CADENCE DESIGN SYSTEMS INC
Form 10-Q
August 04, 2010

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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 July 3, 2010

OR

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

For the transition period from _____ to _____

Commission file number 0-15867

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

Delaware	**77-0148231**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2655 Seely Avenue, Building 5, San Jose, California	**95134**
(Address of Principal Executive Offices)	(Zip Code)

(408) 943-1234
Registrant s Telephone Number, including Area Code

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

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

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

Large accelerated filer [X] Accelerated filer [__] Non-accelerated filer [__] Smaller reporting company [__]
(Do not check if a smaller reporting company)

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

On July 3, 2010, 266,244,189 shares of the registrant s common stock, $0.01 par value, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	July 3, 2010	January 2, 2010
Current Assets:		
Cash and cash equivalents	$ 475,603	$ 569,115
Short-term investments	2,860	2,184
Receivables, net of allowances of $11,194 and $14,020, respectively	191,291	200,628
Inventories	23,874	24,165
Prepaid expenses and other	71,448	54,655
Total current assets	765,076	850,747
Property, plant and equipment, net of accumulated depreciation of $652,965 and $637,107, respectively	295,073	311,502
Goodwill	158,227	----
Acquired intangibles, net of accumulated amortization of $90,983 and $124,507, respectively	192,422	28,841
Installment contract receivables, net of allowances of $0 and $9,724, respectively	40,296	58,448
Other assets	244,661	161,049
Total Assets	$ 1,695,755	$ 1,410,587

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities:		
Accounts payable and accrued liabilities	$ 153,982	$ 150,207
Current portion of deferred revenue	290,105	247,691
Total current liabilities	444,087	397,898
Long-Term Liabilities:		
Long-term portion of deferred revenue	92,477	92,298
Convertible notes	541,767	436,012
Other long-term liabilities	454,744	376,006
Total long-term liabilities	1,088,988	904,316
Contingencies (Notes 8 and 13)		
Stockholders Equity:		
Common stock and capital in excess of par value	1,708,610	1,674,396
Treasury stock, at cost	(370,700)	(431,310)
Accumulated deficit	(1,215,391)	(1,177,983)

Accumulated other comprehensive income	40,161	43,270
Total stockholders equity	162,680	108,373
Total Liabilities and Stockholders Equity	$ 1,695,755	$ 1,410,587

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

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

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Revenue:				
Product	$ 117,066	$ 101,840	$ 219,832	$ 189,363
Services	25,258	27,808	51,178	57,015
Maintenance	84,740	80,281	177,992	169,853
Total revenue	227,064	209,929	449,002	416,231
Costs and Expenses:				
Cost of product	7,123	9,752	12,415	17,423
Cost of services	21,556	24,418	43,481	48,463
Cost of maintenance	10,481	11,857	21,879	24,318
Marketing and sales	71,513	71,431	146,275	146,321
Research and development	91,880	90,653	181,310	185,345
General and administrative	17,058	34,240	39,892	72,579
Amortization of acquired intangibles	2,551	2,828	5,242	5,968
Restructuring and other charges (credits)	(317)	18,528	(1,391)	18,008
Total costs and expenses	221,845	263,707	449,103	518,425
Income (loss) from operations	5,219	(53,778)	(101)	(102,194)
Interest expense	(7,972)	(7,266)	(15,403)	(14,314)
Other income (expense), net	(3,100)	(2,533)	2,874	(8,682)
Loss before provision (benefit) for income taxes	(5,853)	(63,577)	(12,630)	(125,190)
Provision (benefit) for income taxes	(54,460)	10,780	(49,452)	12,424
Net income (loss)	$ 48,607	$ (74,357)	$ 36,822	$ (137,614)
Basic net income (loss) per share	$ 0.19	$ (0.29)	$ 0.14	$ (0.54)
Diluted net income (loss) per share	$ 0.18	$ (0.29)	$ 0.14	$ (0.54)
Weighted average common shares outstanding basic	262,163	256,883	262,380	255,592
Weighted average common shares outstanding diluted	266,423	256,883	266,539	255,592

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

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

	Six Months Ended	
	July 3, 2010	July 4, 2009
Cash and Cash Equivalents at Beginning of Period	$ 569,115	$ 568,255
Cash Flows from Operating Activities:		
Net income (loss)	36,822	(137,614)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	41,333	50,023
Amortization of debt discount and fees	11,301	10,244
Loss on extinguishment of debt	5,321	----
Stock-based compensation	20,807	29,235
Loss from equity method investments	73	231
(Gain) loss on investments, net	(6,935)	7,991
Write-down of investment securities	1,500	4,606
Impairment of property, plant and equipment	427	3,695
Deferred income taxes	(69,266)	(5,044)
Proceeds from the sale of receivables, net	----	5,827
Provisions (recoveries) for losses (gains) on trade and installment contract receivables	(12,978)	18,361
Other non-cash items	3,340	(9,038)
Changes in operating assets and liabilities, net of effect of acquired businesses:		
Receivables	(25,384)	43,134
Installment contract receivables	70,479	89,957
Inventories	(10,923)	5,847
Prepaid expenses and other	(13,778)	(125)
Other assets	3,750	6,769
Accounts payable and accrued liabilities	6,026	(66,247)
Deferred revenue	31,882	(58,364)
Other long-term liabilities	1,904	3,518
Net cash provided by operating activities	95,701	3,006
Cash Flows from Investing Activities:		
Proceeds from the sale of long-term investments	10,133	----
Purchases of property, plant and equipment	(18,765)	(22,282)
Purchases of software licenses	(2,517)	(394)
Investment in venture capital partnerships and equity investments	(500)	(1,550)
Cash paid in business combinations and asset acquisitions, net of cash acquired	(253,951)	(4,896)
Net cash used for investing activities	(265,600)	(29,122)
Cash Flows from Financing Activities:		
Principal payments on receivable sale financing	(1,719)	(796)

Proceeds from issuance of 2015 Notes	350,000	----
Payment of Convertible Senior Notes	(187,150)	----
Payment of 2015 Notes issuance costs	(9,800)	----
Purchase of 2015 Notes Hedges	(76,635)	----
Proceeds from termination of Convertible Senior Notes Hedges	280	----
Proceeds from sale of 2015 Warrants	37,450	----
Tax benefit from employee stock transactions	59	----
Proceeds from issuance of common stock	8,119	19,601
Stock received for payment of employee taxes on vesting of restricted stock	(4,114)	(2,439)
Purchases of treasury stock	(39,997)	----
Net cash provided by financing activities	76,493	16,366
Effect of exchange rate changes on cash and cash equivalents	(106)	(1,580)
Decrease in cash and cash equivalents	(93,512)	(11,330)
Cash and Cash Equivalents at End of Period	$ 475,603	$ 556,925

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

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CADENCE DESIGN SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q have been prepared by Cadence Design Systems, Inc., or Cadence, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, Cadence believes that the disclosures contained in this Quarterly Report on Form 10-Q comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These Condensed Consolidated Financial Statements are meant to be, and should be, read in conjunction with the Consolidated Financial Statements and the Notes thereto included in Cadence s Annual Report on Form 10-K for the fiscal year ended January 2, 2010.

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

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

Cadence adopted new disclosure requirements related to the fair value of Cadence s financial instruments on the first day of fiscal 2010. This adoption did not have a material impact on Cadence s consolidated financial position, results of operations or cash flows. See Note 5 for these disclosures.

Cadence has evaluated subsequent events through the date of issuance of the unaudited condensed consolidated financial statements.

NOTE 2. CONVERTIBLE NOTES

2.625% Cash Convertible Senior Notes Due 2015

In June 2010, Cadence issued $350.0 million principal amount of its 2.625% Cash Convertible Senior Notes Due 2015, or the 2015 Notes. The 2015 Notes have a stated interest rate of 2.625%, mature on June 1, 2015 and may be settled only in cash. The indenture for the 2015 Notes does not contain any financial covenants. Contractual interest payable on the 2015 Notes began accruing in June 2010 and is payable semi-annually each December 1st and June 1st. The initial purchasers transaction fees and expenses totaling $10.6 million were capitalized as deferred financing costs and will be amortized over the term of the 2015 Notes using the effective interest method. An aggregate of $187.2 million of the net proceeds was used to purchase $100.0 million principal amount of Cadence s 1.375% Convertible Senior Notes Due December 15, 2011, or the 2011 Notes, and $100.0 million principal amount of its 1.500%

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Convertible Senior Notes Due December 15, 2013, or the 2013 Notes, and collectively with the 2011 Notes, the Convertible Senior Notes. Cadence also used $40.0 million of the net proceeds to repurchase approximately 6.5 million shares of Cadence common stock.

Prior to March 1, 2015, holders may convert their 2015 Notes into cash upon the occurrence of one of the following events:

- The price of Cadence s common stock reaches $9.81 during certain periods of time specified in the 2015 Notes;
- Specified corporate transactions occur; or
- The trading price of the 2015 Notes falls below 98% of the product of (i) the last reported sale price of Cadence s common stock and (ii) the conversion rate on that date.

From March 1, 2015 and until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2015 Notes into cash at any time, regardless of the foregoing circumstances. Cadence may not redeem the 2015 Notes prior to maturity.

The initial cash conversion rate for the 2015 Notes is 132.5205 shares of Cadence common stock per $1,000 principal amount of 2015 Notes, equivalent to a cash conversion price of approximately $7.55 per share of Cadence common stock, with the amount due on conversion payable in cash. Upon cash conversion, a holder will receive the sum of the daily settlement amounts, calculated on a proportionate basis for each day, during a specified observation period following the cash conversion date.

If a fundamental change occurs prior to maturity and Cadence s stock price is greater than $6.16 per share at that time, the cash conversion rate will increase by an additional amount of up to 29.8171 shares of Cadence s common stock per $1,000 principal amount of 2015 Notes, which amount would be paid entirely in cash to each holder that elects to convert its 2015 Notes at that time. A fundamental change is any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) in which more than 50% of Cadence s common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration. No fundamental change will have occurred if at least 90% of the consideration received consists of shares of common stock, or depositary receipts representing such shares, that are:

- Listed on, or immediately after the transaction or event will be listed on, a United States national securities exchange; or
- Approved, or immediately after the transaction or event will be approved, for quotation on a United States system of automated dissemination of quotations of securities prices similar to the NASDAQ National Market prior to its designation as a national securities exchange.

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.

The cash conversion feature of the 2015 Notes, or the 2015 Notes Embedded Conversion Derivative, requires bifurcation from the 2015 Notes and the 2015 Notes Embedded Conversion Derivative is accounted for as a derivative liability, which is included in Other long-term liabilities in Cadence s Condensed Consolidated Balance Sheet. The fair value of the 2015 Notes Embedded Conversion Derivative at the time of issuance of the 2015 Notes was $76.6 million, and was recorded as the original debt discount for purposes of accounting for the debt component of the 2015 Notes. This discount will be recognized as interest expense using the effective interest method over the term of the 2015 Notes. The estimated fair value of the 2015 Notes Embedded Conversion Derivative was $74.3 million as of July 3, 2010.

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Concurrently with the issuance of the 2015 Notes, Cadence entered into hedge transactions, or the 2015 Notes Hedges, with various parties whereby Cadence has the option to receive the cash equivalent of approximately 46.4 million shares of Cadence s common stock at a price of approximately $7.55 per share, subject to certain conversion rate adjustments in the 2015 Notes. These options expire on June 1, 2015 and must be settled in cash. The aggregate cost of the 2015 Notes Hedges was $76.6 million. The 2015 Notes Hedges are accounted for as derivative assets, and are included in Other assets in Cadence s Condensed Consolidated Balance Sheet. The estimated fair value of the 2015 Notes Hedges was $74.3 million as of July 3, 2010.

The 2015 Notes Embedded Conversion Derivative and the 2015 Notes Hedges are adjusted to fair value each reporting period and unrealized gains and losses are reflected in Cadence s Condensed Consolidated Statements of Operations. As the fair values of the 2015 Notes Embedded Conversion Derivative and the 2015 Notes Hedges are similar, there was no impact to Cadence s Condensed Consolidated Statements of Operations relating to these adjustments to fair value during the three months ended July 3, 2010.

In separate transactions, Cadence also sold warrants, or the 2015 Warrants, to various parties for the purchase of up to approximately 46.4 million shares of Cadence s common stock at a price of $10.78 per share in a private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended, or the Securities Act. The warrants expire on various dates from September 2015 through December 2015 and must be settled in net shares. Cadence received $37.5 million in cash proceeds from the sale of the 2015 Warrants, which has been recorded as an increase in Stockholders equity. Changes in the fair value of these warrants will not be recognized in Cadence s Condensed Consolidated Financial Statements as long as the instruments remain classified as equity. The warrants are included in diluted earnings per share to the extent the impact is dilutive.

The principal amount, unamortized debt discount and net carrying amount of the liability component of the 2015 Notes as of July 3, 2010 was as follows:

	As of July 3, 2010 (In thousands)
Principal amount of 2015 Notes	$ 350,000
Unamortized debt discount of 2015 Notes	(76,043)
Net Liability of 2015 Notes	$ 273,957

The effective interest rate, contractual interest expense, amortization of debt discount and capitalized interest associated with the amortization of debt discount for the 2015 Notes for the three and six months ended July 3, 2010 and July 4, 2009 were as follows:

	Three and Six Months Ended July 3, 2010	July 4, 2009
	(In thousands, except percentages)	
Effective interest rate	8.1%	N/A
Contractual interest expense	$ 427	$ ----
Amortization of debt discount	$ 592	$ ----
Capitalized interest associated with the amortization of debt discount	$ (6)	$ ----

As of July 3, 2010, the if-converted value of the 2015 Notes does not exceed the principal amount of the 2015 Notes and the total fair value of the 2015 Notes was $340.8 million.

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

In December 2006, Cadence issued $250.0 million principal amount of its 2011 Notes and $250.0 million principal amount of its 2013 Notes. The indentures for the Convertible Senior Notes do not contain any financial covenants. Contractual interest payable on the Convertible Senior Notes began accruing in December 2006 and is payable semi-annually each December 15th and June 15th. In June 2010, Cadence repurchased $100.0 million principal amount of its 2011 Notes and $100.0 million principal amount of its 2013 Notes, resulting in a remaining principal balance of $150.0 million for the 2011 Notes and $150.0 million for the 2013 Notes.

Holders may convert their Convertible Senior Notes prior to maturity upon the occurrence of one of the following events:

- The price of Cadence s 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 Cadence s 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, holders may convert their Convertible Senior Notes at any time, regardless of the foregoing circumstances. Cadence may not redeem the Convertible Senior Notes prior to maturity.

The initial conversion rate for the Convertible Senior Notes is 47.2813 shares of Cadence common stock per $1,000 principal amount of Convertible Senior Notes, equivalent to a conversion price of approximately $21.15 per share of Cadence common stock. Upon conversion, a holder will receive the sum of the daily settlement amounts, calculated on a proportionate basis for each day, during a specified observation period following the conversion date. The daily settlement amount during each date of the observation period consists of:

- Cash up to the principal amount of the note; and
- Cadence s common stock to the extent that the conversion value exceeds the amount of cash paid upon conversion of the Convertible Senior Notes.

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If a fundamental change occurs prior to maturity and Cadence s stock price is greater than $18.00 per share at that time, the conversion rate will increase by an additional amount of up to $8.27 per share, which amount would be paid entirely in cash to each holder that elects to convert its Convertible Senior Notes at that time. A fundamental change is any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) in which more than 50% of Cadence s common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration. No fundamental change will have occurred if at least 90% of the consideration received consists of shares of common stock, or depositary receipts representing such shares, that are:

Listed on, or immediately after the transaction or event will be listed on, a United States national securities exchange; or

Approved, or immediately after the transaction or event will be approved, for quotation on a United States system of automated dissemination of quotations of securities prices similar to the NASDAQ National Market prior to its designation as a national securities exchange.

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, an aggregate of $187.2 million of the net proceeds were used to purchase in the open market $100.0 million principal amount of the 2011 Notes and $100.0 million principal amount of the 2013 Notes. At settlement, the fair value of the liability component immediately prior to its extinguishment is measured first and the difference between the fair value of the aggregate consideration remitted to its holders and the fair value of the liability component immediately prior to its extinguishment is attributed to the reacquisition of the equity component. The components of the repurchase and related loss on early extinguishment of debt are as follows:

	2011 Notes	2013 Notes	Total
		(In thousands)	
Principal amount repurchased	$ 100,000	$ 100,000	$ 200,000
Amount allocated to:			
Extinguishment of liability component	$ 95,865	$ 85,751	$ 181,616
Extinguishment of equity component	2,285	3,249	5,534
Total cash paid for repurchase	$ 98,150	$ 89,000	$ 187,150
Principal amount repurchased	$ 100,000	$ 100,000	$ 200,000
Unamortized debt discount	(6,958)	(15,036)	(21,994)
Extinguishment of liability component	(95,865)	(85,751)	(181,616)
Related debt issuance costs	(676)	(1,035)	(1,711)
Loss on early extinguishment of debt	$ (3,499)	$ (1,822)	$ (5,321)

Concurrently with the issuance of the Convertible Senior Notes, Cadence entered into hedge transactions, or the Convertible Senior Notes Hedges, with various parties whereby Cadence had the option to purchase up to 23.6 million shares of Cadence s common stock at a price of $21.15 per share, subject to adjustment. The aggregate cost of the Convertible Senior Notes Hedges was $119.8 million and has been recorded as a reduction to Stockholders equity. In connection with the purchase of a portion of the Convertible Senior Notes in June 2010, Cadence also sold a portion of the Convertible Senior Notes Hedges representing options to purchase approximately 9.5 million shares of Cadence s common stock and received proceeds of $0.4 million. The estimated fair value of the remaining Convertible Senior Notes Hedges was $1.1 million as of July 3, 2010. These options expire on December 15, 2011, in the case of the 2011 Notes,

and December 15, 2013, in the case of the 2013 Notes, and must be settled in net shares. Subsequent changes in the fair value of the Convertible Senior Notes Hedges will not be recognized in Cadence s Condensed Consolidated Financial Statements as long as the instruments remain classified as equity.

In separate transactions, Cadence also sold warrants, or the Convertible Senior Note Warrants, to various parties for the purchase of up to 23.6 million shares of Cadence s common stock at a price of $31.50 per share in a private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended, or the Securities Act. Cadence received $39.4 million in cash proceeds from the sale of the Convertible Senior Note Warrants, which has been recorded as an increase in Stockholders equity. In connection with the purchase of a portion of the Convertible Senior Notes in June 2010, Cadence also purchased a portion of the Convertible Senior Note Warrants, reducing the number of shares of Cadence common stock available for purchase by 9.5 million shares at a cost of $0.1 million. The Convertible Senior Note Warrants expire on various dates from February 2012 through April 2012 in the case of the 2011 Notes, and February 2014 through April 2014 in the case of the 2013 Notes, and must be settled in net shares. Changes in the fair value of the Convertible Senior Note Warrants will not be recognized in Cadence s Condensed Consolidated Financial Statements as long as the instruments remain classified as equity. The remaining warrants are included in diluted earnings per share to the extent the impact is dilutive.

The carrying amount of the equity component of the Convertible Senior Notes and the principal amount, unamortized debt discount and net carrying amount of the liability component of the Convertible Senior Notes as of July 3, 2010 and January 2, 2010 were as follows:

	As of	
	July 3, 2010	January 2, 2010
	(In thousands)	
Equity component of Convertible Senior Notes	$ 111,459	$ 116,993
Principal amount of Convertible Senior Notes	$ 300,000	$ 500,000
Unamortized debt discount of Convertible Senior Notes	(32,371)	(64,166)
Liability component of Convertible Senior Notes	$ 267,629	$ 435,834

The effective interest rate, contractual interest expense, amortization of debt discount and capitalized interest associated with the amortization of debt discount for the Convertible Senior Notes 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 thousands, except percentages)			
Effective interest rate	6.3%	6.3%	6.3%	6.3%
Contractual interest expense	$ 1,649	$ 1,791	$ 3,440	$ 3,582
Amortization of debt discount	$ 4,706	$ 4,814	$ 9,801	$ 9,601
Capitalized interest associated with the amortization of debt discount	$ (47)	$ (50)	$ (97)	$ (210)

As of July 3, 2010, the if-converted value of the Convertible Senior Notes does not exceed the principal amount of the Convertible Senior Notes and the total fair value of the Convertible Senior Notes, including the equity component, was $281.5 million.

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NOTE 3. ACQUISITIONS

For each of the acquisitions described below, the results of operations and the estimated fair value of the assets acquired and liabilities assumed have been included in Cadence s Condensed Consolidated Financial Statements from the date of the acquisition.

Denali Software, Inc.

In June 2010, Cadence acquired Denali Software, Inc., or Denali. Denali was a privately-held provider of electronic design automation software and intellectual property used in system-on-chip design and verification. Cadence acquired Denali to expand its solution portfolio to provide system component modeling and IP integration. The aggregate initial purchase price was $296.8 million, which was paid in cash. An additional $12.6 million of payments have been deferred and will be paid in cash if certain Denali shareholders remain employees of Cadence during the periods specified in the respective agreements. These amounts will be expensed in Cadence s Condensed Consolidated Statements of Operations over the stated retention periods. The $152.2 million of goodwill recorded in connection with this acquisition is not expected to be deductible for income tax purposes. This acquisition does not include any contingent consideration that is subject to performance metrics, milestone achievement or other similar criteria.

The following table summarizes the allocation of the purchase price for Denali and the estimated amortization period for the acquired intangibles:

		(In thousands)
Current assets	$	59,398
Property, plant and equipment		347
Other assets		283
Acquired intangibles:		
Existing technology (six to nine-year weighted-average useful lives)		65,700
Agreements and relationships (three to twelve-year weighted-average useful lives)		98,800
Tradenames / trademarks / patents (ten-year weighted-average useful life)		4,300
Goodwill		152,172
Total assets acquired		381,000
Current liabilities		(17,042)
Long-term deferred tax liabilities (Note 8)		(67,153)
Net assets acquired	$	296,805

Denali s current assets, property, plant and equipment and other assets were reviewed and adjusted to their fair value on the date of acquisition, as necessary. Among the current assets acquired, $46.7 million was cash and cash equivalents and $11.1 million was trade receivables.

The fair values of Denali s intangible assets were determined using the income approach with significant inputs that are not observable in the market. Key assumptions include the expected future cash flows, the timing of the expected future cash flows and the discount rates consistent with the level of risk.

Denali s current liabilities were reviewed and adjusted to their fair value on the date of acquisition, as necessary. Included in net current liabilities is deferred revenue, which represents advance payments from customers. Cadence estimated its obligation related to the deferred revenue using the cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to supporting the obligation plus an assumed profit. The sum of the costs and assumed profit approximates the amount that Cadence would be required to pay a third party to assume the obligation. The estimated costs to fulfill the obligation were based on the projected cost structure to provide the contractual deliverables. As a result, Cadence recorded deferred revenue of $11.3 million, representing Cadence s estimate of the fair value of the contractual obligations assumed.

The financial information in the table below summarizes the combined results of operations of Cadence and Denali, on a pro forma basis, as though the companies had been combined as of the beginning of the fiscal years of the periods presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place on January 3, 2010 or January 4, 2009 or of results that may occur in the future.

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
	(In thousands)			
Total revenue	$ 231,792	$ 216,271	$ 460,897	$ 427,134
Net income (loss)	$ 36,756	$ (84,495)	$ 11,508	$ (159,784)

Because the increase in deferred tax liabilities from the intangible assets acquired with Denali provided a source of taxable income, Cadence released a corresponding amount of its deferred tax asset valuation allowance. The $66.7 million release of the valuation allowance was recognized as a Benefit for income taxes for the three and six months ended July 3, 2010. The pro forma net income (loss) presented above does not include this non-recurring Benefit for income taxes. The pro forma tax effects were calculated considering Cadence s valuation allowance position on its United States losses and tax credits. See Note 8 for additional details of Cadence s income taxes.

Other Acquisition

During the six months ended July 3, 2010, Cadence acquired another company and recorded $3.9 million of Goodwill and $2.2 million of intangible assets. The $3.9 million of goodwill recorded in connection with this acquisition is not expected to be deductible for income tax purposes. Of the $2.2 million of intangible assets, $0.5 million was allocated to in-process research and development and is classified as an indefinite-lived intangible asset until the project is completed or abandoned. The remaining $1.7 million of intangible assets has a weighted average life of 5 years. The fair value of the intangible assets was determined using the income approach with significant inputs that are not observable in the market. Key assumptions include the expected future cash flows, the timing of the expected future cash flows and discount rates consistent with the level of risk.

This acquisition includes contingent consideration payments based on future financial measures of the acquired technology. Cadence makes estimates regarding the fair value of contingent consideration liabilities on the acquisition date and at the end of each reporting period until the contingency is resolved. Cadence estimates the fair value of these liabilities based on Cadence s expectations as to the projected levels of business and Cadence s assessment of the probability of achievement. Cadence believes that its estimates and assumptions are reasonable, but there is significant judgment involved. Changes in the fair value of contingent consideration liabilities subsequent to the acquisition are recorded in General and administrative expense in Cadence s Condensed Consolidated Statements of Operations.

The contingent consideration arrangement requires payments of up to $4.0 million if certain financial measures are met during the three-year period subsequent to the consummation of the acquisition. This contingent consideration arrangement does not require continuing employment of the selling shareholders. The initial fair value of the contingent consideration arrangement of $0.8 million was determined using the income approach with significant inputs that are not observable in the market. Key assumptions include discount rates consistent with the level of risk of achievement and probability-adjusted revenue amounts. The expected outcomes were recorded at net present value. The fair value of this contingent consideration was $0.9 million as of July 3, 2010.

Acquisition-Related Contingent Consideration

Cadence accounts for business combinations with acquisition dates on or before January 3, 2009 under the purchase method in accordance with Statement of Financial Accounting Standard, or SFAS, No. 141, Business Combinations, and contingent consideration is added to Goodwill as it is paid. During the six months ended July 3, 2010, Cadence recorded $2.1 million of Goodwill in connection with acquisitions accounted for under SFAS No. 141. Cadence accounts for business combinations with acquisition dates after January 3, 2009 under the acquisition method in accordance with the Accounting Standards Codification and contingent consideration is recorded at fair value on the acquisition date as noted above.

In connection with Cadence s acquisitions completed before July 3, 2010, Cadence may be obligated to pay up to an aggregate of $19.2 million in cash (including the up to $4.0 million in cash referred to in Other Acquisition above) during the next 33 months if certain defined performance goals are achieved in full, of which $11.0 million would be expensed in its Condensed Consolidated Statements of Operations.

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NOTE 4. GOODWILL AND ACQUIRED INTANGIBLES

Goodwill

The changes in the carrying amount of goodwill during the six months ended July 3, 2010 were as follows:

	Gross Carrying Amount (In thousands)
Balance as of January 2, 2010	$ ----
Goodwill resulting from acquisitions during the period (Note 3)	156,103
Additions due to contingent consideration (Note 3)	2,124
Balance as of July 3, 2010	$ 158,227

Acquired Intangibles, net

Acquired intangibles with finite lives as of July 3, 2010 were as follows, excluding intangibles that were fully amortized as of January 2, 2010:

	Gross Carrying Amount	Accumulated Amortization	Acquired Intangibles, net
		(In thousands)	
Existing technology and backlog	$ 91,800	$ (22,958)	$ 68,842
Agreements and relationships	134,822	(30,582)	104,240
Distribution rights	30,100	(21,070)	9,030
Tradenames, trademarks and patents	26,183	(16,373)	9,810
Total acquired intangibles	$ 282,905	$ (90,983)	$ 191,922

As of July 3, 2010, Cadence also had $0.5 million of in-process research and development intangibles that are expected to have an indefinite useful life until they are placed into service or the associated research and development efforts are abandoned.

Acquired intangibles with finite lives as of January 2, 2010 were as follows, excluding intangibles that were fully amortized as of January 3, 2009:

	Gross Carrying Amount	Accumulated Amortization	Acquired Intangibles, net
		(In thousands)	
Existing technology and backlog	$ 64,900	$ (61,332)	$ 3,568
Agreements and relationships	35,364	(27,905)	7,459
Distribution rights	30,100	(19,565)	10,535
Tradenames, trademarks and patents	22,984	(15,705)	7,279
Total acquired intangibles	$ 153,348	$ (124,507)	$ 28,841

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Amortization of acquired intangibles 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 thousands)			
Cost of product	$ 591	$ 947	$ 1,211	$ 3,101
Cost of maintenance	----	1,045	1,045	2,090
Amortization of acquired intangibles	2,551	2,828	5,242	5,968
Total amortization of acquired intangibles	$ 3,142	$ 4,820	$ 7,498	$ 11,159

Amortization of costs from existing technology is included in Cost of product. Amortization of costs from acquired maintenance contracts is included in Cost of maintenance.
Estimated amortization expense for the following fiscal years and thereafter is as follows:

	(In thousands)
2010 remaining period	$ 13,462
2011	25,424
2012	23,391
2013	19,949
2014	17,206
Thereafter	92,490
Total estimated amortization expense	$ 191,922

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Cadence s market assumptions. These two types of inputs have created the following fair-value hierarchy:

Level 1 Quoted prices for identical instruments in active markets;

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires Cadence to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value. Cadence recognizes transfers between levels of this hierarchy based on the fair values of the respective financial instruments at the end of the reporting period in which the transfer occurred.

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On a quarterly basis, Cadence measures at fair value certain financial assets and liabilities. The fair value of financial assets and liabilities was determined using the following levels of inputs as of July 3, 2010:

	Fair Value Measurements as of July 3, 2010:			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets				
Cash equivalents Money market funds	$ 363,740	$ 363,740	$ ----	$ ----
Available-for-sale securities	2,655	2,655	----	----
Trading securities held in Non-Qualified Deferred Compensation Plan (NQDC)	27,751	27,751	----	----
2015 Notes Hedges	74,282	----	74,282	----
Foreign currency exchange contracts	132	----	132	----
Time deposits	204	204	----	----
Total Assets	$ 468,764	$ 394,350	$ 74,414	$ ----

	Total	Level 1	Level 2	Level 3
	(In thousands)			
Liabilities				
Acquisition-related contingent consideration	$ 897	$ ----	$ ----	$ 897
2015 Notes Embedded Conversion Derivative	74,282	----	74,282	----
Total Liabilities	$ 75,179	$ ----	$ 74,282	$ 897

The 2015 Notes Hedges, foreign currency forward exchange contracts and the 2015 Notes Embedded Conversion Derivative are classified as Level 2 because these assets and liabilities are not actively traded and are valued using standard pricing methodologies that use observable market data for all inputs.

The fair value of these financial assets and liabilities was determined using the following levels of inputs as of January 2, 2010:

	Fair Value Measurements as of January 2, 2010:			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets				
Cash equivalents Money market funds	$ 446,335	$ 446,335	$ ----	$ ----
Available-for-sale securities	1,951	1,951	----	----
Time deposits	233	233	----	----
Trading securities held in NQDC	31,403	31,403	----	----
Total Assets	$ 479,922	$ 479,922	$ ----	$ ----

	Total	Level 1	Level 2	Level 3
	(In thousands)			

Liabilities								
Foreign currency exchange contracts	$	478	$	----	$	478	$	----
Total Liabilities	$	478	$	----	$	478	$	----

Cadence acquired intangible assets of $171.0 million in connection with business combinations during the six months ended July 3, 2010. The fair value of these intangible assets was estimated using Level 3 inputs. See Note 3 for additional details of these business combinations and the key inputs used in the valuations.

Cadence recorded the initial fair value of contingent consideration liabilities in connection with a business combination during the six months ended July 3, 2010. This liability will be measured at fair value at the end of each reporting period. See Note 3 for additional details of this business combination and the key inputs used in the valuation.

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Cadence vacated certain facilities in connection with a restructuring plan and recorded lease losses of $0.5 million during the six months ended July 3, 2010, which are included in Restructuring and other charges (credits) in Cadence s Condensed Consolidated Statement of Operations. The fair value of these lease losses was estimated using Level 2 inputs. See Note 6 for additional details on Cadence s lease loss estimates.

NOTE 6. RESTRUCTURING AND OTHER CHARGES

During the second quarter of fiscal 2009, Cadence initiated a restructuring plan, or the 2009 Restructuring Plan, and during the fourth quarter of fiscal 2009, Cadence determined that it would initiate further actions under the 2009 Restructuring Plan. During fiscal 2008, Cadence initiated a restructuring plan, or the 2008 Restructuring Plan, and Cadence also initiated restructuring plans in each year from 2001 through 2005, which are referred to as the Other Restructuring Plans. Cadence initiated the 2009 Restructuring Plan, 2008 Restructuring Plan, and Other Restructuring Plans, collectively known as the Restructuring Plans, in an effort to operate more efficiently.

As of July 3, 2010, Cadence s total amount accrued for the Restructuring Plans was $8.2 million, consisting of $5.6 million of estimated lease losses and $2.6 million of severance and severance-related benefits. The estimated lease losses will be adjusted in the future based on changes in the assumptions used to estimate the lease losses. The lease losses could be as high as $9.7 million and will be influenced by rental rates and the amount of time it takes to find suitable tenants to sublease the facilities. Of the $8.2 million accrued as of July 3, 2010, $3.6 million was included in Accounts payable and accrued liabilities and $4.6 million was included in Other long-term liabilities on Cadence s Condensed Consolidated Balance Sheet.

Cadence regularly evaluates the adequacy of its lease loss, severance and related benefits accruals, and adjusts the balances based on actual costs incurred or changes in estimates and assumptions. Cadence may incur future charges to reflect actual costs incurred or for changes in estimates related to amounts previously recorded under the Restructuring Plans.

2009 Restructuring Plan

Cadence has recorded total costs associated with the 2009 Restructuring Plan of $33.8 million. These costs include severance payments, severance-related benefits and costs for outplacement services that were communicated to the affected employees before January 2, 2010, and estimated severance payments and related benefits that were both probable and estimable as of January 2, 2010 for employees notified after January 2, 2010.

Cadence recorded a net credit of $0.3 million during the three months ended July 3, 2010, and a net credit of $1.9 million during the six months ended July 3, 2010, due to severance and related benefits costs that were less than previously estimated. Cadence also recorded charges of $0.5 million related to facilities that Cadence vacated during the six months ended July 3, 2010 and $0.1 million for assets related to these vacated facilities.

Total severance and termination benefits of approximately $30.1 million were paid to employees before July 3, 2010. Approximately $2.5 million of severance and termination benefits will be paid after July 3, 2010, all of which is included in Accounts payable and accrued liabilities in Cadence s Condensed Consolidated Balance Sheet as of July 3, 2010. Due to varying regulations in the jurisdictions and countries in which Cadence operates, Cadence expects substantially all termination benefits to be paid by April 3, 2011.

The following table presents activity associated with the 2009 Restructuring Plan for the three months ended July 3, 2010:

	Severance and Benefits	Excess Facilities	Other	Total
		(In thousands)		
Balance, April 3, 2010	$ 4,255	$ 455	$ ----	$ 4,710
Restructuring and other charges (credits), net	(274)	----	----	(274)
Non-cash charges	----	4	----	4
Cash payments	(1,251)	(65)	----	(1,316)
Effect of foreign currency translation	(222)	----	----	(222)
Balance, July 3, 2010	$ 2,508	$ 394	$ ----	$ 2,902

The following table presents activity associated with the 2009 Restructuring Plan for the six months ended July 3, 2010:

	Severance and Benefits	Excess Facilities	Other	Total
		(In thousands)		
Balance, January 2, 2010	$ 18,638	$ ----	$ ----	$ 18,638
Restructuring and other charges (credits), net	(1,853)	455	82	(1,316)
Non-cash charges (credits)	----	4	(82)	(78)
Cash payments	(13,758)	(65)	----	(13,823)
Effect of foreign currency translation	(519)	----	----	(519)
Balance, July 3, 2010	$ 2,508	$ 394	$ ----	$ 2,902

2008 Restructuring Plan

The following table presents activity associated with the 2008 Restructuring Plan for the three months ended July 3, 2010:

	Severance and Benefits	Excess Facilities	Other	Total
		(In thousands)		
Balance, April 3, 2010	$ 254	$ 1,601	$ 5	$ 1,860
Restructuring and other charges (credits), net	(34)	(26)	----	(60)
Non-cash charges	----	26	----	26
Cash payments	(151)	(166)	----	(317)
Effect of foreign currency translation	(12)	(5)	----	(17)
Balance, July 3, 2010	$ 57	$ 1,430	$ 5	$ 1,492

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The following table presents activity associated with the 2008 Restructuring Plan for the six months ended July 3, 2010:

	Severance and Benefits	Excess Facilities	Other	Total
		(In thousands)		
Balance, January 2, 2010	$ 287	$ 1,874	$ 5	$ 2,166
Restructuring and other charges (credits), net	(41)	(26)	(25)	(92)
Non-cash charges	----	39	25	64
Cash payments	(165)	(358)	----	(523)
Effect of foreign currency translation	(24)	(99)	----	(123)
Balance, July 3, 2010	$ 57	$ 1,430	$ 5	$ 1,492

Other Restructuring Plans

The following table presents activity associated with the Other Restructuring Plans for the three months ended July 3, 2010:

	Excess Facilities (In thousands)
Balance, April 3, 2010	$ 4,125
Restructuring and other charges (credits), net	17
Non-cash charges	60
Cash payments	(275)
Effect of foreign currency translation	(133)
Balance, July 3, 2010	$ 3,794

The following table presents activity associated with the Other Restructuring Plans for the six months ended July 3, 2010:

	Excess Facilities (In thousands)
Balance, January 2, 2010	$ 4,648
Restructuring and other charges (credits), net	17
Non-cash charges	116
Cash payments	(586)
Effect of foreign currency translation	(401)
Balance, July 3, 2010	$ 3,794

NOTE 7. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Cadence analyzes the creditworthiness of its customers, historical experience, changes in customer demand, and the overall economic climate in the industries that Cadence serves, makes judgments as to its ability to collect outstanding receivables, and provides allowances for the portion of receivables when collection is not probable. Provisions are made based upon a specific review of customer receivables and are recorded in operating expenses. Receivables and Installment contract receivables are presented net of allowance for doubtful accounts of $11.2 million as of July 3, 2010 and $23.7 million as of January 2, 2010.

Cadence s customers are primarily concentrated within the semiconductor sector, which was adversely affected by the 2008 and 2009 economic downturn. As of July 3, 2010, approximately one-third of Cadence s 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 Cadence s 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.

Cadence believes that its allowance for doubtful accounts is adequate, but Cadence will continue to monitor customer liquidity and other economic conditions, which may result in changes to Cadence s estimates regarding its allowance for doubtful accounts. The adequacy of the allowance for doubtful accounts is evaluated by Cadence at least quarterly, and any adjustments to the allowance for doubtful accounts resulting from these evaluations could be material to Cadence s Condensed Consolidated Financial Statements.

NOTE 8. INCOME TAXES

Because the increase in deferred tax liabilities from the intangible assets acquired with Denali provided a source of taxable income, Cadence released a corresponding amount of its deferred tax asset valuation allowance. The $66.7 million release of the valuation allowance was recognized as a Benefit for income taxes for the three and six months ended July 3, 2010. As a result, Cadence recognized a Benefit for income taxes of $54.5 million during the three months and $49.5 million during the six months ended July 3, 2010.

Internal Revenue Service Examinations

The Internal Revenue Service, or IRS, and other tax authorities regularly examine Cadence s income tax returns. In July 2006, the IRS completed its field examination of Cadence s federal income tax returns for the tax years 2000 through 2002 and issued a Revenue Agent s Report, or 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 be approximately $318.0 million. The IRS is contesting Cadence s 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 Cadence s transfer pricing arrangements with its foreign subsidiaries and to Cadence s deductions for foreign trade income. Cadence has filed a timely protest with the IRS and is seeking resolution of the issues through the Appeals Office of the IRS, or the Appeals Office.

In May 2009, the IRS completed its field examination of Cadence s 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 Cadence s transfer pricing arrangements with its foreign subsidiaries and deductions for foreign trade income. The IRS made similar claims against Cadence s transfer pricing arrangements and deductions for foreign trade income in prior examinations. Cadence has filed a timely protest with the IRS and is seeking resolution of the issues through the Appeals Office.

Cadence believes that the proposed IRS adjustments are inconsistent with applicable tax laws and Cadence is vigorously challenging these proposed adjustments. The RAR is not a final Statutory Notice of Deficiency, but the IRS imposes interest on the proposed deficiencies until the matters are resolved. Interest is compounded daily at rates that are published by the IRS, are adjusted quarterly and have been at an annual rate between 4% and 10% since 2001.

The IRS is currently examining Cadence s federal income tax returns for the tax years 2006 through 2008.

Unrecognized Tax Benefits

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

In March 2010, in a case between Xilinx, Inc. and the IRS, the U.S. Court of Appeals for the Ninth Circuit, or the Ninth Circuit, issued a decision affirming a U.S. Tax Court ruling that stock option compensation does not need to be included in the costs shared under a cost sharing arrangement. While Cadence was not a named party to the case, the Ninth Circuit s decision impacts Cadence s tax position for certain years prior to fiscal 2004. As a result of this decision by the Ninth Circuit, Cadence decreased its liability for unrecognized tax benefits and increased Common stock and capital in excess of par value by approximately $4.2 million during the six months ended July 3, 2010.

During the three months ended July 3, 2010, Cadence s Benefit for income taxes included an increase in unrecognized tax benefits, penalties and interest of $7.4 million and current year interest expense related to unrecognized tax benefits of $2.9 million. Cadence s Benefit for income taxes for the six months ended July 3, 2010 included an increase in unrecognized tax benefits, penalties and interest of $5.5 million and current year interest expense related to unrecognized tax benefits of $6.0 million.

Cadence believes that it is reasonably possible that the total amount of unrecognized tax benefits related to the IRS examination of its federal income tax returns for the tax years 2000 through 2002 could decrease during fiscal 2010 if Cadence is able to effectively settle the disputed issues with the Appeals Office. Cadence believes that the range of reasonably possible outcomes is a decrease in existing unrecognized tax benefits for the tax years 2000 through 2002 of as much as $244.0 million.

Cadence believes that it is reasonably possible that the total amount of unrecognized tax benefits related to the IRS examination of its federal income tax returns for the tax years 2003 through 2005 could decrease during fiscal 2010 if Cadence is able to effectively settle the disputed issues with the Appeals Office. Cadence cannot currently provide an estimate of the range of possible outcomes.

In addition, Cadence believes that it is reasonably possible that the total amounts of unrecognized tax benefits for its transfer pricing arrangements with its foreign subsidiaries could significantly increase or decrease during fiscal 2010 if the Appeals Office develops new settlement guidelines or adjusts its settlement positions that change Cadence s measurement of the tax benefits to be recognized upon effective settlement with the IRS. Because of the uncertain impact of any potential settlement guidelines, Cadence cannot currently provide an estimate of the range of possible outcomes.

The calculation of Cadence s Provision (benefit) for income taxes requires significant judgment and involves dealing with uncertainties in the application of complex tax laws and regulations. In determining the adequacy of the provision (benefit) for income taxes, Cadence regularly assesses 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, Cadence cannot be certain that such amount will not be materially different from the amount that is reflected in its 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, Cadence may be required to record charges to operations in future periods that could have a material impact on its results of operations, financial position or cash flows in the applicable period or periods.

NOTE 9. NET INCOME (LOSS) PER SHARE

Basic and diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding, less unvested restricted stock awards, during the period. None of Cadence s outstanding grants of restricted stock contain nonforfeitable dividend rights. Diluted net income per share is impacted by equity instruments considered to be potential common shares, if dilutive, computed using the treasury stock method of accounting. In periods in which a net loss is recorded, potentially dilutive equity instruments would decrease the loss per share and therefore are not added to the weighted average shares outstanding for the diluted net loss per share calculation.

The calculation for basic and diluted net income (loss) per share 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 thousands, except per share amounts)			
Net income (loss)	$ 48,607	$ (74,357)	$ 36,822	$ (137,614)
Weighted average common shares used to calculate basic net income (loss) per share	262,163	256,883	262,380	255,592
2023 Notes	11	----	11	----
Options	1,482	----	1,275	----
Restricted stock	2,522	----	2,658	----
Employee stock purchase plan (ESPP)	245	----	215	----
Weighted average common shares used to calculate diluted net income (loss) per share	266,423	256,883	266,539	255,592
Basic net income (loss) per share	$ 0.19	$ (0.29)	$ 0.14	$ (0.54)
Diluted net income (loss) per share	$ 0.18	$ (0.29)	$ 0.14	$ (0.54)

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The following table presents the potential shares of Cadence s common stock outstanding for the three and six months ended July 3, 2010 and July 4, 2009 that were not included in the computation of diluted net income (loss) per share because the effect of including these shares would have been anti-dilutive:

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
	(In thousands)			
Options to purchase shares of common stock (various expiration dates through 2020)	22,209	38,606	23,441	38,606
Non-vested shares of restricted stock	2,156	10,540	3,460	10,540
Employee stock purchase plan (ESPP)	----	2,289	----	2,289
2023 Notes	----	11	----	11
Convertible Senior Note Warrants (various expiration dates through 2014)	14,184	23,640	14,184	23,640
2015 Warrants (various expiration dates through 2015)	46,382	----	46,382	----
Total potential common shares excluded	84,931	75,086	87,467	75,086

NOTE 10. ACCUMULATED DEFICIT

The changes in accumulated deficit for the three and six months ended July 3, 2010 were as follows:

	Three Months Ended (In thousands)
Balance as of April 3, 2010	$ (1,224,619)
Net income	48,607
Re-issuance of treasury stock	(39,379)
Balance as of July 3, 2010	$ (1,215,391)

	Six Months Ended (In thousands)
Balance as of January 2, 2010	$ (1,177,983)
Net income	36,822
Re-issuance of treasury stock	(74,230)
Balance as of July 3, 2010	$ (1,215,391)

When treasury stock is reissued 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 reissued 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.

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NOTE 11. STOCK REPURCHASE PROGRAMS

Cadence s Board of Directors has authorized the following programs to repurchase shares of Cadence s common stock in the open market, which remained in effect on July 3, 2010:

Authorization Date	Amount	Remaining Authorization
	(In thousands)	
February 2008	$ 500,000	$ 314,389
August 2008	$ 500,000	500,000
Total remaining authorization		$ 814,389

The shares repurchased under Cadence s stock repurchase programs and the total cost of repurchased shares during the three and six months ended July 3, 2010 and July 4, 2009 were as follows:

	Three and Six Months Ended	
	July 3, 2010	July 4, 2009
	(In thousands)	
Shares repurchased	6,493	----
Total cost of repurchased shares	$ 39,997	$ ----

NOTE 12. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes foreign currency translation gains and losses and unrealized gains and losses on available-for-sale marketable securities, net of related tax effects. These items have been excluded from net income and are reflected instead in Stockholders Equity. Cadence s comprehensive income (loss) 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 thousands)			
Net income (loss)	$ 48,607	$ (74,357)	$ 36,822	$ (137,614)
Foreign currency translation gain (loss), net of related tax effects	(5,117)	3,970	(3,913)	(1,369)
Changes in unrealized holding gains (losses) on available-for-sale securities, net of reclassification adjustment for realized gains and losses, net of related tax effects	(314)	1,825	704	1,626
Other	42	236	98	(36)
Comprehensive income (loss)	$ 43,218	$ (68,326)	$ 33,711	$ (137,393)

NOTE 13. CONTINGENCIES

Legal Proceedings

From time to time, Cadence is involved in various disputes and litigation that arise in the ordinary course of business. These include disputes and lawsuits related to intellectual property, mergers and acquisitions, licensing, contracts, distribution arrangements and employee relations matters. At least quarterly, Cadence reviews the status of each significant matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount or the range of loss can be estimated, Cadence accrues a liability for the estimated loss. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on Cadence s judgments using the best information available at the time. As additional information becomes available, Cadence reassesses the potential liability related to pending claims and litigation matters and may revise its 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 Exchange Act and Rule 10b-5 promulgated thereunder, on behalf of a purported class of purchasers of Cadence s common stock. The first such complaint was filed on October 29, 2008, captioned Hu v. Cadence Design Systems, Inc., Michael J. Fister, William Porter and Kevin S. Palatnik; the second such complaint was filed on November 4, 2008, captioned Vyas v. Cadence Design Systems, Inc., Michael J. Fister, and Kevin S. Palatnik; and the third such complaint was filed on November 21, 2008, captioned Collins v. Cadence Design Systems, Inc., Michael J. Fister, John B. Shoven, Kevin S. Palatnik and William Porter. On March 4, 2009, the District Court entered an order consolidating these three complaints and captioning the consolidated case In re Cadence Design Systems, Inc. Securities Litigation. The District Court also named a lead plaintiff and lead counsel for the consolidated litigation. The lead plaintiff filed its consolidated amended complaint on April 24, 2009, naming Cadence, Michael J. Fister, Kevin S. Palatnik, William Porter and Kevin Bushby as defendants, and alleging violations of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder, on behalf of a purported class of purchasers of Cadence s common stock who traded Cadence s common stock between April 23, 2008 and December 10, 2008, or the Alleged Class Period. The amended complaint alleged that Cadence and the individual defendants made statements during the Alleged Class Period regarding Cadence s financial results that were false and misleading because Cadence had recognized revenue that should have been recognized in subsequent quarters. The amended complaint requested certification of the action as a class action, unspecified damages, interest and costs, and unspecified equitable relief. On June 8, 2009, Cadence and the other defendants filed a motion to dismiss the amended complaint. On September 11, 2009, the District Court held that the plaintiffs had failed to allege a valid claim under the relevant legal standards, and granted the defendants motion to dismiss the amended complaint. The District Court gave the plaintiffs leave to file another amended complaint, and the plaintiffs did so on October 13, 2009. The amended complaint filed on October 13, 2009 names the same defendants, asserts the same causes of action, and seeks the same relief as the earlier amended complaint. Cadence moved to dismiss the October 13, 2009 amended complaint. The District Court denied the motion to dismiss on March 2, 2010. On July 7, 2010, the parties agreed, and the District Court ordered, that the litigation be stayed in order to facilitate a mediation scheduled in late August 2010. If the mediation is unsuccessful and the litigation is not resolved through a negotiated settlement, Cadence plans to continue to vigorously defend these consolidated cases and any other securities lawsuits that may be filed.

During fiscal 2008, two derivative complaints were filed in Santa Clara County Superior Court, or Superior Court. The first was filed on November 20, 2008, and captioned Ury Priel, derivatively on behalf of nominal defendant Cadence Design Systems, Inc. v. John B. Shoven, Lip-Bu Tan, Alberto Sangiovanni-Vincentelli, Donald L. Lucas, Sr., Roger Siboni, George Scalise, Michael J. Fister, and Doe Defendants 1-15. The second was filed on December 1, 2008, and captioned Mark Levine, derivatively on behalf of nominal defendant Cadence Design Systems, Inc. v. John B. Shoven, Lip-Bu Tan, Alberto Sangiovanni-Vincentelli, Donald L. Lucas, Sr., Roger Siboni, George Scalise, Michael J. Fister, John Swainson and Doe Defendants 1-10. These complaints purport to bring suit derivatively, on behalf of Cadence, against certain of Cadence s current and former directors for alleged breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. Many of the allegations underlying these claims are similar or identical to the allegations in the consolidated securities class action lawsuits described above, and the claims also include allegations that the individual defendants approved compensation based on inflated financial results. The plaintiffs request unspecified damages, restitution, equitable relief and their reasonable attorneys fees, experts fees, costs and expenses on behalf of Cadence against the individual defendants. A motion to consolidate these complaints was granted on January 20, 2009, and the cases were captioned In re Cadence Design Systems, Inc. Derivative Litigation. The consolidated cases were then stayed by agreement of the parties. The plaintiffs filed a consolidated amended derivative complaint on June 1, 2010. The consolidated amended derivative complaint names as defendants Cadence (as a nominal defendant), James S. Miller, R.L. Smith McKeithen, John B. Shoven, Lip-Bu Tan, Alberto Sangiovanni-Vincentelli, Donald L. Lucas, Sr., Roger S. Siboni, George Scalise, Michael J. Fister, John A.C. Swainson, Kevin S. Palatnik, William Porter, and Kevin Bushby. The consolidated amended derivative complaint alleges purported causes of action for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment (which is asserted against certain defendants). Many of the factual allegations of the consolidated amended derivative complaint are similar to those alleged in the First Amended Complaint in the securities class action case described above. In addition, the claims include allegations that the director defendants made inappropriate personnel decisions with respect to the former officers and that the former officers were unjustly enriched. The consolidated derivative complaint seeks unspecified monetary damages and equitable relief, disgorgement of profits and compensation, and costs and attorneys fees.

On April 28, 2010, a derivative complaint was filed in the District Court, captioned Walter Hamilton, derivatively on behalf of nominal defendant Cadence Design Systems, Inc. v. Michael J. Fister, William Porter, James S. Miller, Jr., Kevin Bushby, R.L. Smith McKeithen, Lip-Bu Tan, Alberto Sangiovanni-Vincentelli, John B. Shoven, Donald L. Lucas, George M. Scalise, Roger S. Siboni, John A.C. Swainson, and KPMG LLP. This complaint purports to bring suit derivatively, on behalf of Cadence, against certain of Cadence s current and former officers and directors for breach of fiduciary duty, abuse of control, gross mismanagement, and waste of corporate assets, against the former executive defendants for unjust enrichment, and against Cadence s independent auditors for professional negligence and breach of contract. Many of the allegations underlying these claims are similar or identical to the allegations in the consolidated securities class action lawsuits described above. In addition, the claims include allegations that the director defendants made inappropriate personnel decisions with respect to the former officers and that the former officers were unjustly enriched, as well as allegations that Cadence s independent auditors performed allegedly inadequate audits. On June 28, 2010, the plaintiff dismissed Cadence s independent auditors from the case, without prejudice.

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

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

Other Contingencies

Cadence provides its customers with a warranty on sales of hardware products, generally for a 90-day period. To date, Cadence has not incurred any significant costs related to warranty obligations.

Cadence s product license and services agreements typically include a limited indemnification provision for claims from third parties relating to Cadence s intellectual property. If the potential loss from any indemnification claim is considered probable and the amount or the range of loss can be estimated, Cadence accrues a liability for the estimated loss. The indemnification is generally limited to the amount paid by the customer. To date, claims under such indemnification provisions have not been significant.

NOTE 14. STATEMENT OF CASH FLOWS

The supplemental cash flow information for the six months ended July 3, 2010 and July 4, 2009 is as follows:

	Six Months Ended July 3, 2010	Six Months Ended July 4, 2009
	(In thousands)	
Cash Paid During the Period for:		
Interest	$ 3,594	$ 3,594
Income taxes, including foreign withholding tax	$ 7,052	$ 5,989

NOTE 15. OTHER INCOME (EXPENSE), NET

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

	Three Months Ended July 3, 2010	Three Months Ended July 4, 2009	Six Months Ended July 3, 2010	Six Months Ended July 4, 2009
	(In thousands)			
Interest income	$ 302	$ 750	$ 550	$ 1,779
Gains on sale of non-marketable securities	242	----	4,756	----
Gains (losses) on trading securities in the non-qualified deferred compensation trust	1,102	(1,623)	2,179	(7,991)
Gains (losses) on foreign exchange	1,998	(901)	2,190	2,423
Equity losses from investments	(46)	(85)	(73)	(231)
Write-down of investments	(1,500)	(613)	(1,500)	(4,606)
Loss on early extinguishment of debt (Note 2)	(5,321)	----	(5,321)	----
Other income (expense)	123	(61)	93	(56)
Total other income (expense), net	$ (3,100)	$ (2,533)	$ 2,874	$ (8,682)

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

It is Cadence s policy to review the fair value of its investment securities on a regular basis to determine whether its investments in these companies are other-than-temporarily impaired. This evaluation includes, but is not limited to, reviewing each company s cash position, financing needs, earnings or revenue outlook, operational performance, management or ownership changes and competition. If Cadence believes the carrying value of an investment is in excess of its fair value, and this difference is other-than-temporary, it is Cadence s policy to write down the investment to reduce its carrying value to fair value.

Cadence determined that certain of its non-marketable securities were other-than-temporarily impaired and Cadence wrote down the investments by $1.5 million during the three and six months ended July 3, 2010

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and $0.6 million during the three months ended July 4, 2009 and $4.6 million during the six months ended July 4, 2009.

NOTE 16. SEGMENT REPORTING

Segment reporting requires disclosures of certain information regarding reportable segments, products and services, geographic areas of operation and major customers. Segment reporting is based upon the management approach : how management organizes the company s reportable segments for which separate financial information is (i) available and (ii) evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Cadence s chief operating decision maker is its President and Chief Executive Officer, or CEO. Cadence s CEO reviews Cadence s consolidated results as one reportable segment. In making operating decisions, the CEO primarily considers consolidated financial information, accompanied by disaggregated information about revenues by geographic region.

Outside the United States, Cadence markets and supports its products and services primarily through its subsidiaries. Revenue is attributed to geography based on the country in which the product is used or services are delivered. Long-lived assets are attributed to geography based on the country where the assets are located.

The following table presents a summary of revenue by geography**:**

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
	(In thousands)			
Americas:				
United States	$ 94,648	$ 93,935	$ 177,297	$ 175,950
Other Americas	8,352	5,420	13,495	9,971
Total Americas	103,000	99,355	190,792	185,921
Europe, Middle East and Africa:				
Germany	22,706	10,711	36,882	23,195
Other Europe, Middle East and Africa	30,240	33,842	65,278	70,044
Total Europe, Middle East and Africa	52,946	44,553	102,160	93,239
Japan	31,822	36,149	82,875	75,377
Asia	39,296	29,872	73,175	61,694
Total	$ 227,064	$ 209,929	$ 449,002	$ 416,231

As of July 3, 2010, no single customer accounted for 10% or more of Cadence s Receivables, net and Installment contract receivables, net. As of January 2, 2010, one customer accounted for 15% of Cadence s Receivables, net and Installment contract receivables, net.

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The following table presents a summary of long-lived assets by geography:

	As of July 3, 2010	As of January 2, 2010
	(In thousands)	
Americas:		
United States	$ 267,634	$ 282,002
Other Americas	13	25
Total Americas	267,647	282,027
Europe, Middle East and Africa:		
Germany	767	1,060
Other Europe, Middle East and Africa	5,215	5,216
Total Europe, Middle East and Africa	5,982	6,276
Japan	3,953	5,130
Asia	17,491	18,069
Total	$ 295,073	$ 311,502

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included in this Quarterly Report on Form 10-Q, or this Quarterly Report, and in conjunction with our Annual Report on Form 10-K for the fiscal year ended January 2, 2010. Certain of these statements, including, but not limited to, statements regarding the extent and timing of future revenues and expenses and customer demand, statements regarding the deployment of our products, statements regarding our reliance on third parties and other statements using words such as anticipates, believes, could, estimates, expects, forecasts, intends, may, plans, projects, should, will and would, and words of similar import and the negatives thereof, constitute forward-looking statements. These statements are predictions based upon our current expectations about future events. Actual results could vary materially as a result of certain factors, including, but not limited to, those expressed in these statements. We refer you to the Risk Factors, Results of Operations, Disclosures About Market Risk, and Liquidity and Capital Resources sections contained in this Quarterly Report, and the risks discussed in our other Securities Exchange Commission, or SEC, filings, which identify important risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements.

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

Overview

We develop electronic design automation, or EDA, software and hardware. We license software, sell or lease hardware technology, provide maintenance for our software and hardware and provide engineering and education services throughout the world to help manage and accelerate product development processes for electronics. Our customers use our products and services to design and develop complex integrated circuits, or ICs, and electronics systems.

We primarily generate revenue from licensing our EDA software, selling or leasing our hardware technology, providing maintenance for our software and hardware and providing engineering services. Substantially all of our revenue is generated from IC and electronics systems manufacturers and designers and is dependent upon their commencement of new design projects. As a result, our revenue is significantly influenced by our customers business outlook and investment in the introduction of new products and the improvement of existing products.

During 2008 and 2009, the semiconductor industry suffered as the overall macroeconomic environment deteriorated. Electronics companies faced financial challenges in 2008 and 2009 because consumer spending on electronics was adversely affected by increased unemployment, and corporate spending was restrained by the tightened credit market and the economic downturn. During 2009, semiconductor unit volumes decreased and average selling prices declined. These factors affect how electronics companies address traditional challenges of cost, quality, innovation and time-to-market associated with highly complex electronics systems and IC product development. Although estimates project moderate growth for the semiconductor industry in 2010, we believe that increased spending on EDA and other tools may grow more slowly than the semiconductor industry as a whole in 2010.

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Facing uncertainty and cost pressures in their own businesses or otherwise as a result of the overall economic downturn, some of our customers are continuing to wait to purchase our products and to seek purchasing terms and conditions that are less favorable to us, including lower prices and shorter contract duration. As a result of this trend, we have experienced low business levels and net losses in recent years. To enable us to keep our focus on the value of our technology and to assist with customer demands, we are continuing our transition to a license mix that will provide our customers with greater flexibility and will result in a substantial portion of our revenue being recognized ratably.

Our customers may also experience adverse changes in their businesses and, as a result, may delay or default on their payment obligations, file for bankruptcy or modify or cancel plans to license our products. 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. Additionally, our customers may seek to renegotiate existing contractual commitments. Although we have not yet experienced a material level of defaults, any material payment default by our customers or significant reductions in existing contractual commitments could have a material adverse effect on our financial condition and operating results.

Product performance and size specifications of the mobile and other consumer electronics markets are requiring electronic systems to be smaller, consume less power and provide multiple functions in one system-on-chip, or SoC, or system-in-package, or SiP. The design challenge is also becoming more complex with each new generation of electronics because providers of EDA solutions are required to deliver products that address these technical challenges and improve the efficiency and productivity of the design process in a price-conscious environment.

With the addition of emerging nanometer design considerations to the already burgeoning set of traditional design tasks, complex SoC or IC design can no longer be accomplished using a collection of discrete design tools. What previously consisted of sequential design activities must be merged and accomplished nearly simultaneously without time-consuming data translation steps. We combine our design technologies into platforms addressing four major design activities: functional verification, digital IC design, custom IC design and system interconnect design. The four Cadence® design platforms are branded as Incisive® functional verification, Encounter® digital IC design, Virtuoso® custom design and Allegro® system interconnect design. In addition, we augment these offerings with a set of design for manufacturing, or DFM, products that service both the digital and custom IC design flows. These four offerings, together with our DFM products, comprise our primary product lines.

We have identified certain items that management uses as performance indicators to manage our business, including revenue, certain elements of operating expenses and cash flow from operations, and we describe these items further below under the heading Results of Operations and Liquidity and Capital Resources.

Critical Accounting Estimates

In preparing our Condensed Consolidated Financial Statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, operating income (loss) and net income (loss), as well as on the value of certain assets and liabilities on our Condensed Consolidated Balance Sheets. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. At least quarterly, we evaluate our assumptions, judgments and estimates and make changes accordingly. Historically, our assumptions, judgments and estimates relative to our critical accounting estimates have not differed materially from actual results. For further information about our critical accounting estimates, see the discussion under the heading Critical Accounting Estimates in our Annual Report on Form 10-K for the fiscal year ended January 2, 2010.

Our critical accounting estimates for valuation of intangible assets, valuation of goodwill and financial instruments and fair value are described below. These assumptions, judgments and estimates became critical accounting estimates during the six months ended July 3, 2010.

Valuation of Intangible assets

When we acquire businesses, we allocate the purchase price to acquired tangible assets and liabilities and acquired identifiable intangible assets. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires us to make significant estimates in determining the fair values of these acquired assets and assumed liabilities, especially with respect to intangible assets. These estimates are based on information obtained from management of the acquired companies, our assessment of this information, and historical experience. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable, and if different estimates were used, the purchase price for the acquisition could be allocated to the acquired assets and liabilities differently from the allocation that we have made. In addition, unanticipated events and circumstances may occur that may affect the accuracy or validity of such estimates, and if such events occur, we may be required to record a charge against the value ascribed to an acquired asset or an increase in the amounts recorded for assumed liabilities.

We review for impairment long-lived assets, including certain identifiable intangibles, whenever events or changes in circumstances indicate that we will not be able to recover an asset s carrying amount. In addition, we assess our long-lived assets for impairment if they are abandoned.

For long-lived assets to be held and used, including acquired intangibles, we initiate our review whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. Recoverability of an asset is measured by comparing its carrying amount to the expected future undiscounted cash flows expected to result from the use and eventual disposition of that asset, excluding future interest costs that would be recognized as an expense when incurred. Any impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. Significant management judgment is required in:

- Identifying a triggering event that arises from a change in circumstances;
- Forecasting future operating results; and
- Estimating the proceeds from the disposition of long-lived or intangible assets.

In future periods, material impairment charges could be necessary should different conditions prevail or different judgments be made.

Valuation of Goodwill

Costs in excess of the fair value of tangible and other intangible assets acquired and liabilities assumed in a business combination are recorded as goodwill. Goodwill is not amortized, but instead is tested for impairment at least annually. We have evaluated goodwill on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable.

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Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit s carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered to be impaired and a second step is performed to measure the amount of the impairment loss.

The preparation of the goodwill impairment analysis requires management to make significant estimates and assumptions with respect to the determination of fair values of reporting units and tangible and intangible assets. These estimates and assumptions, which include future values, are complex and often subjective and may differ significantly from period to period based on changes in the overall economic environment, changes in our industry and changes in our strategy or our internal forecasts. Estimates and assumptions with respect to the determination of the fair value of our reporting unit include:

- Control premium assigned to our market capitalization;
- Our operating forecasts;
- Revenue growth rates;
- Risk-commensurate discount rates and costs of capital; and
- Market multiples of revenue and earnings.

These estimates and assumptions, along with others, are used to estimate the fair value of our reporting unit as well as tangible and intangible assets. While we believe the estimates and assumptions we used are reasonable, different assumptions may materially impact the resulting fair value of the reporting unit, tangible assets and intangible assets, the amount of impairment we record in any given period and our results of operations.

Financial Instruments and Fair Value

Inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs have created the following fair-value hierarchy:

- Level 1 Quoted prices for identical instruments in active markets;
- Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires us to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value. We recognize transfers between levels of this hierarchy based on the fair values of the respective financial instruments at the end of the reporting period in which the transfer occurred. Changes in fair value are recognized in earnings each period for financial instruments that are carried at fair value.

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency are generally classified within Level 2 of the fair value hierarchy.

In June 2010, we entered into hedge transactions, or the 2015 Notes Hedges, and recorded an embedded conversion derivative, or the 2015 Notes Embedded Conversion Derivative, concurrent with the issuance of the 2015 Notes. The fair values of these derivatives are determined using an option pricing model based on observable inputs, such as implied volatility of our common stock, risk-free interest rate and other factors, and as such are classified within Level 2 of the fair value hierarchy. See Note 2 to our Condensed Consolidated Financial Statements for additional details of these transactions.

Certain instruments are classified within Level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. For those instruments that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, our best estimate is used.

Results of Operations

Financial results for the three and six months ended July 3, 2010, as compared to the three and six months ended July 4, 2009, reflect the following:

- Increased revenue recognized 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, which began in the third quarter of fiscal 2008;

- A decrease in our bad debt expense due to the prior year period increase in our allowance for doubtful accounts as a result of our assessment of the increased risk of customer delays or defaults on payment obligations and the current year release of a portion of the reserve as a result of collections on certain receivables that were previously included in our allowance for doubtful accounts;

- Decreased costs throughout the company as a result of our restructuring plans and other expense reductions;

- The acquisition of Denali Software, Inc., or Denali, including an increase in deferred tax liabilities from the intangible assets acquired with Denali and the resulting benefit for income taxes because of the release of valuation allowance against our deferred tax assets; and

- The issuance of $350.0 million principal amount of our 2.625% Cash Convertible Senior Notes Due 2015, or the 2015 Notes, and the repurchase of $100.0 million principal amount of our 1.375% Convertible Senior Notes Due December 15, 2011, or the 2011 Notes, and $100.0 million principal amount of our 1.500% Convertible Senior Notes Due December 15, 2013, or the 2013 Notes, and collectively with the 2011 Notes, the Convertible Senior Notes.

Acquisition of Denali

In June 2010, we acquired Denali, a privately-held provider of electronic design automation software and intellectual property used in system-on-chip design and verification, for $296.8 million in cash. An additional $12.6 million of payments have been deferred and will be paid in cash if certain Denali shareholders remain employees of Cadence during the periods specified in the respective agreements. These amounts will be expensed in our Condensed Consolidated Statements of Operations over the stated retention periods. Denali s product portfolio includes memory models, design IP and verification IP. We acquired Denali to expand our solution portfolio to provide system component modeling and IP integration. We expect that the acquisition of Denali will increase our costs more than our expected increase in revenue during the remainder of 2010.

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Revenue

We primarily generate revenue from licensing our EDA software, selling or leasing our hardware technology, providing maintenance for our software and hardware and providing engineering services. We principally use three license types: subscription, term and perpetual. The different license types provide a customer with different conditions of use for our products, such as:

- The right to access new technology;
- The duration of the license; and
- Payment timing.

The timing of our product revenue is significantly affected by the mix of orders executed in any given period. For some orders, such as subscription orders, product and maintenance revenue is recognized ratably over multiple periods. In addition, depending on the individual facts and circumstances of a particular order, we have some orders for which product and maintenance revenue is recognized as payments become due and some for which revenue is only recognized when payment is received. For other orders, all product revenue is recognized up-front in the same quarter in which the order is executed.

We seek to achieve a mix of orders with approximately 90% of the total value of all executed orders consisting of orders for which the revenue is recurring, or ratable in nature, with the balance of the orders made up of orders for which the product revenue is recognized up-front. During the three and six months ended July 3, 2010 and the three and six months ended July 4, 2009, approximately 90% of the total value of our executed orders was comprised of ratable revenue orders.

Customer decisions regarding these aspects of license transactions determine the license type, timing of revenue recognition and potential future business activity. For example, if a customer chooses a fixed duration of use, this will result in either a subscription or term license. A business implication of this decision is that, at the expiration of the license period, the customer must decide whether to continue using the technology and therefore renew the license agreement. Historically, larger customers generally used products from two or more of our five product groups and rarely completely terminated their relationship with us upon expiration of the license. See the discussion under the heading Critical Accounting Estimates Revenue Recognition in our Annual Report on Form 10-K for additional descriptions of license types and timing of revenue recognition.

Although we believe that pricing volatility has not generally been a material component of the change in our revenue from period to period, we believe that the amount of revenue recognized in future periods will depend on, among other things, the:

- Competitiveness of our new technology;
- Timing of contract renewals with existing customers;
- Length of our sales cycle; and
- Size, duration, terms and type of:
  - Contract renewals with existing customers;
  - Additional sales to existing customers; and
  - Sales to new customers.

The value and duration of contracts, and consequently product revenue recognized, is affected by the competitiveness of our products. Product revenue recognized in any period is also affected by the extent to which customers purchase subscription, term or perpetual licenses, and the extent to which contracts contain flexible payment terms.

Revenue Mix

We analyze our software and hardware businesses by product group, combining revenues for both product and maintenance because of their interrelationship. We have formulated a design solution strategy that combines our design technologies in platforms, as described in the various product groups below.

Functional Verification: Products in this group, including the Incisive functional verification platform, are used to verify that the high level, logical representation of an IC design is functionally correct.

Digital IC Design: Products in this group, including the Encounter digital IC design platform, are used to accurately convert the high-level, logical representation of a digital IC into a detailed physical blueprint and then detailed design information showing how the IC will be physically implemented. This data is used for creation of the photomasks used to manufacture semiconductors.

Custom IC Design: Our custom design products, including the Virtuoso custom design platform, are used for ICs that must be designed at the transistor level, including analog, RF, memory, high performance digital blocks and standard cell libraries. Detailed design information showing how an IC will be physically implemented is used for creation of the photomasks used to manufacture semiconductors.

System Interconnect Design: This product group consists of our PCB and IC package design products, including the Allegro and OrCAD® products. The Allegro system interconnect design platform enables consistent co-design of interconnects across ICs, IC packages and PCBs, while the OrCAD line focuses on cost-effective, entry-level PCB solutions.

Design for Manufacturing: Included in this product group are our physical verification and analysis products. These products are used to analyze and verify that the physical blueprint of the IC has been constructed correctly and can be manufactured successfully. Our strategy includes focusing on integrating DFM awareness into our core design platforms of Encounter digital IC design and Virtuoso custom design.

Revenue by Period

The following table shows our revenue for the three and six months ended July 3, 2010 and July 4, 2009 and the change in revenue between periods:

	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)

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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.

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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.

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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

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