote down such investments by $1.5 million during the three and six months ended July 3, 2010, $0.6 million during the three months ended July 4, 2009 and $4.6 million during the six months ended July 4, 2009.

We repurchased a portion of our Convertible Senior Notes and recorded a loss for the early extinguishment of debt during the three and six months ended July 3, 2010. See Note 2 to our Condensed Consolidated Financial Statements for additional details of this loss.

Income Taxes

The following table presents the provision (benefit) for income taxes and the effective tax rate for the three and six months ended July 3, 2010 and July 4, 2009:

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
	(In millions, except percentages)			
Provision (benefit) for income taxes	$ (54.5)	$ 10.8	$ (49.5)	$ 12.4
Effective tax rate	930.5%	(17.0)%	391.5%	(9.9)%

Our benefit for income taxes for the three and six months ended July 3, 2010 is primarily because of the release of approximately $66.7 million of valuation allowance against our deferred tax assets due to the recognition of deferred tax liabilities related to the acquisition of intangibles with Denali, partially offset by tax expense related to increases in unrecognized tax benefits for tax positions taken during the period, taxes on certain of our foreign subsidiaries, and interest expense on our unrecognized tax benefits. Our positive effective tax rate for the three and six months ended July 3, 2010 is due to our benefit for income taxes while having Loss before provision (benefit) for income taxes for the three and six months ended July 3, 2010.

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We expect to recognize a benefit for income taxes for fiscal 2010, primarily due to the release of valuation allowance against our deferred tax asset because of the recognition of deferred tax liabilities related to the acquisition of intangibles with Denali. We also expect to have a Loss before provision (benefit) for income taxes for fiscal 2010. The Internal Revenue Service, or IRS, and other tax authorities regularly examine our income tax returns and we have received Revenue Agent s Reports, or RARs, indicating that the IRS has proposed to assess certain tax deficiencies. For further discussion regarding our income taxes, including the status of the IRS examinations and unrecognized tax benefits, see Note 8 to our Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

	As of		
	July 3, 2010	January 2, 2010	Change
		(In millions)	
Cash, cash equivalents and Short-term investments	$ 478.5	$ 571.3	$ (92.8)
Net working capital	$ 321.0	$ 452.8	$ (131.8)

	Six Months Ended		
	July 3, 2010	July 4, 2009	Change
		(In millions)	
Cash provided by operating activities	$ 95.7	$ 3.0	$ 92.7
Cash used for investing activities	$ (265.6)	$ (29.1)	$ (236.5)
Cash provided by financing activities	$ 76.5	$ 16.4	$ 60.1

Cash and Cash Equivalents and Short-term Investments

As of July 3, 2010, our principal sources of liquidity consisted of $478.5 million of Cash and cash equivalents and Short-term investments, as compared to $571.3 million as of January 2, 2010.

Our primary sources of cash in the six months ended July 3, 2010 were:

- Customer payments under software licenses and from the sale or lease of our hardware products;
- Customer payments for engineering services;
- Proceeds from the issuance of our 2015 Notes;
- Proceeds from the sale of our 2015 Warrants;
- Proceeds from the sale of long-term investments; and
- Cash received for common stock purchases under our employee stock purchase plan.

Our primary uses of cash in the six months ended July 3, 2010 were:

- Payments relating to salaries, benefits, other employee-related costs and other operating expenses, including our restructuring plans;

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- Payments to former shareholders of acquired businesses, net of cash acquired, including Denali;
- Repurchases of a portion of our Convertible Senior Notes;
- Payments made to purchase the 2015 Notes Hedges;
- Purchases of treasury stock; and
- Purchases of property, plant and equipment.

We expect that current cash and short-term investment balances and cash flows that are generated from operations will be sufficient to meet our working capital, other capital and liquidity requirements for at least the next 12 months.

Net Working Capital

Net working capital decreased by $131.8 million as of July 3, 2010, as compared to January 2, 2010, due to the following:

	Change (In millions)
Decrease in Cash and cash equivalents	$ (93.5)
Increase in Current portion of deferred revenue	(42.4)
Decrease in Receivables, net	(9.3)
Increase in Prepaid expenses and other	16.8
Other individually insignificant items	(3.4)
	$ (131.8)

Cash Flows from Operating Activities

Net cash from operating activities increased by $92.7 million during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009, due to the following:

	Change (In millions)
Net income (loss), net of non-cash related items	$ 59.0
Changes in operating assets and liabilities, net of effect of acquired businesses	39.5
Proceeds from the sale of receivables, net	(5.8)
	$ 92.7

Cash flows from operating activities include Net income (loss), adjusted for certain non-cash charges, as well as changes in the balances of certain assets and liabilities. Our cash flows from operating activities are significantly influenced by business levels and the payment terms set forth in our license agreements. As a result of the challenging economic environment, our customers, who are primarily concentrated in the semiconductor sector, have experienced and may continue to experience adverse changes in their business and as a result, may delay purchasing our products and services or delay or default on their payment obligations. As of July 3, 2010, approximately one-third of our total Receivables, net and Installment contract receivables, net were attributable to the ten customers with the largest balances of Receivables, net and Installment contract receivables, net. As of January 2, 2010, approximately half of our total Receivables, net and Installment contract receivables, net were attributable to the ten customers with the largest balances of Receivables, net and Installment contract receivables, net. If our customers are not successful in generating sufficient cash or are precluded from securing financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us, although these obligations are generally not cancelable. Our customers inability to fulfill payment obligations may adversely affect our cash flow. Additionally, our customers may seek to renegotiate pre-existing contractual commitments. Though we have not yet experienced a material

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level of defaults, any material payment default by our customers or significant reductions in existing contractual commitments would have a material adverse effect on our financial condition and operating results.

As of July 3, 2010, we had made payments in connection with the 2009 Restructuring Plan in the amount of $30.1 million and we expect to pay an additional amount of $2.9 million, of which $2.5 million is for termination benefits. We expect substantially all termination benefits related to the 2009 Restructuring Plan to be paid by January 1, 2011.

Cash Flows from Investing Activities

Our primary investing activities consisted of:

- Cash paid in business combinations and asset acquisitions, net of cash acquired;
- Purchases of property, plant and equipment; and
- Proceeds from the sale of long-term investments.

Net cash from investing activities decreased by $236.5 million during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009, due to the following:

	Change (In millions)
Cash paid in business combinations and asset acquisitions, net of cash acquired	$ (249.1)
Proceeds from the sale of long-term investments	10.1
Purchases of property, plant and equipment	3.5
Other individually insignificant items	(1.0)
	$ (236.5)

In connection with our acquisitions completed before July 3, 2010, we may be obligated to pay up to an aggregate of $19.2 million in cash during the next 33 months if certain defined performance goals are achieved in full, of which $11.0 million would be expensed in our Condensed Consolidated Statements of Operations.

Cash Flows from Financing Activities

In June 2010, we issued $350.0 million principal amount of the 2015 Notes. Concurrently with the issuance of the 2015 Notes, we entered into the 2015 Notes Hedges with various parties to reduce the potential cash outlay from the conversion of the 2015 Notes and intended to mitigate the negative effect such conversion may have on the price of our common stock. In separate transactions, we sold warrants, or the 2015 Warrants, to purchase our common stock at a price of $10.78 per share to various parties. We used an aggregate of $187.2 million of the net proceeds from the issuance of the 2015 Notes to purchase in the open market $100.0 million principal amount of our 2011 Notes and $100.0 million principal amount of our 2013 Notes, and we repurchased 6.5 million shares of our common stock at a cost of $40.0 million.

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Net cash from financing activities increased by $60.1 million during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009, due to the following:

	Change (In millions)
Proceeds from issuance of 2015 Notes, net of initial purchasers fees	$ 340.2
Proceeds from sale of 2015 Warrants	37.5
Proceeds from the issuance of common stock	(11.5)
Purchases of treasury stock	(40.0)
Purchase of 2015 Notes Hedges	(76.6)
Repurchase of Convertible Senior Notes	(187.2)
Other individually insignificant items	(2.3)
	$ 60.1

The decrease in Proceeds from the issuance of common stock during the six months ended July 3, 2010 as compared to the six months ended July 4, 2009 is primarily due to decreased purchase limits under our ESPP, which became effective during fiscal 2009.

When treasury stock is re-issued at a price higher than its cost, the difference is recorded as a component of Capital in excess of par in the Condensed Consolidated Balance Sheets. When treasury stock is re-issued at a price lower than its cost, the difference is recorded as a component of Capital in excess of par to the extent that there are gains to offset the losses. If there are no treasury stock gains in Capital in excess of par, the losses upon re-issuance of treasury stock are recorded as a component of Accumulated deficit in the Condensed Consolidated Balance Sheets. We recorded losses on the re-issuance of treasury stock of $74.2 million during the six months ended July 3, 2010, as compared to $164.6 million during the six months ended July 4, 2009.

As of July 3, 2010, we have $814.4 million remaining under the stock repurchase programs authorized by our Board of Directors.

Other Factors Affecting Liquidity and Capital Resources

Income Taxes

We provide for United States income taxes on earnings of our foreign subsidiaries unless the earnings are considered indefinitely invested outside the United States. As of January 2, 2010, we had recognized a deferred tax liability of $34.7 million related to $67.9 million of earnings from certain of our foreign subsidiaries that are not considered indefinitely reinvested outside the United States and for which we have previously made a provision for income tax. We repatriated $62.9 million of the $67.9 million during the six months ended July 3, 2010, which resulted in cash tax payments of approximately $1.9 million.

We intend to indefinitely reinvest approximately $79.0 million of undistributed earnings of our foreign subsidiaries as of January 2, 2010, to meet the working capital and long-term capital needs of our foreign subsidiaries. The unrecognized deferred tax liability for these indefinitely reinvested foreign earnings was approximately $35.3 million as of January 2, 2010.

During the three and six months ended July 3, 2010, we released $66.7 million of valuation allowance against our deferred tax assets due to the acquisition accounting for the Denali acquired intangibles. This release of the valuation allowance does not impact Cadence s current or future cash position.

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The IRS and other tax authorities regularly examine our income tax returns and we have received RARs indicating that the IRS has proposed to assess certain tax deficiencies. For further discussion regarding our Income taxes and the status of the IRS examinations, see Note 8 to our Condensed Consolidated Financial Statements.

2.625% Cash Convertible Senior Notes Due 2015

In June 2010, we issued $350.0 million principal amount of the 2015 Notes. Concurrently with the issuance of the 2015 Notes, we entered into the 2015 Notes Hedges with various parties to reduce the potential cash outlay from the cash conversion of the 2015 Notes and intended to mitigate the negative effect such cash conversion may have on the price of our common stock. In separate transactions, we sold the 2015 Warrants to various parties. The 2015 Notes mature on June 1, 2015, and will be paid in cash at maturity. As of July 3, 2010, none of the conditions allowing the holders of the 2015 Notes to convert the 2015 Notes into cash had been met. For additional description of the 2015 Notes, including the hedge and warrants transactions, see Note 2 to our Condensed Consolidated Financial Statements.

1.375% Convertible Senior Notes Due December 15, 2011 and 1.500% Convertible Senior Notes Due December 15, 2013

In December 2006, we issued $250.0 million principal amount of the 2011 Notes and $250.0 million principal amount of the 2013 Notes. Concurrently with the issuance of the Convertible Senior Notes, we entered into hedge transactions, or the Convertible Senior Notes Hedges, with various parties to reduce the potential dilution from the conversion of the Convertible Senior Notes and intended to mitigate the negative effect such conversion may have on the price of our common stock. In separate transactions, we sold warrants, or the Convertible Senior Notes Warrants, to various parties. The 2011 Notes mature on December 15, 2011 and the 2013 Notes mature on December 15, 2013, and the principal amounts will be paid in cash at maturity. As of July 3, 2010, none of the conditions allowing the holders of the Convertible Senior Notes to convert had been met.

In connection with the issuance of the 2015 Notes, we used an aggregate of $187.2 million of the net proceeds to purchase in the open market $100.0 million principal amount of our 2011 Notes and $100.0 million principal amount of our 2013 Notes, resulting in a remaining principal balance of $150.0 million for the 2011 Notes and $150.0 million for the 2013 Notes. We also sold a portion of the Convertible Senior Notes Hedges and purchased a portion of the Convertible Senior Notes Warrants. For additional description of the Convertible Senior Notes, including the hedge and warrants transactions, see Note 2 to our Condensed Consolidated Financial Statements.

Additional Information

We entered into an employment agreement with John J. Bruggeman II, Cadence s Senior Vice President and Chief Marketing Officer, effective August 3, 2010, or Employment Agreement. Mr. Bruggeman s base salary, bonus participation, hiring bonus and equity grants pursuant to the Employment Agreement are consistent with the terms of Mr. Bruggeman s offer letter, as previously described in the Definitive Proxy Statement filed with the SEC on March 26, 2010. The Employment Agreement also provides for the indemnification of Mr. Bruggeman pursuant to Cadence s form of indemnification agreement, filed as Exhibit 10.01 to the Quarterly Report on Form 10-Q filed with the SEC on December 11, 2008.

Pursuant to the terms of the Employment Agreement, if Mr. Bruggeman s employment is terminated by Cadence without Cause (as defined in the Employment Agreement) or if Mr. Bruggeman terminates his employment in connection with a Constructive Termination, Mr. Bruggeman will be entitled to the benefits provided for in the Executive Transition and Release Agreement attached to the Employment Agreement (the Transition Agreement) in exchange for his execution and delivery of the Transition Agreement.

The Transition Agreement provides for the employment of Mr. Bruggeman as a non-executive employee for up to one year after his termination with continued coverage under Cadence s medical, dental and vision insurance plans, at Cadence s expense, should Mr. Bruggeman elect COBRA coverage. In addition, the outstanding unvested options and incentive stock awards (other than any incentive stock awards subject to performance-based vesting criteria) held by Mr. Bruggeman on the date of his termination that would have vested over the succeeding 12 month period will immediately vest and, to the extent applicable, become exercisable. Incentive stock awards subject to performance-based vesting criteria will remain outstanding and continue to vest through the end of the applicable performance period, provided such performance period ends within 12 months following the date of termination and to the extent earned upon satisfaction of the performance-based vesting criteria. Upon the end of such performance period, such awards will immediately vest with respect to the portion thereof that would have vested over the 12 months following the date of termination and there will be no further vesting of such awards.

Provided Mr. Bruggeman does not resign from Cadence and executes and delivers a release of claims and Cadence does not terminate his employment during the term of the Transition Agreement, Mr. Bruggeman shall receive the following benefits pursuant to the Transition Agreement: (i) a monthly salary of $4,000 for a period of six months, commencing on the first pay date that is more than 30 days following the date that is six months after the commencement of the transition period, (ii) a lump-sum payment of 100% of his annual base salary (at the highest rate in effect during his employment as Senior Vice President and Chief Marketing Officer) on the 30th day following the date that is six months after the commencement of the transition period, and (iii) a lump-sum payment of 75% of his annual base salary (at the highest rate in effect during his employment as Senior Vice President and Chief Marketing Officer) on the 30th day following the date of his termination under the Transition Agreement. The Transition Agreement also requires Mr. Bruggeman to comply with non-solicitation and non-competition provisions in favor of Cadence and to release Cadence from all claims related to his employment and, subject to such limitations, does not otherwise preclude Mr. Bruggeman from accepting and holding full-time employment elsewhere.

If, within three months before or 13 months after a Change in Control (as defined in the Employment Agreement), Mr. Bruggeman s employment is terminated without Cause or Mr. Bruggeman terminates his employment in connection with a Constructive Termination, then, in exchange for Mr. Bruggeman s execution and delivery of the Transition Agreement, the payments described in clause (ii) of the paragraph above shall be 150% of his highest base salary instead of 100% of his highest base salary and the payments described in clause (iii) of the paragraph above shall be 112.5% of his highest annual base salary instead of 75% of his highest annual base salary, and all of Mr. Bruggeman s outstanding stock options and incentive stock awards will immediately vest in full and become exercisable.

Mr. Bruggeman is not entitled to benefits under the Transition Agreement if his employment is terminated for Cause, or as a result of his Permanent Disability (each as defined in the Employment Agreement) or death or if he voluntarily terminates his employment (other than in connection with a Constructive Termination). However, if Mr. Bruggeman is terminated due to his death or Permanent Disability, and he or his estate executes and delivers a release agreement in the form attached to the Employment Agreement, the outstanding unvested options and stock awards held by Mr. Bruggeman on the date of his termination that would have vested over the succeeding 12 month period will immediately vest and, to the extent applicable, will become exercisable and remain exercisable for a 24 month period following his termination date (but no later than the original expiration period of the applicable award). In addition, if Mr. Bruggeman s employment terminates on account of his Permanent Disability and Mr. Bruggeman elects COBRA continuation coverage, Cadence will pay Mr. Bruggeman s COBRA premiums for 12 months following termination.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

Most of our revenue, expenses and material business activity are transacted in the United States dollar. However, certain of our operations include transactions in foreign currencies and, therefore, we benefit from a weaker dollar, and in certain countries where we invoice customers in the local currency, we are adversely affected by a stronger dollar relative to major currencies worldwide. The primary effect of foreign currency transactions on our results of operations from a weakening United States dollar is an increase in revenue offset by a smaller increase in expenses. Conversely, the primary effect of foreign currency transactions on our results of operations from a strengthening United States dollar is a reduction in revenue offset by a smaller reduction in expenses.

We enter into foreign currency forward exchange contracts with financial institutions to protect against currency exchange risks associated with existing assets and liabilities. A foreign currency forward exchange contract acts as a hedge by increasing in value when underlying assets decrease in value or underlying liabilities increase in value due to changes in foreign exchange rates. Conversely, a foreign currency forward exchange contract decreases in value when underlying assets increase in value or underlying liabilities decrease in value due to changes in foreign exchange rates. These forward contracts are not designated as accounting hedges and, therefore, the unrealized gains and losses are recognized in Other income (expense), net, in advance of the actual foreign currency cash flows with the fair value of these forward contracts being recorded as accrued liabilities or other current assets.

Our policy governing hedges of foreign currency risk does not allow us to use forward contracts for trading purposes. Our forward contracts generally have maturities of 90 days or less. The effectiveness of our hedging program depends on our ability to estimate future asset and liability exposures. We enter into currency forward exchange contracts based on estimated future asset and liability exposures. Recognized gains and losses with respect to our current hedging activities will ultimately depend on how accurately we are able to match the amount of currency forward exchange contracts with actual underlying asset and liability exposures.

The following table provides information, as of July 3, 2010, about our forward foreign currency contracts. The information is provided in United States dollar equivalent amounts. The table presents the notional amounts, at contract exchange rates, and the weighted average contractual foreign currency exchange rates expressed as units of the foreign currency per United States dollar, which in some cases may not be the market convention for quoting a particular currency. All of these forward contracts mature during July 2010.

		Notional Principal (In millions)	Weighted Average Contract Rate
Forward Contracts:			
Japanese yen	$	13.5	91.92
Chinese renminbi		12.0	6.82
Indian rupee		9.7	46.58
New Taiwan dollar		8.3	32.16
Hong Kong dollar		7.0	7.79
Israeli shekel		6.3	3.82
Canadian dollar		6.1	1.03
European union euro		5.8	0.81
Total	$	68.7	
Estimated fair value	$	0.1	

While we actively monitor our foreign currency risks, there can be no assurance that our foreign currency hedging activities will substantially offset the impact of fluctuations in currency exchange rates on our results of operations, cash flows and financial position.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our portfolio of Cash and cash equivalents. While we are exposed to interest rate fluctuations in many of the world s leading industrialized countries, our interest income and expense is most sensitive to fluctuations in the general level of United States interest rates. In this regard, changes in United States interest rates affect the interest earned on our Cash and cash equivalents and the costs associated with foreign currency hedges.

We invest in high quality credit issuers and, by policy, limit the amount of our credit exposure to any one issuer. As part of our policy, our first priority is to reduce the risk of principal loss. Consequently, we seek to preserve our invested funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in only high quality credit securities that we believe to have low credit risk, and by positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The short-term interest-bearing portfolio of Cash and cash equivalents includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity.

All highly liquid investments with a maturity of three months or less at the date of purchase are considered to be cash equivalents. Investments with maturities greater than three months are classified as available-for-sale and are considered to be short-term investments. The carrying value of our interest-bearing instruments approximated fair value as of July 3, 2010. The following table presents the carrying value and related weighted average interest rates for our interest-bearing instruments, which are all classified as Cash and cash equivalents on our Condensed Consolidated Balance Sheet as of July 3, 2010.

	Carrying Value (In millions)	Average Interest Rate
Interest-Bearing Instruments:		
Cash equivalents variable rate	$ 363.7	0.23%
Cash variable rate	37.8	0.21%
Cash fixed rate	27.1	0.36%
Total interest-bearing instruments	$ 428.6	0.24%

Equity Price Risk

2.625% Cash Convertible Senior Notes Due 2015

In June 2010, we issued $350.0 million principal amount of our 2015 Notes to four initial purchasers in a private placement pursuant to Section 4(2) of the Securities Act for resale to qualified institutional buyers pursuant to Rule 144A of the Securities Act. Concurrently with the issuance of the 2015 Notes, we entered into the 2015 Notes Hedges with various parties to reduce the potential cash outlay from the cash conversion of the 2015 Notes and intended to mitigate the negative effect such cash conversion may have on the price of our common stock. In separate transactions, we sold the 2015 Warrants to various parties. The 2015 Notes mature on June 1, 2015, and will be paid in cash at maturity. As of July 3, 2010, none of the conditions allowing the holders of the 2015 Notes to convert had been met. For additional description of the 2015 Notes, including the hedge and warrants transactions, see Note 2 to our Condensed Consolidated Financial Statements.

1.375% Convertible Senior Notes Due December 15, 2011 and 1.500% Convertible Senior Notes Due December 15, 2013

In December 2006, we issued $250.0 million principal amount of our 2011 Notes and $250.0 million of our 2013 Notes to three initial purchasers in a private placement pursuant to Section 4(2) of the Securities Act for resale to qualified institutional buyers pursuant to Rule 144A of the Securities Act. Concurrently with the issuance of the Convertible Senior Notes, we entered into the Convertible Senior Notes Hedges with various parties to reduce the potential dilution from the conversion of the Convertible Senior Notes and

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intended to mitigate the negative effect such conversion may have on the price of our common stock. In separate transactions, we sold the Convertible Senior Notes Warrants to various parties. The 2011 Notes mature on December 15, 2011 and the 2013 Notes mature on December 15, 2013, and the principal amounts will be paid in cash at maturity. As of July 3, 2010, none of the conditions allowing the holders of the Convertible Senior Notes to convert had been met.

In connection with the issuance of the 2015 Notes, we used an aggregate of $187.2 million of the net proceeds to purchase in the open market $100.0 million principal amount of our 2011 Notes and $100.0 million principal amount of our 2013 Notes, resulting in a remaining principal balance of $150.0 million for the 2011 Notes and $150.0 million for the 2013 Notes. We also sold a portion of the Convertible Senior Notes Hedges and purchased a portion of the Convertible Senior Notes Warrants. For additional description of the Convertible Senior Notes, including the hedge and warrants transactions, see Note 2 to our Condensed Consolidated Financial Statements.

Investments

We have a portfolio of equity investments that includes marketable equity securities and non-marketable equity securities. Our equity investments are made primarily in connection with our strategic investment program. Under our strategic investment program, from time to time we make cash investments in companies with technologies that are potentially strategically important to us. See Note 6 to our Condensed Consolidated Financial Statements in our Annual Report on Form 10-K for additional details of these investments. Our investment in non-marketable equity securities had a carrying value of $8.8 million as of July 3, 2010 and $15.3 million as of January 2, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation required by Rule 13a-15 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, under the supervision and with the participation of our management, including the Chief Executive Officer, or CEO, and the Chief Financial Officer, or CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13-15(e) and 15d-15(e) under the Exchange Act) as of July 3, 2010.

The evaluation of our disclosure controls and procedures included a review of our processes and the effect on the information generated for use in this Quarterly Report on Form 10-Q. In the course of this evaluation, we sought to identify any material weaknesses in our disclosure controls and procedures, to determine whether we had identified any acts of fraud involving personnel who have a significant role in our disclosure controls and procedures, and to confirm that any necessary corrective action, including process improvements, was taken. This type of evaluation is done every fiscal quarter so that our conclusions concerning the effectiveness of these controls can be reported in our periodic reports filed with the SEC. The overall goals of these evaluation activities are to monitor our disclosure controls and procedures and to make modifications as necessary. We intend to maintain these disclosure controls and procedures, modifying them as circumstances warrant.

Based on their evaluation as of July 3, 2010, our CEO and CFO have concluded that our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended July 3, 2010 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and all fraud. Internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of internal control are met. Further, the design of internal control must reflect the fact that there are resource constraints, and the benefits of the control must be considered relative to their costs. While our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of their effectiveness, 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, within Cadence have been detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various disputes and litigation that arise in the ordinary course of business. These include disputes and lawsuits related to intellectual property, mergers and acquisitions, licensing, contracts, distribution arrangements and employee relations matters. At least quarterly, we review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount or the range of loss can be estimated, we accrue a liability for the estimated loss. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on our judgments using 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 our estimates.

During fiscal 2008, three complaints were filed in the United States District Court for the Northern District of California, or District Court, all alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, on behalf of a purported class of purchasers of our common stock. In July 2010, the parties to these consolidated cases agreed to a mediation at the end of August 2010, and to stay the litigation. If the mediation does not end in a negotiated resolution, we intend to continue to vigorously defend these complaints and any other securities lawsuits that may be filed. See Note 13 to our Condensed Consolidated Financial Statements for additional details and the status of these complaints.

Also during fiscal 2008, two derivative complaints were filed in Santa Clara County Superior Court, or Superior Court. These complaints purport to bring suit derivatively, on behalf of Cadence, against certain of our current and former directors for alleged breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. The parties to these cases agreed to a temporary stay of the proceedings. The plaintiffs filed a consolidated amended complaint on June 1, 2010. See Note 13 to our Condensed Consolidated Financial Statements for additional details and the status of these complaints.

On April 28, 2010, a derivative complaint was filed in the District Court against certain of our current and former directors and officers alleging breach of fiduciary duty, abuse of control, gross mismanagement, and waste of corporate assets against all the individual defendants, unjust enrichment against the former executive defendants, and against our independent auditors alleging professional negligence and breach of contract. See Note 13 to our Condensed Consolidated Financial Statements for additional details.

The parties to the derivative cases pending in the Superior Court and the District Court agreed to a mediation at the end of August, 2010 and to stay their respective cases. If these derivative cases do not end in negotiated resolutions, we will respond to the two derivative complaints appropriately.

In light of the preliminary status of these lawsuits, we cannot predict the outcome of these matters. While the outcome of these litigation matters cannot be predicted with any certainty, we do not believe that the outcome of any current matters will have a material adverse effect on our consolidated financial position, liquidity or results of operations.

Item 1A. Risk Factors

Our business faces many risks. Described below are what we believe to be the material risks that we face. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could suffer. The descriptions below include any material changes to and supersede the description of the risk factors as previously disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended January 2, 2010 and filed with the SEC on February 26, 2010.

Risks Related to Our Business

We are subject to the cyclical nature of the integrated circuit and electronics systems industries, and any downturn in these industries may reduce our orders and revenue.

Purchases of our products and services are dependent upon the commencement of new design projects by IC manufacturers and electronics systems companies. The IC and electronics systems industries are cyclical and are characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand.

The IC and electronics systems industries experienced significant challenges in 2008 and 2009. The IC and electronic systems industries have also experienced significant downturns in connection with, or in anticipation of, maturing product cycles of both these industries and their customers products. The economic downturn in 2008 and 2009 was characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Although estimates project moderate growth for the semiconductor industry in 2010, we believe that spending on EDA products and services may grow more slowly than the semiconductor industry as a whole in 2010. The economic downturn in the industries we serve has contributed to the reduction in our revenue in the past and could continue to adversely affect our business, operating results and financial condition.

We have experienced varied operating results, and our operating results for any particular fiscal period are affected by the timing of significant orders for our software products, fluctuations in customer preferences for license types and the timing of revenue recognition under those license types.

We have experienced, and may continue to experience, varied operating results. In particular, we incurred net losses during the first quarter of fiscal 2010 and the two most recent fiscal years, and we may incur a net loss during fiscal 2010. Various factors affect our operating results and some of them are not within our control. Our operating results for any period are affected by the timing of certain orders for our software products.

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Our operating results are also affected by the mix of license types executed in any given period. We license software using three different license types: subscription, term and perpetual. Product revenue associated with term and perpetual licenses is generally recognized at the beginning of the license period, whereas product revenue associated with subscription licenses is recognized over multiple periods during the term of the license. Revenue may also be deferred under term and perpetual licenses until payments become due and payable from customers with nonlinear payment terms or as cash is collected from customers with lower credit ratings. In addition, revenue is impacted by the timing of license renewals, the extent to which contracts contain flexible payment terms, changes in existing contractual arrangements with customers and the mix of license types (i.e., perpetual, term or subscription) for existing customers. These changes could have the effect of accelerating or delaying the recognition of revenue from the timing of recognition under the original contract. Our license mix has changed such that a substantial proportion of licenses require ratable revenue recognition, and we expect the change in license mix, combined with the slow growth in spending by our customers in the semiconductor sector, may make it difficult for us to increase our revenue in future fiscal periods.

We plan operating expense levels primarily based on forecasted revenue levels. These expenses and the impact of long-term commitments are relatively fixed in the short term. In addition, revenue levels are harder to forecast in a difficult economic environment. A shortfall in revenue could lead to operating results below expectations because we may not be able to quickly reduce these expenses in response to short-term business changes.

Since the majority of our contracts are generally executed in the final few weeks of a fiscal quarter, it is difficult to estimate with accuracy how much business will be executed before the end of each fiscal quarter. Due to the volume or complexity of transactions that we review at the very end of the quarter, or due to operational matters regarding particular agreements, we may not finish processing or ship products under some contracts that have been signed during that fiscal quarter, which means that the associated revenue cannot be recognized in that particular period.

The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results of operations (see Critical Accounting Estimates under Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

You should not view our historical results of operations as reliable indicators of our future performance. If our revenue, operating results or business outlook for future periods fall short of the levels expected by securities analysts or investors, the trading price of our common stock could decline.

Our operating results and revenue could be adversely affected by customer payment delays, customer bankruptcies and defaults or modifications of licenses or supplier modifications.

As a result of the challenging economic environment, our customers, who are primarily concentrated in the semiconductor sector, have experienced and may continue to experience adverse changes in their business and, as a result, may delay or default on their payment obligations, file for bankruptcy or modify or cancel plans to license our products, and our suppliers may significantly and quickly increase their prices or reduce their output. If our customers are not successful in generating sufficient cash or are precluded from securing financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us, although these obligations are generally not cancelable. Our customers inability to fulfill payment obligations may adversely affect our revenue and cash flow. Additionally, our customers may seek to renegotiate pre-existing contractual commitments. Payment defaults by our customers or significant reductions in existing contractual commitments could have a material adverse effect on our financial condition and operating results. Because of the relatively high levels of volatility that continue to drive material fluctuations in asset prices, the capital and credit markets have contracted, and if we were to seek funding from the capital or credit markets in response to any material level of customer defaults, we may not be able to secure funding on terms acceptable to us or at all, which, may have a material negative impact on our business.

Our failure to respond quickly to technological developments could make our products uncompetitive and obsolete.

The industries in which we compete experience rapid technology developments, changes in industry standards and customer requirements and frequent new product introductions and improvements. Currently, the industries we serve are experiencing the following trends:

Migration to nanometer design the continuous shrinkage of the size of process features and other features, such as wires, transistors and contacts on ICs, due to the ongoing advances in the semiconductor manufacturing processes represents a major challenge for participants in the semiconductor industry, from IC design and design automation to design of manufacturing equipment and the manufacturing process itself. Shrinkage of transistor length to such proportions is challenging the industry in the application of more complex physics and chemistry that is needed to realize advanced silicon devices. For EDA tools, models of each component s electrical properties and behavior become more complex as do requisite analysis, design and verification capabilities. Novel design tools and methodologies must be invented quickly to remain competitive in the design of electronics in the smallest nanometer ranges.

The challenges of nanometer design are leading some customers to work with older, less risky manufacturing processes that may reduce their need to upgrade or enhance their EDA products and design flows.

The ability to design SoCs increases the complexity of managing a design that, at the lowest level, is represented by billions of shapes on the fabrication mask. In addition, SoCs typically incorporate microprocessors and digital signal processors that are programmed with software, requiring simultaneous design of the IC and the related software embedded on the IC.

With the availability of seemingly endless gate capacity, there is an increase in design reuse, or the combining of off-the-shelf design IP with custom logic to create ICs. The unavailability of high-quality design IP that can be reliably incorporated into a customer s design with our IC implementation products and services could reduce demand for our products and services.

Increased technological capability of the Field-Programmable Gate Array, which is a programmable logic chip, creates an alternative to IC implementation for some electronics companies. This could reduce demand for our IC implementation products and services.

A growing number of low-cost engineering services businesses could reduce the need for some IC companies to invest in EDA products.

If we are unable to respond quickly and successfully to these trends, we may lose our competitive position, and our products or technologies may become uncompetitive or obsolete. To compete successfully, we must develop or acquire new products and improve our existing products and processes on a schedule that keeps pace with technological developments and the requirements for products addressing a broad spectrum of designers and designer expertise in our industries. We must also be able to support a range of

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changing computer software, hardware platforms and customer preferences. We cannot guarantee that we will be successful in this effort.

Our stock price has been subject to significant fluctuations, and may continue to be subject to fluctuations.

The market price of our common stock has experienced significant fluctuations and may fluctuate or decline in the future, and as a result you could lose the value of your investment. The market price of our common stock may be affected by a number of factors, including, but not limited to:

- Announcements of our quarterly operating results and revenue and earnings forecasts that fail to meet or are inconsistent with earlier projections or the expectations of our securities analysts or investors;
- Changes in our orders, revenue or earnings estimates;
- Announcements of a restructuring plan;
- Changes in management;
- A gain or loss of a significant customer or market segment share;
- Announcements of new products or acquisitions of new technologies by us, our competitors or our customers; and
- Market conditions in the IC, electronics systems and semiconductor industries.

In addition, equity markets in general, and the equities of technology companies in particular, have experienced extreme price and volume fluctuations. Such price and volume fluctuations may adversely affect the market price of our common stock for reasons unrelated to our business or operating results.

Litigation could adversely affect our financial condition or operations.

We are currently, and in the future may be, involved in various disputes and litigation that arise in the ordinary course of business. These include disputes and lawsuits related to intellectual property, mergers and acquisitions, licensing, contracts, distribution arrangements and employee relations matters. We are also currently engaged in a consolidated securities class action lawsuit and shareholder derivative lawsuits. For information regarding the litigation matters in which we are currently engaged, please refer to the discussion under Item 1, Legal Proceedings. We cannot provide any assurances that the final outcome of these lawsuits or any other proceedings that may arise in the future will not have a material adverse effect on our business, operating results, financial condition or cash flows. Litigation can be time-consuming and expensive and could divert management s time and attention from our business, which could have a material adverse effect on our revenues and operating results.

Our future revenue is dependent in part upon our installed customer base continuing to license or buy additional products, renew maintenance agreements and purchase additional services.

Our installed customer base has traditionally generated additional new license, service and maintenance revenues. In future periods, customers may not necessarily license or buy additional products or contract for additional services or maintenance. In some cases, maintenance is renewable annually at a customer s option, and there are no mandatory payment obligations or obligations to license additional software. If our customers decide not to renew their maintenance agreements or license additional products or contract for additional services, or if they reduce the scope of the maintenance agreements, our revenue could decrease, which could have an adverse effect on our operating results. Our customers, many of which are large semiconductor companies, often have significant bargaining power in negotiations with us. Mergers or acquisitions of our customers can reduce the total level of purchases of our software and services, and in some cases, increase customers bargaining power in negotiations with their suppliers, including us.

We depend upon our management team and key employees, and our failure to attract, train, motivate and retain management and key employees may make us less competitive in our industries and therefore harm our results of operations.

Our business depends upon the efforts and abilities of our executive officers and other key employees, including key development personnel. From time to time, there may be changes in our management team resulting from the hiring and departure of executive officers, and as a result, we may experience disruption to our business that may harm our operating results and our relationships with our employees, customers and suppliers may be adversely affected. Competition for highly skilled executive officers and employees can be intense, particularly in geographic areas recognized as high technology centers such as the Silicon Valley area, where our principal offices are located, and the other locations where we maintain facilities. To attract, retain and motivate individuals with the requisite expertise, we may be required to grant large numbers of stock options or other stock-based incentive awards, which may be dilutive to existing stockholders and increase compensation expense, and pay significant base salaries and cash bonuses, which could harm our operating results. The high cost of training new employees, not fully utilizing these employees, or losing trained employees to competing employers could also reduce our operating margins and harm our business or operating results.

In addition, the NASDAQ Marketplace Rules require stockholder approval for new equity compensation plans and significant amendments to existing equity compensation plans, including increases in shares available for issuance under such plans, and prohibit NASDAQ member organizations from giving a proxy to vote on equity compensation plans unless the beneficial owner of the shares has given voting instructions. These regulations could make it more difficult for us to grant equity compensation to employees in the future. To the extent that these regulations make it more difficult or expensive to grant equity compensation to employees, we may incur increased compensation costs or find it difficult to attract, retain and motivate employees, which could materially and adversely affect our business.

We may not be able to effectively implement our restructuring plans, and our restructuring plans may not result in the benefits we have anticipated, possibly having a negative effect on our future operating results.

During fiscal 2008 and fiscal 2009, we initiated restructuring plans in an effort to decrease costs by reducing our workforce and by consolidating facilities. We may not be able to successfully complete and realize the expected benefits of our restructuring plans, such as improvements in operating margins and cash flows, in the restructuring periods contemplated. The restructuring plans have involved and may continue to involve higher costs or a longer timetable than we currently anticipate or may fail to improve our operating results as we anticipate. Our inability to realize these benefits may result in an inefficient business structure that could negatively impact our results of operations. Our restructuring plans have caused us and will cause us to incur substantial costs related to severance and other employee-related costs. Our restructuring plans may also subject us to litigation risks and expenses. In addition, our restructuring plans may have other consequences, such as attrition beyond our planned reduction in workforce, a negative impact on employee morale or our ability to attract highly skilled employees and our competitors may seek to gain a competitive advantage over us. The restructuring plans could also cause our remaining employees to leave or result in reduced productivity by our employees, and, in turn, this may affect our revenue and other operating results in the future.

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We may not receive significant revenue from our current research and development efforts for several years, if at all.

Developing EDA technology and integrating acquired technology into existing platforms is expensive, and these investments often require a long time to generate returns. Our strategy involves significant investments in research and development and related product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain and improve our competitive position. However, we cannot ensure that we will receive significant, if any, revenue from these investments.

The competition in our industries is substantial and we may not be able to continue to successfully compete in our industries.

The EDA industry and the commercial electronics engineering services industry are highly competitive. If we fail to compete successfully in these industries, it could seriously harm our business, operating results or financial condition. To compete in these industries, we must identify and develop or acquire innovative and cost-competitive EDA products, integrate them into platforms and market them in a timely manner. We must also gain industry acceptance for our engineering services and offer better strategic concepts, technical solutions, prices and response time, or a combination of these factors, than those of our competitors and the internal design departments of electronics manufacturers. We may not be able to compete successfully in these industries. Factors that could affect our ability to succeed include:

- The development by others of competitive EDA products or platforms and engineering services, possibly resulting in a shift of customer preferences away from our products and services and significantly decreased revenue;

- Decisions by electronics manufacturers to perform engineering services internally, rather than purchase these services from outside vendors due to budget constraints or excess engineering capacity;

- The challenges of developing (or acquiring externally-developed) technology solutions that are adequate and competitive in meeting the requirements of next-generation design challenges;

- The significant number of current and potential competitors in the EDA industry and the low cost of entry;

- Intense competition to attract acquisition targets, possibly making it more difficult for us to acquire companies or technologies at an acceptable price or at all; and

- The combination of or collaboration among many EDA companies to deliver more comprehensive offerings than they could individually.

We compete in the EDA products market with Synopsys, Inc., Magma Design Automation, Inc. and Mentor Graphics Corporation. We also compete with numerous smaller EDA companies, with manufacturers of electronic devices that have developed or have the capability to develop their own EDA products, and with numerous electronics design and consulting companies. Manufacturers of electronic devices may be reluctant to purchase engineering services from independent vendors such as us because they wish to promote their own internal design departments.

We may need to change our pricing models to compete successfully.

The highly competitive markets in which we compete can put pressure on us to reduce the prices of our products. If our competitors offer deep discounts on certain products in an effort to recapture or gain market segment share or to sell other software or hardware products, we may then need to lower our prices or offer other favorable terms to compete successfully. Any such changes would be likely to reduce our profit margins and could adversely affect our operating results. Any substantial changes to our prices and pricing policies could cause sales and software license revenues to decline or be delayed as our sales force implements and our customers adjust to the new pricing policies. Some of our competitors may bundle products for promotional purposes or as a long-term pricing strategy or provide guarantees of prices and product implementations. These practices could, over time, significantly constrain the prices that we can charge for our products. If we cannot offset price reductions with a corresponding increase in the number of sales or with lower spending, then the reduced license revenues resulting from lower prices could have an adverse effect on our results of operations.

We have acquired and expect to acquire other companies and businesses and may not realize the expected benefits of these acquisitions.

We have acquired and expect to acquire other companies and businesses in the future. While we expect to carefully analyze each potential acquisition before committing to the transaction, we may not consummate any particular transaction, but may nonetheless incur significant costs, or if a transaction is consummated, we may not be able to integrate and manage acquired products and businesses effectively. In addition, acquisitions involve a number of risks. If any of the following events occurs when we acquire another business, it could seriously harm our business, operating results or financial condition:

Difficulties in combining previously separate businesses into a single unit;

The substantial diversion of management s attention from day-to-day business when evaluating and negotiating these transactions and integrating an acquired business;

The discovery, after completion of the acquisition, of unanticipated liabilities assumed from the acquired business or of assets acquired, such that we cannot realize the anticipated value of the acquisition;

The failure to realize anticipated benefits such as cost savings and revenue enhancements;

The failure to retain key employees of the acquired business;

Difficulties related to integrating the products of an acquired business in, for example, distribution, engineering and customer support areas;

Unanticipated costs;

Customer dissatisfaction with existing license agreements with us, possibly dissuading them from licensing or buying products acquired by us after the effective date of the license; and

The failure to understand and compete effectively in markets where we have limited experience.

In a number of our previously completed acquisitions, we have agreed to make future payments, either in the form of employee bonuses or contingent purchase price payments based on the performance of the acquired businesses or the employees who joined us with the acquired businesses. We may continue to agree to contingent purchase price payments in connection with acquisitions in the future. The performance goals pursuant to which these future payments may be made generally relate to achievement by the acquired business or the employees who joined us with the acquired business of certain specified orders, revenue, run rate, product proliferation, product development or employee retention goals during a specified period following completion of the applicable acquisition. Future acquisitions may involve issuances of stock as full or partial payment of the purchase price for the acquired business, grants of incentive stock or options to employees of the acquired businesses (which may be dilutive to existing stockholders), expenditure of substantial cash resources or the incurrence of material amounts of debt.

The specific performance goal levels and amounts and timing of employee bonuses or contingent purchase price payments vary with each acquisition. While we expect to derive value from an acquisition in

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excess of such contingent payment obligations, our strategy may change and we may be required to make certain contingent payments without deriving the anticipated value.

We rely on our proprietary technology, as well as software and other intellectual property rights licensed to us by third parties, and we cannot assure you that the precautions taken to protect our rights will be adequate or that we will continue to be able to adequately secure such intellectual property rights from third parties.

Our success depends, in 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 the precautions we may take to protect our intellectual property, third parties have tried in the past, and may try in the future, to challenge, invalidate or circumvent these safeguards. The rights granted under our patents or attendant to our other intellectual property may not provide us with any competitive advantages. Patents may not be issued on any of our pending applications and our issued patents may not 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 applicable law protects these rights in the United States. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights.

Many of our products include software or other intellectual property licensed from third parties. We may have to seek new or renew existing licenses for such software and other intellectual property in the future. Our engineering services business holds licenses to certain software and other intellectual property owned by third parties, including that of our competitors. Our failure to obtain software or other intellectual property licenses or other intellectual property rights that is necessary or helpful for our business on favorable terms, or the need to engage in litigation over these licenses or rights, could seriously harm our business, operating results or financial condition.

We could lose key technology or suffer serious harm to our business because of the infringement of our intellectual property rights by third parties or because of our infringement of the intellectual property rights of third parties.

There are numerous patents in the EDA industry and new patents are being issued at a rapid rate. It is not always practicable to determine in advance whether a product or any of its components infringes the patent rights of others. As a result, from time to time, we may be compelled to respond to or prosecute intellectual property infringement claims to protect our rights or defend a customer s rights.

Intellectual property infringement claims, regardless of merit, could consume valuable management time, result in costly litigation, or cause product shipment delays, all of which could seriously harm our business, operating results or financial condition. In settling these claims, we may be required to enter into royalty or licensing agreements with the third parties claiming infringement. These royalty or licensing agreements, if available, may not have terms favorable to us. Being compelled to enter into a license agreement with unfavorable terms could seriously harm our business, operating results or financial condition. Any potential intellectual property litigation could compel us to do one or more of the following:

- Pay damages (including the potential for treble damages), license fees or royalties (including royalties for past periods) to the party claiming infringement;
- Stop licensing products or providing services that use the challenged intellectual property;

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Obtain a license from the owner of the infringed intellectual property to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or

Redesign the challenged technology, which could be time-consuming and costly, or not be accomplished.

If we were compelled to take any of these actions, our business or operating results may suffer.

If our security measures are breached and an unauthorized party obtains access to customer data, our information systems may be perceived as being unsecure and customers may curtail or stop their use of our products and services.

Our products and services involve the storage and transmission of customers proprietary information, and breaches of our security measures could expose us to a risk of loss or misuse of this information, litigation and potential liability. Because techniques used to obtain unauthorized access or to sabotage information systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose existing customers and our ability to obtain new customers.

The long sales cycle of our products and services makes the timing of our revenue difficult to predict and may cause our operating results to fluctuate unexpectedly.

Generally, we have a long sales cycle that can extend up to six months or longer. The complexity and expense associated with our business generally require a lengthy customer education, evaluation and approval process. Consequently, we may incur substantial expenses and devote significant management effort and expense to develop potential relationships that do not result in agreements or revenue and may prevent us from pursuing other opportunities.

In addition, sales of our products and services have been and may in the future be delayed if customers delay approval or commencement of projects because of:

The timing of customers competitive evaluation processes; or

Customers budgetary constraints and budget cycles.

Long sales cycles for acceleration and emulation hardware products subject us to a number of significant risks over which we have limited control, including insufficient, excess or obsolete inventory, variations in inventory valuation and fluctuations in quarterly operating results.

A significant portion of our contracts are executed in the final few weeks of a fiscal quarter. This makes it difficult to determine with accuracy how much business will be executed in each fiscal quarter. Also, because of the timing of large orders and our customers buying patterns, we may not learn of orders shortfalls, revenue shortfalls, earnings shortfalls or other failures to meet market expectations until late in a fiscal quarter. These factors may cause our operating results to fluctuate unexpectedly, which can cause significant fluctuations in the trading price of our common stock.

Our reported financial results may be adversely affected by changes in United States generally accepted accounting principles.

United States generally accepted accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. In addition, the SEC has announced a multi-year plan that could ultimately lead to the use of International Financial Reporting Standards by United States issuers in their SEC filings. Any such change could have a significant effect on our reported financial results.

The effect of foreign exchange rate fluctuations and other risks to our international operations may seriously harm our financial condition.

We have significant operations outside the United States. Our revenue from international operations as a percentage of total revenue was approximately 58% during the three months ended July 3, 2010 and 55% during the three months ended July 4, 2009. We expect that revenue from our international operations will continue to account for a significant portion of our total revenue. We also transact business in various foreign currencies, primarily the Japanese yen. The volatility of foreign currencies in certain regions, most notably the Japanese yen, European Union euro, British pound and Indian rupee have had, and may in the future have, a harmful effect on our revenue or operating results.

Fluctuations in the rate of exchange between the United States dollar and the currencies of other countries where we conduct business could seriously harm our business, operating results or financial condition. For example, when a foreign currency declines in value relative to the United States dollar, it takes more of the foreign currency to purchase the same amount of United States dollars than before the change. If we price our products and services in the foreign currency, we receive fewer United States dollars than we did before the change. If we price our products and services in United States dollars, the decrease in value of the local currency results in an increase in the price for our products and services compared to those products of our competitors that are priced in local currency. This could result in our prices being uncompetitive in markets where business is transacted in the local currency. On the other hand, when a foreign currency increases in value relative to the United States dollar, it takes more United States dollars to purchase the same amount of the foreign currency. As we use the foreign currency to pay for payroll costs and other operating expenses in our international operations, this results in an increase in operating expenses.

Exposure to foreign currency transaction risk can arise when transactions are conducted in a currency different from the functional currency of one of our subsidiaries. A subsidiary s functional currency is generally the currency in which it primarily conducts its operations, including product pricing, expenses and borrowings. Although we attempt to reduce the impact of foreign currency fluctuations, significant exchange rate movements may hurt our results of operations as expressed in United States dollars.

Our international operations may also be subject to other risks, including:

- The adoption or expansion of government trade restrictions, including tariffs and other trade barriers;
- Limitations on repatriation of earnings;
- Limitations on the conversion of foreign currencies;
- Reduced protection of intellectual property rights in some countries;
- Recessions in foreign economies;
- Longer collection periods for receivables and greater difficulty in collecting accounts receivable;
- Difficulties in managing foreign operations;

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- Compliance with United States and foreign laws and regulations applicable to our worldwide operations;
- Political and economic instability;
- Unexpected changes in regulatory requirements; and
- United States and other governments licensing requirements for exports, which may lengthen the sales cycle or restrict or prohibit the sale or licensing of certain products.

We have offices throughout the world, including key research and development facilities outside of the United States. Our operations are dependent upon the connectivity of our operations throughout the world. Activities that interfere with our international connectivity, such as computer hacking or the introduction of a virus into our computer systems, could significantly interfere with our business operations.

Our operating results could be adversely affected as a result of changes in our effective tax rates.

Our future effective tax rates could be adversely affected by the following:

- Changes in tax laws or the interpretation of such tax laws, including potential United States and international tax reforms;
- Earnings being lower than anticipated in countries where we are taxed at lower rates as compared to the United States federal and state statutory tax rates;
- An increase in expenses not deductible for tax purposes, including certain stock-based compensation and impairment of goodwill;
- Changes in the valuation allowance against our deferred tax assets;
- Changes in judgment from the evaluation of new information that results in a recognition, derecognition, or change in measurement of a tax position taken in a prior period;
- Increases to interest expenses classified in the financial statements as income taxes;
- New accounting standards or interpretations of such standards;
- A change in our decision to indefinitely reinvest foreign earnings outside the United States; or
- Results of tax examinations by the IRS and state and foreign tax authorities.

Any significant change in our future effective tax rates could adversely impact our results of operations for future periods.

We have received examination reports from the IRS proposing deficiencies in certain of our tax returns, and the outcome of current and future tax examinations may have a material adverse effect on our results of operations and cash flows.

The IRS and other tax authorities regularly examine our income tax returns, and the IRS is currently examining our federal income tax returns for the tax years 2006 through 2008. In July 2006, the IRS completed its field examination of our federal income tax returns for the tax years 2000 through 2002 and issued a RAR in which the IRS proposed to assess an aggregate tax deficiency for the three-year period of approximately $324.0 million. In November 2006, the IRS revised the proposed aggregate tax deficiency for the three-year period to approximately $318.0 million. The IRS is contesting our qualification for deferred recognition of certain proceeds received from restitution and settlement in connection with litigation during the period. The proposed tax deficiency for this item is approximately $152.0 million. The remaining proposed tax deficiency of approximately $166.0 million is primarily related to proposed adjustments to our transfer pricing arrangements with foreign subsidiaries and to our deductions for foreign trade income. We have filed a timely protest with the IRS and are seeking resolution of the issues through the Appeals

Office of the IRS, or the Appeals Office.

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In May 2009, the IRS completed its field examination of our federal income tax returns for the tax years 2003 through 2005 and issued a RAR, in which the IRS proposed to assess an aggregate deficiency for the three-year period of approximately $94.1 million. In August 2009, the IRS revised the proposed aggregate tax deficiency for the three-year period to approximately $60.7 million. The IRS is contesting our transfer pricing arrangements with our foreign subsidiaries and deductions for foreign trade income. The IRS made similar claims against our transfer pricing arrangements and deductions for foreign trade income in prior examinations and may make similar claims in its examinations of other tax years. We have filed a timely protest with the IRS and are seeking resolution of the issues through the Appeals Office.

We believe that the proposed IRS adjustments are inconsistent with applicable tax laws and we are vigorously challenging these proposed adjustments, although there can be no assurance that we will prevail. The RARs are not final Statutory Notices of Deficiency, but the IRS imposes interest on the proposed deficiencies until the matters are resolved. Interest is compounded daily at rates published and adjusted quarterly by the IRS and have been between 4% and 10% since 2001.

The calculation of our provision (benefit) for income taxes requires us to use significant judgment and involves dealing with uncertainties in the application of complex tax laws and regulations. In determining the adequacy of our provision (benefit) for income taxes, we regularly assess the potential settlement outcomes resulting from income tax examinations. However, the final outcome of tax examinations, including the total amount payable or the timing of any such payments upon resolution of these issues, cannot be estimated with certainty. In addition, we cannot be certain that such amount will not be materially different from the amount that is reflected in our historical income tax provisions and accruals. Should the IRS or other tax authorities assess additional taxes as a result of a current or a future examination, we may be required to record charges to operations in future periods that could have a material impact on the results of operations, financial position or cash flows in the applicable period or periods.

Forecasting our estimated annual effective tax rate is complex and subject to uncertainty, and material differences between forecasted and actual tax rates could have a material impact on our results of operations.

Forecasts of our income tax position and resultant effective tax rate are complex and subject to uncertainty because our income tax position for each year combines the effects of estimating our annual income or loss, the mix of profits and losses earned by us and our subsidiaries in tax jurisdictions with a broad range of income tax rates, as well as benefits from available deferred tax assets, the impact of various accounting rules and changes to these rules and results of tax audits. To forecast our global tax rate, pre-tax profits and losses by jurisdiction are estimated and tax expense by jurisdiction is calculated based on such estimates. Forecasts of annual income or loss that are near break-even will cause our estimated annual effective tax rate to be particularly sensitive to any changes to our estimates of tax expense. If our estimate of the pre-tax profit and losses, the mix of our profits and losses, our ability to use deferred tax assets, the results of tax audits, or effective tax rates by jurisdiction is different than those estimates, our actual tax rate could be materially different than forecasted, which could have a material impact on our results of operations.

Failure to obtain export licenses could harm our business by rendering us unable to ship products and transfer our technology outside of the United States.

We must comply with regulations of the United States and of certain other countries in shipping our software products and transferring our technology outside the United States and to foreign nationals. Although we have not had any significant difficulty complying with such regulations so far, any significant future difficulty in complying could harm our business, operating results or financial condition.

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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, each of which has its own specifications. Because of 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 systems we design, or the products or systems incorporating our design and intellectual property may not operate as expected. Errors or defects could result in:

- Loss of customers;
- Loss of market segment share;
- Failure to attract new customers or achieve market acceptance;
- Diversion of development resources to resolve the problem;
- Loss of or delay in revenue;
- Increased service costs; and
- Liability for damages.

If we become subject to unfair hiring claims, we could be prevented from hiring needed employees, incur liability for damages and incur substantial costs in defending ourselves.
Companies in our industry that lose employees to competitors frequently claim that these competitors have engaged in unfair hiring practices or that the employment of these persons would involve the disclosure or use of trade secrets. These claims could prevent us from hiring employees or cause us to incur liability for damages. We could also incur substantial costs in defending ourselves or our employees against these claims, regardless of their merits. Defending ourselves from these claims could also divert the attention of our management away from our operations.

Our business is subject to the risk of earthquakes.
Our corporate headquarters, including certain of our research and development operations and certain of our distribution facilities, is located in the Silicon Valley area of Northern California, a region known to experience seismic activity. If significant seismic activity were to occur, our operations may be interrupted, which would adversely impact our business and results of operations.

We maintain research and development and other facilities in parts of the world that are not as politically stable as the United States, and as a result we may face a higher risk of business interruption from acts of war or terrorism than businesses located only or primarily in the United States.
We maintain international research and development and other facilities, some of which are in parts of the world that are not as politically stable as the United States. Consequently, we may face a greater risk of business interruption as a result of terrorist acts or military conflicts than businesses located domestically. Furthermore, this potential harm is exacerbated given that damage to or disruptions at our international research and development facilities could have an adverse effect on our ability to develop new or improve existing products as compared to other businesses which may only have sales offices or other less critical operations abroad. We are not insured for losses or interruptions caused by acts of war or terrorism.

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Risks Related to Our Securities and Indebtedness

Our debt obligations expose us to risks that could adversely affect our business, operating results or financial condition, and could prevent us from fulfilling our obligations under such indebtedness.

We have a substantial level of debt. As of July 3, 2010, we had outstanding indebtedness with a principal balance of $650.2 million as follows:

- $350.0 million related to our 2015 Notes;
- $150.0 million related to our 2011 Notes;
- $150.0 million related to our 2013 Notes; and
- $0.2 million related to our Zero Coupon Zero Yield Senior Convertible Notes Due 2023, or the 2023 Notes.

The level of our current or future indebtedness, among other things, could:

- Make it difficult for us to satisfy our payment obligations on our debt as described below;
- Make us more vulnerable in the event of a downturn in our business;
- Reduce funds available for use in our operations or for developments or acquisitions of new technologies;
- Make it difficult for us to incur additional debt or obtain any necessary financing in the future for working capital, capital expenditures, debt service, acquisitions or general corporate purposes;
- Impose operating or financial covenants on us;
- Limit our flexibility in planning for or reacting to changes in our business; or
- Place us at a possible competitive disadvantage relative to less leveraged competitors and competitors that have greater access to capital resources.

While we are not currently a party to any loans that would prohibit us from making payment on our outstanding convertible notes, we are not prevented by the terms of the convertible notes from entering into other loans that could prohibit such payments. If we are prohibited from paying our outstanding indebtedness, we could try to obtain the consent of the lenders under those arrangements to make such payment, or we could attempt to refinance the borrowings that contain the restrictions. If we do not obtain the necessary consents or refinance the borrowings, we may be unable to satisfy our outstanding indebtedness. Any such failure would constitute an event of default under our indebtedness, which could, in turn, constitute a default under the terms of any other indebtedness then outstanding.

If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we fail to comply with the various requirements of our indebtedness, we would be in default, which would permit the holders of our indebtedness to accelerate the maturity of the indebtedness and could cause defaults under any other indebtedness as well.

Any default under our indebtedness could have a material adverse effect on our business, operating results and financial condition. In addition, a material default on our indebtedness could suspend our eligibility to register securities using certain registration statement forms under SEC guidelines that permit incorporation by reference of substantial information regarding us and potentially hindering our ability to raise capital through the issuance of our securities and will increase the costs of such registration to us.

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On the first day of fiscal 2009, we retrospectively adopted new accounting principles as required by the Debt with Conversion and Other Options subtopic of the FASB Accounting Standards Codification, and adjusted all periods for which the Convertible Senior Notes were outstanding before the date of adoption. This adoption had an adverse effect on our operating results and financial condition, particularly with respect to interest expense ratios commonly referred to by lenders, and could potentially hinder our ability to raise capital through the issuance of debt or equity securities.

Conversion of the Convertible Senior Notes will dilute the ownership interests of existing stockholders.

The terms of the Convertible Senior Notes permit the holders to convert the Convertible Senior Notes into shares of our common stock. The terms of the Convertible Senior Notes stipulate a net share settlement, which upon conversion of the Convertible Senior Notes requires us to pay the principal amount in cash and the conversion premium, if any, in shares of our common stock based on a daily settlement amount, calculated on a proportionate basis for each day of the relevant 20 trading-day observation period. The initial conversion rate for the Convertible Senior Notes is 47.2813 shares of our common stock per $1,000 principal amount of Convertible Senior Notes, equivalent to a conversion price of approximately $21.15 per share of our common stock. The conversion price is subject to adjustment in some events but will not be adjusted for accrued interest, except in limited circumstances. The conversion of some or all of the Convertible Senior Notes will dilute the ownership interest of our existing stockholders. Any sales in the public market of the common stock issuable upon conversion could adversely affect prevailing market prices of our common stock.

Each $1,000 of principal of the Convertible Senior Notes is initially convertible into 47.2813 shares of our common stock, subject to adjustment upon the occurrence of specified events. Holders of the Convertible Senior Notes may convert their notes at their option on any day before the close of business on the scheduled trading day immediately preceding December 15, 2011 in the case of the 2011 Notes and December 15, 2013 in the case of the 2013 Notes, in each case only if:

- The price of our common stock reaches $27.50 during certain periods of time specified in the Convertible Senior Notes;
- Specified corporate transactions occur; or
- The trading price of the Convertible Senior Notes falls below 98% of the product of (i) the last reported sale price of our common stock and (ii) the conversion rate on that date.

From November 2, 2011, in the case of the 2011 Notes, and November 1, 2013, in the case of the 2013 Notes, and until the close of business on the scheduled trading day immediately preceding the maturity date of such Convertible Senior Notes, holders may convert their Convertible Senior Notes at any time, regardless of the foregoing circumstances. As of July 3, 2010, none of the conditions allowing holders of the Convertible Senior Notes to convert had been met.

Although the conversion price of the Convertible Senior Notes is currently $21.15 per share, we entered into hedge and separate warrant transactions concurrent with the issuance of the Convertible Senior Notes to reduce the potential dilution from the conversion of the Convertible Senior Notes. However, we cannot guarantee that such hedges and warrant instruments will fully mitigate the dilution. In addition, the existence of the Convertible Senior Notes may encourage short selling by market participants because the conversion of the Convertible Senior Notes could depress the price of our common stock.

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At the option of the holders of the Convertible Senior Notes and the 2015 Notes, under certain circumstances we may be required to repurchase the Convertible Senior Notes in cash or shares of our common stock, or repurchase the 2015 Notes in cash.

Under the terms of the Convertible Senior Notes and the 2015 Notes, we may be required to repurchase the Convertible Senior Notes and the 2015 Notes following a fundamental change in our corporate ownership or structure, such as a change of control in which substantially all of the consideration does not consist of publicly traded securities, prior to maturity of the Convertible Senior Notes and the 2015 Notes. The repurchase price for the Convertible Senior Notes and the 2015 Notes in the event of a fundamental change must be paid solely in cash. This repayment obligation may have the effect of discouraging, delaying or preventing a takeover of our company that may otherwise be beneficial to investors.

Hedge and warrant transactions entered into in connection with the issuance of the Convertible Senior Notes and the 2015 Notes may affect the value of our common stock.

We entered into hedge transactions with various financial institutions, at the time of issuance of the Convertible Senior Notes and the 2015 Notes, with the objective of reducing the potential dilutive effect of issuing our common stock upon conversion of the Convertible Senior Notes and the potential cash outlay from the cash conversion of the 2015 Notes. We also entered into separate warrant transactions with the same financial institutions. In connection with our hedge and warrant transactions associated with the Convertible Senior Notes and the 2015 Notes, these financial institutions purchased our common stock in secondary market transactions and entered into various over-the-counter derivative transactions with respect to our common stock. These entities or their affiliates are likely to modify their hedge positions from time to time prior to conversion or maturity of the Convertible Senior Notes and the 2015 Notes by purchasing and selling shares of our common stock, other of our securities or other instruments they may wish to use in connection with such hedging. Any of these transactions and activities could adversely affect the value of our common stock and, as a result, the number of shares and the value of the common stock holders will receive upon conversion of the Convertible Senior Notes and the 2015 Notes. In addition, subject to movement in the price of our common stock, if the hedge transactions settle in our favor, we could be exposed to credit risk related to the other party with respect to the payment we are owed from such other party. If the financial institutions with which we entered into these hedge transactions were to fail or default, our ability to settle on these transactions could be harmed or delayed.

We are subject to the risk that the hedge participants cannot, or do not, fulfill their obligations under the convertible note hedge transactions.

Recent global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If any of the participants in the hedge transactions is unwilling or unable to perform its obligations for any reason, we would not be able to receive the benefit of such transaction. We cannot provide any assurances as to the financial stability or viability of any of the participants in the hedge transactions.

Rating agencies may provide unsolicited ratings on the Convertible Senior Notes and the 2015 Notes that could reduce the market value or liquidity of our common stock.

We have not requested a rating of the Convertible Senior Notes or the 2015 Notes from any rating agency and we do not anticipate that the Convertible Senior Notes or the 2015 Notes will be rated. However, if one or more rating agencies independently elects to rate the Convertible Senior Notes or the 2015 Notes and assigns the Convertible Senior Notes or the 2015 Notes a rating lower than the rating

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expected by investors, or reduces such rating in the future, the market price or liquidity of the Convertible Senior Notes or the 2015 Notes, as the case may be, and our common stock could be harmed. Should a decline in the market price of the Convertible Senior Notes or the 2015 Notes result, as compared to the price of our common stock, this may trigger the right of the holders of the Convertible Senior Notes or the 2015 Notes to convert such notes into cash and shares of our common stock, as applicable.

Anti-takeover defenses in our certificate of incorporation and bylaws and certain provisions under Delaware law could prevent an acquisition of our company or limit the price that investors might be willing to pay for our common stock.

Our certificate of incorporation and bylaws and certain provisions of the Delaware General Corporation Law that apply to us could make it difficult for another company to acquire control of our company. For example:

- Our certificate of incorporation allows our Board of Directors to issue, at any time and without stockholder approval, preferred stock with such terms as it may determine. No shares of preferred stock are currently outstanding. However, the rights of holders of any of our preferred stock that may be issued in the future may be superior to the rights of holders of our common stock.

- Section 203 of the Delaware General Corporation Law generally prohibits a Delaware corporation from engaging in any business combination with a person owning 15% or more of its voting stock, or who is affiliated with the corporation and owned 15% or more of its voting stock at any time within three years prior to the proposed business combination, for a period of three years from the date the person became a 15% owner, unless specified conditions are met.

All or any one of these factors could limit the price that certain investors would be willing to pay for shares of our common stock and could allow our Board of Directors to resist, delay or prevent an acquisition of our company, even if a proposed transaction were favored by a majority of our independent stockholders.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During fiscal 2008, our Board of Directors authorized two programs to repurchase shares of our common stock in the open market with a value of up to $1,000.0 million in the aggregate. The following table sets forth the repurchases we made during the three months ended July 3, 2010:

Period	Total Number of Shares Purchased *	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plan or Program * (In millions)
April 4, 2010 May 8, 2010	3,439	$ 7.11	----	$ 854.4
May 9, 2010 June 5, 2010	194,214	$ 6.90	----	$ 854.4
June 6, 2010 July 3, 2010	6,602,056	$ 6.16	6,493,100	$ 814.4
Total	6,799,709	$ 6.18	6,493,100	

* Shares purchased that were not part of our publicly announced repurchase program represent the surrender of shares of restricted stock to pay income taxes due upon vesting, and do not reduce the dollar value that may yet be purchased under our publicly announced repurchase program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Reserved

Item 5. Other Information

None.

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Item 6. Exhibits

(a) The following exhibits are filed herewith:

Exhibit Number	Exhibit Title	Incorporated by Reference Form	File No.	Exhibit No.	Filing Date	Provided Herewith
2.01	Agreement and Plan of Merger, dated as of May 12, 2010, among the Registrant, Denali Software, Inc., Eagle Subsidiary Corporation and Mark Gogolewski, as Shareholder Agent.					X
4.01	Indenture, dated as of June 15, 2010, between the Registrant and Deutsche Bank Trust Company Americas, as Trustee, including form of 2.625% Cash Convertible Senior Notes due 2015.					X
10.01	Convertible Note Hedge Confirmation, dated June 9, 2010, between the Registrant and JPMorgan Chase Bank, National Association, for the Registrant s 2.625% Cash Convertible Senior Notes due 2015.					X
10.02	Convertible Note Hedge Confirmation, dated June 9, 2010, between the Registrant and Morgan Stanley & Co. International plc, for the Registrant s 2.625% Cash Convertible Senior Notes due 2015.					X
10.03	Convertible Note Hedge Confirmation, dated June 9, 2010, between the Registrant and Deutsche Bank AG, London Branch, for the Registrant s 2.625% Cash Convertible Senior Notes due 2015.					X
10.04	Additional Convertible Note Hedge Confirmation, dated June 18, 2010, between the Registrant and JPMorgan Chase Bank, National Association, for the Registrant s 2.625% Cash Convertible Senior Notes due 2015.					X
10.05	Additional Convertible Note Hedge Confirmation, dated June 18, 2010, between the Registrant and Morgan Stanley & Co. International plc, for the Registrant s 2.625% Cash Convertible Senior Notes due 2015.					X
10.06	Additional Convertible Note Hedge Confirmation, dated June 18, 2010, between the Registrant and Deutsche Bank AG, London Branch, for the Registrant s 2.625% Cash Convertible Senior Notes due 2015.					X
10.07	Warrant Transaction Confirmation, dated June 9, 2010, between the Registrant and JPMorgan Chase Bank, National Association.					X
10.08	Warrant Transaction Confirmation, dated June 9, 2010, between the Registrant and Morgan Stanley & Co. Inc.					X

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10.10	Additional Warrant Transaction Confirmation, dated June 18, 2010, between the Registrant and JPMorgan Chase Bank, National Association.					X
10.11	Additional Warrant Transaction Confirmation, dated June 18, 2010, between the Registrant and Morgan Stanley & Co. Inc.					X
10.12	Additional Warrant Transaction Confirmation, dated June 18, 2010, between the Registrant and Deutsche Bank AG, London Branch.					X
10.13	Employment Agreement, effective as of August 3, 2010, between the Registrant and John J. Bruggeman II.					X
31.01	Certification of the Registrant s Chief Executive Officer, Lip-Bu Tan, pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.					X
31.02	Certification of the Registrant s Chief Financial Officer, Kevin S. Palatnik, pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.					X
32.01	Certification of the Registrant s Chief Executive Officer, Lip-Bu Tan, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.02	Certification of the Registrant s Chief Financial Officer, Kevin S. Palatnik, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

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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.

	CADENCE DESIGN SYSTEMS, INC. **(Registrant)**
DATE: August 4, 2010	By: /s/ Lip-Bu Tan
	Lip-Bu Tan President, Chief Executive Officer and Director
DATE: August 4, 2010	By: /s/ Kevin S. Palatnik
	Kevin S. Palatnik Senior Vice President and Chief Financial Officer

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