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MENTOR CORP /MN/
Form 10-Q
February 13, 2001

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarterly Period December 31, 2000
Commission File Number 0-7955

Mentor Corporation
(Exact name of registrant as specified in its charter)

Minnesota 41-0950791
(State of Incorporation) (I.R.S. Employer Identification Number)

201 Mentor Drive, Santa Barbara, California 93111
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number: (805) 879-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The number of shares outstanding for each of the Issuer's classes of common stock as of February 12, 2001 was:

Common stock, \$.10 par value 23,675,768 shares

Mentor Corporation
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Mentor Corporation
Condensed Consolidated Statements of Financial Position
December 31, 2000 and March 31, 2000
(Unaudited)

(dollars in thousands)	December 31, 2000	March 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 51,526	\$ 24,313
Marketable securities	20,607	52,563
Accounts receivable, net	38,079	45,310
Inventories	37,257	34,441

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Deferred income taxes	7,552	5,739
Prepaid expenses and other	4,459	6,096
Total current assets	159,480	168,462
Property and equipment, net	35,421	36,522
Intangibles, net	13,588	4,008
Goodwill, net	4,537	4,394
Long-term marketable securities and investments	6,379	12,848
Other assets	4,299	4,472
	64,224	62,244
Total assets	\$ 223,704	\$ 230,706

See Notes to Condensed Consolidated Financial Statements

Mentor Corporation
Condensed Consolidated Statements of Financial Position
December 31, 2000 and March 31, 2000
(Unaudited)

(dollars in thousands)	December 31, 2000	March 31, 2000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,386	\$ 10,342
Accrued compensation	6,380	8,972
Income taxes payable	1,574	3,868
Dividends payable	583	608
Sales returns	5,661	6,401
Warranty and related reserves	10,587	6,563
Accrued royalties	1,116	1,600
Other accrued liabilities	6,324	5,967
Total current liabilities	39,611	44,321
Deferred income taxes	1,831	2,743
Shareholders' equity:		
Common stock, \$.10 par value:		
Authorized 50,000,000 shares		
Issued and outstanding:		
23,317,915 shares at		
December 31, 2000		
24,208,834 shares at		
March 31, 2000		
	2,332	2,421
Capital in excess of par value	2,174	9,876
Foreign currency translation adjustments	(3,930)	(2,694)
Net unrealized gains on securities	924	5,017
Retained earnings	180,762	169,022
	182,262	183,642
Total liabilities and shareholders' Equity	\$ 223,704	\$ 230,706

See Notes to Condensed Consolidated Financial Statements

Mentor Corporation

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Consolidated Statements of Income Three Months Ended December 31, 2000 and 1999 (Unaudited)

(in thousands, except per share data)	2000	1999
Net sales	\$ 60,978	\$ 60,587
Costs and expenses:		
Cost of sales	22,530	23,143
Selling, general and administrative, exclusive of restructuring charge	22,760	23,946
Research and development	4,609	3,902
Restructuring charge	1,350	-
	51,249	50,991
Operating income	9,729	9,596
Interest expense	(10)	(3)
Interest income	1,044	1,017
Other income, net	(213)	131
Income from continuing operations before income taxes	10,550	10,741
Income taxes	3,372	3,468
Income from continuing operations	7,178	7,273
Income from discontinued operations, net of taxes	-	571
Net income	\$ 7,178	\$ 7,844
Basic earnings per share:		
Continuing operations	\$.31	\$.30
Discontinued operations	-	.02
Basic earnings per share	\$.31	\$.32
Diluted earnings per share:		
Continuing operations	\$.30	\$.29
Discontinued operations	-	.02
Diluted earnings per share	\$.30	\$.31

See notes to consolidated financial statements

Mentor Corporation Consolidated Statements of Income Nine Months Ended December 31, 2000 and 1999 (Unaudited)

(in thousands, except per share data)	2000	1999
Net sales	\$ 188,112	\$ 178,733
Costs and expenses:		
Cost of sales	70,738	66,574
Selling, general and administrative, exclusive of restructuring charge	73,086	72,371
Research and development	13,795	11,936
Restructuring charge	2,400	-
	160,019	150,881
Operating income	28,093	27,852

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Interest expense	(96)	(32)
Interest income	3,282	1,999
Other income, net	620	(31)
Income from continuing operations before income taxes	31,899	29,788
Income taxes	10,365	9,527
Income from continuing operations	21,534	20,261
Income from discontinued operations, net of taxes	-	7,797
Net income	\$ 21,534	\$ 28,058
Basic earnings per share:		
Continuing operations	\$.91	\$.83
Discontinued operations	-	.32
Basic earnings per share	\$.91	\$ 1.15
Diluted earnings per share:		
Continuing operations	\$.89	\$.81
Discontinued operations	-	.31
Diluted earnings per share	\$.89	\$ 1.12

See notes to consolidated financial statements

Mentor Corporation
Condensed Consolidated Statements of Cash Flows
Nine Months Ended December 31, 2000 and 1999
(Unaudited)

(in thousands)	2000	1999
Net cash provided by continuing operating activities	\$ 29,150	\$ 24,714
Net cash used in discontinued operating activities	-	(6,925)
Net cash provided by operating activities	29,150	17,789
Cash from Investing Activities:		
Purchases of property, equipment, and intangibles	(6,634)	(7,807)
Purchases and sales of marketable securities, net	33,225	(50,738)
Other, net	172	(21)
Net cash provided by (used for) continuing investing activities	26,763	(58,566)
Net cash provided by discontinued investing activities	-	59,392
Net cash provided by investing activities	26,763	826
Cash from Financing Activities:		
Proceeds from exercise of stock Options	1,166	3,501
Dividends paid	(1,797)	(1,833)
Borrowings under line of credit agreement	6,000	-
Repayments under line of credit agreement	(6,000)	(4,000)
Repurchase of common stock	(28,069)	(10,227)
Net cash used for financing activities	(28,700)	(12,559)

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Increase in cash and cash equivalents	27,213	6,056
Cash and cash equivalents at beginning of period	24,313	19,533
Cash and cash equivalents at end of period	\$ 51,526	\$ 25,589

See notes to consolidated financial statements

Mentor Corporation
Notes to Condensed Consolidated Financial Statements
December 31, 2000

Note A - Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended December 31, 2000 are not necessarily indicative of the results that may be expected for the year ended March 31, 2001.

The balance sheet at March 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2000.

Note B - Inventories

Inventories at December 31, 2000 and March 31, 2000 consisted of:

(in thousands)	Dec 31,	March 31,
Raw materials	\$ 6,053	\$ 5,880
Work in process	7,040	7,068
Finished goods	24,164	21,493
	\$ 37,257	\$ 34,441

Note C - Long-Term Marketable Securities

The Company's long-term marketable securities and investments include the Company's equity investments in its partners, Intracel Corporation and North American Scientific, Inc. (NASI) and shares of Paradigm Medical Industries, Inc. (Paradigm) received in connection with the sale of assets of discontinued operations. Intracel Corporation is developing a new potential treatment for bladder cancer. The Intracel Corporation investment is carried at \$3 million adjusted cost as quoted market prices are not available. Also included is a equity interest in NASI, the Company's manufacturing partner under an exclusive agreement for the distribution of brachytherapy seeds for the treatment of

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prostate cancer, and an equity interest in Paradigm. These investments are recorded at fair market value of \$3,378,000, (cost of \$1,956,000) and \$9,840,000 (cost of \$2,122,000) based upon quoted stock market prices at December 31, 2000 and March 31, 2000, respectively. The unrealized gain of \$924,000 and \$5,017,000, net of taxes of \$498,000 and \$2,701,000, at December 31, and March 31, 2000, respectively, is reported as a separate component of shareholders' equity. The Company sold a portion of its NASI securities and realized a gain of \$1,098,000 during the first six months of fiscal 2001. The gain was reflected in other income, net.

Note D - Comprehensive Income

The components of comprehensive income are listed below:

(in thousands)	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2000	1999	2000	1999
Net income	\$ 7,178	\$ 7,844	\$21,534	\$28,058
Foreign currency translation adjustment	(12)	(738)	(1,236)	(977)
Unrealized gains (losses) on investment activities	(2,493)	1,538	(4,093)	2,072
Comprehensive income	\$ 4,673	\$ 8,644	\$16,205	\$29,153

Note E - Business Segment Information

The Company's operations are principally managed on a functional basis and reported on a product or geographic basis. As a result there are four reportable segments: Aesthetic and General Surgery, Surgical Urology, Clinical and Consumer Healthcare products, and International.

The Aesthetic and General Surgery products segment consists primarily of breast implants, tissue expanders and the Company's Contour Genesis Ultrasonic equipment product line along with equipment and disposables for traditional liposuction. The Surgical Urology segment includes penile implants, surgical incontinence products and brachytherapy seeds for the treatment of prostate cancer. The Clinical and Consumer Healthcare segment includes catheters and other products for the management of urinary incontinence and retention. The International segment includes the operations of the Company's wholly owned international sales offices, which cover most of the Company's implantable product lines, and a small European manufacturing and distribution facility. Segment revenues include domestic sales, sales to independent foreign distributors and sales to the Company's direct international sales offices.

Selected financial information for the Company's reportable segments for the quarter ended December 31, 2000 and 1999 follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2000	1999	2000	1999
Revenues				
Aesthetic and General Surgery	\$ 32,568	\$ 31,056	\$ 99,217	\$ 93,872
Surgical Urology	12,772	13,216	39,793	36,222
Clinical and Consumer				

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Healthcare	11,174	11,173	34,050	33,166
International	9,375	9,335	30,256	29,086
Total reportable Segments	65,889	64,780	203,316	192,346
Elimination of inter-Segment revenues	(4,911)	(4,193)	(15,204)	(13,613)
Total consolidated Revenues	\$ 60,978	\$ 60,587	\$188,112	\$178,733

	Three Months Ended December 31,		Nine Months Ended December 31,	
(in thousands)	2000	1999	2000	1999
Operating profit (loss) From continuing Operations Aesthetic and General Surgery	\$ 8,883	\$ 7,264	\$ 24,329	\$ 24,737
Surgical Urology	1,377	2,427	4,869	4,990
Clinical and Consumer Healthcare	1,884	2,215	5,654	6,042
International	1,064	1,420	4,316	4,868
Total reportable Segments	13,208	13,326	39,168	40,637
Corporate operating expenses	(3,478)	(3,730)	(11,074)	(12,785)
Interest expense	(11)	(3)	(97)	(32)
Interest income	1,044	1,017	3,282	1,999
Other income (loss)	(213)	131	620	(31)
Income from continuing operations before taxes	\$ 10,550	\$ 10,741	\$ 31,899	\$ 29,788

(in thousands)	December 31, 2000	March 31, 2000
Identifiable assets		
Aesthetic and General Surgery	\$ 62,382	\$ 56,583
Surgical Urology	23,284	23,429
Clinical and Consumer Healthcare	21,857	26,714
International	25,753	24,627
Total reportable segments	133,276	131,353
Corporate and other	90,427	99,353
Consolidated assets	\$ 223,703	\$ 230,706

Note F - Discontinued Operations

In May 1999, the Company announced that its Board of Directors had decided to divest the ophthalmology business, which accounted for approximately 16% of sales in fiscal 1999. Consistent with the plan to dispose of its ophthalmic business segment, the net assets and operations of the ophthalmic segment of the business, comprised of the intraocular lens products and ophthalmic equipment lines, have been classified as discontinued operations.

A summary of the results of operations for discontinued operations for the three-month and nine-month periods ended December 31, 1999 follows:

(in thousands)	Three Months Ended December 31, 1999	Nine Months Ended December 31, 1999
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Revenues	\$	152	\$	14,114
Income (loss) before income taxes	\$	(735)	\$	367
Income tax (benefit) expense		(235)		1,115
Net (loss) from discontinued Operations		(500)		(748)
Gain from disposal, net of taxes of \$5,107 and \$8,933		1,071		8,545
Income from discontinued Operations, net of taxes	\$	571	\$	7,797

During the quarter ended June 30, 1999, the Company completed the sale of the assets of the intraocular lens business, for cash consideration of \$38.4 million. On October 4, 1999 the Company completed the sale of the remaining assets of the Ophthalmic equipment business for cash consideration of \$21 million. The Company recorded an after tax a gain of approximately \$1.1 million from this transaction in the third quarter.

At December 31, 2000 and March 31, 2000, remaining assets and liabilities related to discontinued operations were not significant.

Note G - Earnings per Share

A reconciliation of weighted average shares outstanding, used to calculate basic earnings per share, to weighted average shares outstanding assuming dilution, used to calculate diluted earnings per share, follows:

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2000	1999	2000	1999
Average outstanding shares:				
Basic	23,319	24,357	23,632	24,419
Shares issuable through				
Options	404	740	547	677
Average common shares				
Outstanding: Diluted	23,723	25,097	24,179	25,096

Certain Employee stock options have been excluded from the computation of diluted earnings per share because their effective would be anti-dilutive.

Note H - Interim Reporting

The Company's three quarterly interim reporting periods are each approximately thirteen-week periods ending on the Friday nearest the end of the third calendar month. The fiscal year end remains March 31. To facilitate ease of presentation, each interim period is shown as if it ended on the last day of the appropriate calendar month. The actual dates for each quarter end are shown below:

	Fiscal 2001	Fiscal 2000
First Quarter	June 30, 2000	July 2, 1999
Second Quarter	September 29, 2000	October 1, 1999
Third Quarter	December 29, 2000	December 31, 1999

Note I - Effects of Recent Accounting Pronouncements

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In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" or SAB 101. SAB 101 summarizes certain of the SEC Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. In addition, the Financial Accounting Standards Board, (FASB) Emerging Issue Task Force, (EITF) issued EITF 00-10: "Accounting for Shipping and Handling Fees and Costs." The Company has evaluated the combined effect that these pronouncements will have on its revenue recognition policies. Net income will not be effected; however, both Revenue and Cost of goods sold will be increased by equal amounts. The changes will amount to less than 1% of revenue in any period presented. The Company will adopt the provisions of these two pronouncements in the fourth quarter ending March 31, 2001.

Note J - Acquisition of Intangible assets

Certain technologies related to the manufacture of mammary prostheses were developed under a 1983 agreement with a limited partnership whereby the limited partners contributed money towards the development of the technology in exchange for payments based upon a percentage of future sales of the products utilizing the technology.

During the first quarter ended June 30, 2000 the Company exercised its option under the Agreement of Purchase and Sale between Mentor Corporation and the Partnership, as amended, to make a lump sum payment to the Limited Partners in lieu of all future payments and rights. The Limited Partners could elect to be paid in cash, the Company's common stock, or a combination of cash and common stock. This transaction was completed in the second quarter ended September 30, 2000. The limited partners elected to be paid \$1.0 million in cash and 434 thousand shares of the Company's common stock, the transfer of which is restricted under rule 144. The shares were valued at the fair market value on the date of issuance, of approximately \$9 million. Accordingly, the purchased partnership rights were recorded as \$10.1 million, cost, as an intangible asset and will be amortized over their estimated economic life.

Note K - Restructuring charge

In September 2000, Mentor initiated a restructuring plan as part of a strategic initiative to streamline operations and improve the efficiency of the Company. Early in October, staff reductions at the Corporate headquarters were announced and costs were estimated to total \$1.8 million. The plan was later expanded to include employee reductions at the two manufacturing plants. The total plan includes a reduction in workforce of approximately 70 employees and changes in internal organization structure. Employees effected by the restructuring were provided with a severance package, outplacement counseling and extended benefits totaling approximately \$2.4 million. The Company recorded \$1.05 million of the restructuring charge in the quarter ended September 30, 2000 and the remaining \$1.35 million in the quarter ending December 31, 2000. Approximately \$2.2 million of the total amount of \$2.4 million was paid in the third quarter.

Note L - Events Subsequent to December 31, 2000

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On January 22, 2001, the Company announced the acquisition of South Bay Medical, a privately held Minneapolis based medical device company. South Bay developed a computer workstation and automated cartridge-based needle loading system used in brachytherapy procedures for the treatment of prostate cancer. The Company paid \$2 million in cash and \$4 million in restricted common stock at closing. Additional cash and restricted common stock will be paid based upon achievement of milestones and other performance factors. The acquisition will be recorded as a purchase in the fourth quarter ending March 31, 2001.

On February 9, 2001, the Company announced the acquisition of Porges S.A., a subsidiary of Sanofi-Synthelabo. Porges is a manufacturer of urological products with headquarters in Paris, dedicated manufacturing facilities in Sarlat, France and eight wholly owned sales subsidiaries covering most European markets and Japan. Porges had sales last year of approximately \$42 million. The acquisition was financed from the Company's existing cash and by a \$14-million draw down on the Company's line of credit. The acquisition will be recorded as a purchase in the fourth quarter.

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

Except for the historical information contained herein, the matters discussed in this Management's Discussion contain certain forward-looking statements that involve risk and uncertainty. Such forward-looking statements are characterized by future or conditional verbs and include statements regarding new and existing products, technologies and opportunities, market and industry segment growth and demand and acceptance of new and existing products. Such statements are only predictions and our actual results may differ materially from those anticipated in these forward-looking statements. Factors that may cause such differences include, but are not limited to, increased competition, changes in product demand, changes in market acceptance, new product development, obtaining FDA approval of new and existing products, changes in government regulation, supply of raw materials, changes in reimbursement practices, adverse results of litigation and other risks identified in this Form 10-Q or in other documents filed by the Company with the Securities and Exchange Commission. Specific attention should be directed to the sections entitled "Government Regulation", "Product Liability", and "Factors that May Effect Future Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2000. The Company assumes no obligation to update forward-looking statements as circumstances change.

In May 1999, the Company announced that its Board of Directors decided to divest the ophthalmology business, which accounted for approximately 16% of sales in fiscal 1999. The Company completed the sale of the assets of the intraocular lens portion of the ophthalmology business in the quarter ended June 30, 1999. In the quarter ended December 31, 1999, the Company completed the sale of the remaining assets of the Ophthalmology business, primarily the equipment product lines. Accordingly, the Company accounts for the ophthalmic business as a "Discontinued Operations" in accordance with Generally Accepted Accounting

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Principles. Accordingly, results of operations of the ophthalmic business are reported, on a net basis, as a single line on the financials. All prior period amounts in this Form 10-Q have been presented to exclude the operating results of the ophthalmic business as discontinued operations.

RESULTS OF OPERATIONS

Sales

Sales for the three months ended December 31, 2000 were \$61 million compared to \$60.6 million for the same quarter of the prior year. Sales were negatively effected by the continued strength of the U.S. dollar versus other currencies and the general slowdown in the economy. Sales growth in key product lines was offset by weaknesses in other product lines.

Aesthetic surgery sales in the U.S. domestic market grew by 7% over the prior year, but international sales declined by 4%. In the domestic breast implant market, the strongest segment was reconstruction, with sales growth of 9% over last year. The cosmetic augmentation market grew by 2% and sales of body contouring (liposuction) products declined by 3% for the quarter resulting in overall sales of \$36.6 million for aesthetic and general surgery products, an increase of 5% over third quarter last year.

Sales of surgical urology products totaled \$12.8 million for the quarter a decrease of 6% from the same quarter in the prior year. Sales of our Suspend sling implant for incontinence decreased 12% compared to a particularly strong quarter in the previous year, and had sequential quarter growth of 9%. Brachytherapy product sales decreased by 3%, and penile implant sales decreased by 4% from a year ago.

The clinical and consumer healthcare product line, consisting of urological catheters and other disposables, sales totaled \$11.5 million, a decline of 3% compared to third quarter last year. Domestic sales increased 4% over the prior year but were offset by a sharp decline in international sales.

For the nine months ended December 31, 2000 sales increased 5% from \$179 million to \$188 million. Surgical Urology product revenue increased 8% primarily due to strong growth in brachytherapy seeds and Suspend Sling. Aesthetic and General surgery products increased 6% reflecting 7% growth in mammary implant revenues and a 8% decrease in body contouring revenues. Clinical and Consumer Healthcare sales for the nine-month year-to-date period are consistent with last year, and sales for the fiscal year are expected to show a slight gain.

Sales growth in the quarter ending March 31, 2000 was particularly strong primarily due to the Company's direct-to-consumer campaign in the Aesthetic segment. Sales growth for the comparable quarter ending March 31, 2001 is expected to be consistent with the growth reported in the third quarter.

Sales by Principal Product Line					
For the Three Months Ended			For the Nine Months Ended		
December 31,			December 31,		
		Percent			Percent
2000	1999	Change	2000	1999	Change

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Aesthetic &						
General Surgery						
Products	\$36,617	\$34,955	4.8%	\$112,845	\$106,183	6.3%
Surgical Urology						
Products	12,844	13,733	(6.5%)	40,399	37,481	7.8%
Clinical &						
Consumer						
Healthcare						
Products	11,517	11,899	(3.2%)	34,868	35,069	(0.6%)
	\$60,978	\$60,587	0.6%	\$188,112	\$178,733	5.2%

Cost of Sales

Cost of sales as a percent of net sales for the quarter and nine-month period ended December 31, 2000 were 36.9% and 37.6%, respectively compared to 38.2% and 37.2% for the same periods a year ago. The change was primarily attributable to manufacturing efficiencies, and a shift in the Company's product mix towards higher margin Aesthetic Products combined with a decrease in lower margin international sales during the quarter. This reverses a recent trend towards lower margins attributable the increased percentage of total sales represented by two products (brachytherapy seeds and the Suspendr Sling) which are distributed by the Company under alliance agreements. These alliance products generate gross margins of approximately 50%, which is lower than the margin generated by products that are both manufactured and distributed by the Company. In addition, gross margins were negatively impacted by the strength of the dollar in our European markets during the recent quarter.

The Company's anticipates that future sales of these alliance products will grow more rapidly than the higher margin products manufactured by Mentor. Consequently, despite improved manufacturing efficiencies, gross margins are not expected to continue their recent trend of improvements due to the change in product mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, exclusive of the restructuring charge, were 37.3% of sales in the quarter compared to 39.5% in the comparable period in the previous year. For the nine months ended December 31, 2000 selling, general and administrative expenses decreased to 38.9% of sales from 40.5%. The decrease reflects lower spending on the Company's direct-to-consumer advertising campaign partially offset by increases in product liability reserves and information technology costs. In addition, cost savings from the Company's recent restructuring contributed to the improvement in the third quarter and the nine months ended December 31, 2000.

The Company announced a reduction in corporate staff at its headquarters in Santa Barbara as part of a restructuring move to streamline operations and improve efficiency. Employees affected by the restructuring were provided with a severance package, outplacement counseling and extended benefits to help with the transition. This program resulted in a restructuring charge of approximately \$2.4 million of which \$1.05 million was recorded in the second quarter and \$1.35 million in the third quarter.

Research and Development

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Research and development expenses as a percent of net sales for the quarter and nine-month period ended December 31, 2000 were 7.6% and 7.3%, respectively compared to 6.4% and 6.7% for the same periods a year ago. The increases are attributable to spending on the Company's ongoing clinical studies related to silicon gel mammary implants. In May 2000, the Company received FDA approval for saline-filled breast implants and in July received similar regulatory clearance on our inflatable penile implants. Although the Company has successfully completed these PMAA submissions, the amount of spending on research and development is not expected to decrease as the focus of research and development efforts will shift towards new product development. In addition, the Company is committed to a variety of clinical and laboratory studies in connection with its ultrasonic liposuction equipment, gel-filled mammary implants and other products.

The Company has an investment in Intracel Corporation, its partner for a potential bladder cancer treatment. The Intracel agreement required the Company to pay \$1 million per year for three years to defray the costs of the clinical trials for the product. The Company previously paid \$2 million to Intracel for the clinical trials under this agreement. In June 2000, the agreement was modified to increase Mentor's commitment by \$1 million. The Company began paying the remaining \$2 million in quarterly payments of \$250 thousand on July 1, 2000.

Interest and Other Income and Expense

Interest expense was \$10 thousand in the quarter compared to \$3 thousand in the same quarter of the previous year. During the quarter ended June 30, the Company borrowed under its line of credit to fund its stock repurchase program. The borrowings were repaid during the same quarter.

Interest income for the three months ended December 31, 2000 increased slightly above the \$1.0 million reported for the comparable period in the previous year. Slightly higher coupon rates and an increased usage of fully taxable investments offset somewhat lower levels of cash and marketable securities in the current year as compared to the same period last year.

Other income and expense, primarily includes realized gains on sales of marketable securities recorded as long-term marketable securities available for sale, gains or losses on disposals of assets, and foreign currency gains or losses related to the Company's foreign operations. The Company did not have any sales of marketable securities during the quarter ended December 31 2000 and recorded a gain on sales of marketable securities of \$1,098,000 for the nine months ended December 31, 2000.

Income Taxes

The effective rate of corporate income taxes for the year is approximately 32.5%, as compared to 31.8% in the same period a year ago. The increase in the effective rate is the net effect of several offsetting items and relates primarily to non-deductible expenses, foreign operations, and utilization of research and development credits.

Income from Continuing Operations

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Income from continuing operations decreased slightly from \$7.3 million reported in the previous year to \$7.2 million for the third quarter of fiscal 2001. Income from continuing operations for the nine-month period ended December 31, 2000 was \$21.5 million compared to \$20.3 million for the comparable period the prior year and an increase of 6%. The operating income of fiscal 2001 includes the restructuring charge of \$2.4 million described above. Diluted earnings per share from continuing operations were \$0.30 for the quarter compared to \$0.29 for the comparable period last year, an increase of 3%. Although the increase in diluted earnings per share from continuing operations is consistent with the increase in sales, the restructuring charge offset improvements in operating trends and other efficiencies as well as the effect of fewer shares outstanding as a result of the share buyback program.

Discontinued Operations

In May 1999, the Company announced that its Board of Directors decided to divest the ophthalmology business, which accounted for approximately 16% of sales in fiscal 1999. The Company completed the sale of the assets of the intraocular lens portion of the ophthalmology business in the quarter ended June 30, 1999. Accordingly, the Company accounts for the ophthalmic business as a "Discontinued Operations" in accordance with Generally Accepted Accounting Principles.

For the quarter ended December 31, 1999 the Company had net income from discontinued operations of \$571 thousand, net of tax. The results of discontinued operations for the quarter ended December 31, 1999 included a \$1.1 million gain, net of tax from the sale of the Ophthalmic equipment business for cash consideration of \$21 million and a net loss from operations of approximately \$.5 million. During the quarter ended June 30, 1999, the Company completed the sale of the assets of the intraocular lens business, recording a gain of \$7.5 million, net of tax. By March 31, 2000 the Company had completed its divestiture of discontinued operations, accordingly there were no significant remaining assets or liabilities related to the Ophthalmic division. There were no discontinued operations during the quarter ended December 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2000, the Company's working capital was \$120 million compared to \$124 million at March 31, 2000. The Company's working capital needs were provided from operations.

The Company generated \$29 million of cash from continuing operations during the nine months ended December 31, 2000, compared to \$25 million the previous year.

The Company anticipates investing approximately \$6 million in facilities and capital equipment in fiscal 2001. The majority of the expenditures will be for facility upgrades at the Company's facilities in the Netherlands and Texas, as well as for enhancing the Company's information technology capabilities.

The Company has a line of credit for \$25 million. In order to temporarily fund stock repurchases in fiscal 2001, the Company borrowed and repaid \$6 million on its line of credit during the quarter ended June 30, 2000.

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The Company's Board of Directors has authorized an ongoing stock repurchase program. The objectives of the program, among other items, are to offset the issuance of stock options, provide liquidity to the market and to reduce the overall number of shares outstanding. Repurchases are subject to market conditions and cash availability. In May 1999, the Board increased the repurchase authorization by 4 million shares to 4.6 million shares. The Company intends to continue the share repurchase program in fiscal 2001, and repurchased 1,493 thousand shares for \$28.1 million during the first three quarters. As of September 30, 2000 authorization to repurchase 2.3 million shares was remaining.

For the last several years, the Company has paid a quarterly cash dividend of \$.025 per share. On February 13, 2001 the Board of Directors approved an increase in the quarterly cash dividend to \$.03 per share, and increase of 20%. At the indicated rate of \$.12 per year, the aggregate annual dividend would equal approximately \$2.8 million.

Certain technologies related to the manufacture of mammary prostheses were developed under a 1983 agreement with a limited partnership whereby the limited partners contributed money towards the development of the technology in exchange for payments based upon a percentage of future sales of the products utilizing the technology. The Company paid approximately \$2 million in such payments to the partnership for last year. The Company was the general partner for this partnership. The agreement included an option to purchase the technology and thereby terminate the partnership.

The Company exercised its option to make a lump sum payment to the Limited Partners in lieu of all future payments and rights according to the Agreement of Purchase and Sale between Mentor Corporation and the Partnership, as amended. The Limited Partners could elect to be paid in cash, Company's stock, or a combination. This transaction was completed in the second quarter ended September 30, 2000. The limited partners elected to be paid \$1.0 million in cash and 434 thousand shares of the Company's common stock. The stock, transfer of which is restricted by rule 144, was valued at the fair market value on the date of issuance, of approximately \$9 million. The decrease in payments to the partners will be offset by the increased amortization of the new intangible asset and the additional common shares outstanding, thus having a neutral effect on earnings per share.

On January 22, 2001, subsequent to the end of the quarter, the Company announced the acquisition of South Bay Medical, a privately held Minneapolis based medical device company. South Bay developed a computer workstation and automated cartridge-based needle loading system used in brachytherapy procedures for the treatment of prostate cancer. The Company paid \$2 million in cash and \$4 million in restricted common stock at closing. Additional cash and restricted common stock will be paid based upon achievement of milestones and other performance factors.

On February 9, 2001, subsequent to the end of the quarter, the Company announced the acquisition of Porges S.A., a subsidiary of Sanofi-Synthelabo. Porges is a manufacturer of urological

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products with headquarters in Paris, dedicated manufacturing facilities in Sarlat, France and eight wholly owned sales subsidiaries covering most European markets and Japan. Porges had sales last year of approximately \$42 million. The acquisition was financed from the Company's existing cash and by a \$14-million draw down on the Company's line of credit.

The Company's principal source of liquidity at December 31, 2000 consisted of \$72 million in cash and marketable securities plus \$25 million available under its line of credit. Subsequent to the end of the quarter, the Company borrowed approximately \$14 million of the line to partially finance the purchase of Porges S.A. mentioned above. The Company believes that funds generated from operations, its cash and marketable securities and funds available under its line of credit will be adequate to meet its working capital and capital expenditure requirements through fiscal 2001.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has been no material changes in the Company's exposure to market risk as reported in Item 7A in the annual report on Form 10-K for the fiscal year ended March 31, 2000.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In regards to the litigation reported in Item 3 of the annual report on Form 10-K for the fiscal year ended March 31, 2000, there have been no material changes.

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

No event constituting a material default has occurred respecting any senior security of the Registrant.

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's 2000 Annual Meeting of Shareholders held on September 19, 2000, the proposal Number 2 to approve the Company's 2000 Long-term Incentive Plan was discussed and adjourned to October 19 at 10:00 a.m. in Santa Barbara to allow the board to collect and consider input from shareholders concerning the proposed Long-term Incentive Plan. At the reconvened meeting there were 13,153,458 (including 2,161,942 proxies given to management) votes for the proposal and 8,315,840 against. Prior to the reconvened meeting, the Company determined after considering input from the shareholders, that the number of shares authorized under the plan would be reduced from 7,500,000 to 3,000,000 shares and that the plan terms would not allow option repricing. In light of the changes made to the plan, the Board intends to submit the amended plan for shareholder vote at the next Annual shareholder's meeting.

Item 5. Other Information

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(a) See Note L - Events Subsequent to December 31, 2000.

(b) The Securities and Exchange Commission informed the Company that it is investigating, under a formal order of investigation, the events relating to the March 23, 2000 USA Today article entitled "Breast Implant manufacturer under investigation by the FDA," which was authored by Rita Rubin, and the March 23, 2000 press release issued by Mentor responding to that article, and possibly other matters. The Company is cooperating fully with the SEC's investigation. An investigation does not indicate that the SEC or its staff has concluded that violations of law have occurred.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits (listed by number corresponding to the Exhibit Table of Item 601 in Regulation S-K)

10 (a) Employment Agreement, dated October 16, 2000 between Mentor Corporation and Eugene G. Glover.

10 (b) Employment Agreement, dated November 28, 2000 between Mentor Corporation and Ramona Schwab.

10 (c) Employment Agreement, dated November 28, 2000 between Mentor Corporation and Bobby K. Purkait.

(b) Reports on Form 8-K

(1) On October 13, 2000 the Company filed a current report on Form 8-K under Item 5 concerning the Press release dated September 28, 2000 "Mentor Chairman Resumes CEO Position."

(2) On October 16, 2000 the Company file a current report on Form 8-K under item 5 concerning the press release dated October 10, 2000 "Mentor Announces reduction in Corporate Staff."

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MENTOR CORPORATION
(Registrant)

DATE: February 13, 2001 BY: /s/CHRISTOPHER CONWAY
Christopher J. Conway
President and
Chief Executive Officer

DATE: February 13, 2001 BY: /s/ADEL MICHAEL
Adel Michael
Senior Vice President
Chief Financial Officer

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EXHIBIT 10(a) EMPLOYMENT AGREEMENT

This Employment Agreement, dated October 16, 2000, is by and between MENTOR Corporation ("COMPANY"), with its executive offices at 201 Mentor Drive, Santa Barbara, California 93111, and Eugene Glover ("EMPLOYEE") of 1564 Ramona Lane, Santa Barbara, California 93108.

RECITALS

COMPANY is in the business of manufacturing and selling medical devices and related products. EMPLOYEE has experience in this business and possesses valuable skills and experience, which will be used in advancing COMPANY's interests. EMPLOYEE is willing to be engaged by COMPANY and COMPANY is willing to engage EMPLOYEE in an executive capacity responsible for the Advanced Development operations of COMPANY, upon the terms and conditions set forth in this Agreement. Effective with the date of this Agreement, GLOVER becomes an employee of the Company and therefore his status changes from outside Director to that of inside Director. Consequently, EMPLOYEE is not eligible for benefits granted to outside Directors from this date forward and for so long as EMPLOYEE remains an active employee of Company. However, all benefits granted previously under previous status of outside Director shall not be rescinded.

AGREEMENT

EMPLOYEE and COMPANY, intending to be legally bound, agree as follows:

1. SERVICES

1.1 General Services.

1.1.1 Company shall employ EMPLOYEE as Senior Vice President, Advanced Development. EMPLOYEE shall perform the duties customarily performed by one holding such position in a similar business as that engaged in by COMPANY. To the extent that they do not reduce the scope of the responsibilities described above, EMPLOYEE's duties may change from time to time on reasonable notice, based on the needs of COMPANY and EMPLOYEE's skills as determined by COMPANY. These duties shall hereinafter be referred to as "Services." EMPLOYEE shall report directly to the Chairman of the Board, President and Chief Executive Officer of Mentor Corporation.

1.1.2 As Senior Vice President, Advanced Development of COMPANY, EMPLOYEE shall also be an officer of COMPANY and shall serve in such capacity without further compensation. In the event that EMPLOYEE shall from time to time serve COMPANY as a director or shall serve in any other office during the term of this Agreement; EMPLOYEE shall serve in such capacities without further compensation. If EMPLOYEE is, for any reason, removed as an officer or director of the COMPANY by the Board of

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Directors of COMPANY, such removal shall be without prejudice to EMPLOYEE's contractual rights under this Agreement.

1.1.3. EMPLOYEE shall devote his entire working time, attention, and energies to the business of COMPANY, and shall not, during the term of this Agreement, be engaged in any other business activity whether or not such business activity is pursued for gain, profit or other pecuniary advantage, without the prior written consent of the Board of Directors of COMPANY. This shall not be construed as preventing EMPLOYEE from investing his assets in a form or manner that does not require any services on the part of EMPLOYEE in the operation or affairs of the entities in which such investments are made, or from engaging in such civic, charitable, religious, or political activities that do not interfere with the performance of EMPLOYEE's duties hereunder.

1.2 Best Abilities. EMPLOYEE shall serve COMPANY faithfully and to the best of EMPLOYEE's ability. EMPLOYEE shall use EMPLOYEE's best abilities to perform the Services. Employee shall act at all times according to what EMPLOYEE reasonably believes is in the best interests of COMPANY.

1.3 Corporate Authority. Employee, as an executive officer, shall comply with all laws and regulations applicable to EMPLOYEE as a result of this Agreement including, but not limited to, the Securities Act of 1933 and Securities Act of 1934. Prior to the execution of this Agreement, EMPLOYEE has received and reviewed COMPANY's Policies and Procedures and COMPANY's Employee Handbook. EMPLOYEE shall comply with COMPANY's Policies and Procedures, and practices now in effect or as later amended or adopted by COMPANY, as required of similarly-situated executives of COMPANY.

2. TERM

This Agreement shall commence upon the execution of this Agreement and shall continue until terminated as provided in Section 4 of this Agreement.

3. COMPENSATION AND BENEFITS

3.1 Compensation. EMPLOYEE's total compensation consists of base salary, bonus potential, stock options, and medical and other benefits generally provided to employees of COMPANY. Any compensation paid to EMPLOYEE shall be pursuant to COMPANY's policies and practices for exempt employees and shall be subject to all applicable laws and requirements regarding the withholding of federal, state and/or local taxes. Compensation provided in this Agreement is full payment for Services and EMPLOYEE shall receive no additional compensation for extraordinary services unless otherwise authorized. EMPLOYEE's entire compensation package will be reviewed annually by the Compensation Committee of the Board of Directors, a practice which is consistent with COMPANY's Executive Compensation Program.

3.1.1 Base Compensation. COMPANY agrees to pay

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EMPLOYEE an annualized base salary of Two Hundred Fifty Thousand Dollars and No Cents (\$250,000.00), less applicable withholdings, payable in equal installments no less frequently than semi-monthly.

3.1.2 Cash Incentive Bonus. EMPLOYEE shall be eligible for a cash incentive bonus of up to Forty Percent of your annual base salary, subject to applicable withholdings and subject to approval by COMPANY's Compensation Committee and Board of Directors. Any cash incentive bonus shall accrue and become payable to EMPLOYEE only if EMPLOYEE is employed with COMPANY on the last day of the fiscal year for which the cash incentive bonus is calculated.

3.1.3 Stock Options. EMPLOYEE shall be granted an option for 50,000 shares of COMPANY's common stock subject to a four (4) year vesting schedule one (1) year after grant at the rate of twenty-five percent (25%) per year. Options are exercisable for a period of ten (10) years after vesting and shall be exercised in accordance with the Mentor Corporation 1991 Stock Option Plan ("Plan"), as amended from time to time. EMPLOYEE shall execute the Option Agreement and otherwise comply with the terms of the Plan with regard to the options being granted by this Agreement. This provision is subject to applicable state and federal securities laws. Based upon satisfactory performance, under the Plan, COMPANY expects that EMPLOYEE will qualify for additional grants of options to acquire common stock of COMPANY subject to determination by the Board of Directors, of an amount which is consistent with COMPANY's Executive Compensation Program. Subsequent grants, if any, shall also be subject to performance considerations as well as the determination of the Board of Directors.

3.2 Business Expenses. COMPANY shall reimburse EMPLOYEE for business expenses reasonably incurred in performing Services according to COMPANY's Expense Reimbursement Policy.

3.3 Additional Benefits. COMPANY shall provide EMPLOYEE those additional benefits normally granted by COMPANY to its employees subject to eligibility requirements applicable to each benefit. COMPANY has no obligation to provide any other benefits unless provided for in this Agreement. Currently COMPANY provides major medical, dental, life, salary continuation, long term disability benefits and eligibility to participate in COMPANY's 401(k) plan.

3.4 Vacation. Employee shall accrue vacation equal to twenty (20) days per year, at the rate of approximately 1.67 days per month. The time or times for such vacation shall be selected by EMPLOYEE and approved by the Chairman of the Board, President and Chief Executive Officer of COMPANY.

4. TERMINATION

4.1 Circumstances Of Termination. This Agreement and the employment relationship between COMPANY and EMPLOYEE may be terminated as follows:

4.1.1 Death. This Agreement shall terminate upon EMPLOYEE's death, effective as of the date of

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EMPLOYEE's death.

4.1.2 Disability. COMPANY may, at its option, either suspend compensation payments or terminate this Agreement due to EMPLOYEE's Disability if EMPLOYEE is incapable, even with reasonable accommodation by COMPANY, of performing the Services because of accident, injury, or physical or mental illness for sixty (60) consecutive days, or is unable or shall have failed to perform the Services for a total period of ninety (90) within a twelve (12) month period, regardless of whether such days are consecutive. If COMPANY suspends compensation payments because of EMPLOYEE's Disability, COMPANY shall resume compensation payments when EMPLOYEE resumes performance of the Services. If COMPANY elects to terminate this Agreement due to EMPLOYEE's Disability, it must first give EMPLOYEE three (3) days advance written notice.

4.1.3 Discontinuance Of Business. If COMPANY discontinues operating its business, this Agreement shall terminate as of the last day of the month on which COMPANY ceases its entire operations with the same effect as if that last date were originally established as termination date of this Agreement.

4.1.4 For Cause. COMPANY may terminate this Agreement without advance notice for Cause. For the purpose of this Agreement, "Cause" shall mean any failure to comply in any material respect with this Agreement or any Agreement incorporated herein; personal or professional misconduct by EMPLOYEE (including, but not limited to, criminal activity or gross or willful neglect of duty); breach of EMPLOYEE's fiduciary duty to the COMPANY; conduct which threatens public health or safety, or threatens to do immediate or substantial harm to COMPANY's business or reputation; or any other misconduct, deficiency, failure of performance, breach or default, reasonably capable of being remedied or corrected by EMPLOYEE. To the extent that a breach pursuant to this Section 4.1.4 is curable by EMPLOYEE without harm to COMPANY and/or its reputation, COMPANY shall, instead of immediately terminating EMPLOYEE pursuant to this Agreement, provide EMPLOYEE with notice of such breach, specifying the actions required to cure such breach, and EMPLOYEE shall have ten (10) days to cure such breach by performing the actions so specified. If EMPLOYEE fails to cure such breach within the ten (10) day period, COMPANY may terminate this Agreement without further notice. COMPANY's exercise of its right to terminate under this section shall be without prejudice to any other remedy to which COMPANY may be entitled at law, in equity, or under this Agreement.

4.1.5. For Convenience Of Party. This Agreement and employment relationship is terminable by either party, for convenience, with or without cause, at any time upon thirty (30) days' advance written notice to the other party.

4.1.6. Change of Control. If employment is terminated within twelve (12) months upon any of the following events EMPLOYEE shall be entitled to severance compensation pursuant to Section

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4.2.6 (I) and (ii) and (iii):

- (i) the sale, lease or other disposition of all or substantially all of Company's assets to a single purchaser or group of related purchasers;
- (ii) the sale, lease or other disposition, in one transaction or a series of related transactions of the majority of COMPANY's outstanding capital stock; or,
- (iii) the merger or consolidation of COMPANY into or with another corporation in which the stockholders of COMPANY shall own less than fifty (50%) percent of the voting securities of the surviving corporation (all of which events shall be referred to as a Change in Control).

4.2 EMPLOYEE's Rights Upon Termination

- 4.2.1 Death. Upon termination of this Agreement because of death of EMPLOYEE pursuant to Section 4.1.1 above, COMPANY shall have no further obligation to EMPLOYEE under the Agreement except to distribute to EMPLOYEE's estate or designated beneficiary any unpaid compensation and reimbursable expenses, less applicable withholdings, owed to EMPLOYEE prior to the date of EMPLOYEE's death.
- 4.2.2 Disability. Upon termination of this Agreement because of Disability of EMPLOYEE pursuant to Sections 4.1.2 above, COMPANY shall have no further obligation to EMPLOYEE under the Agreement except to distribute to EMPLOYEE's estate or designated beneficiary any unpaid compensation and reimbursable expenses, less applicable withholdings, owed to EMPLOYEE prior to the date of EMPLOYEE's termination due to Disability.
- 4.2.3 Discontinuance Of Business. Upon termination of this Agreement because of discontinuation of COMPANY's business pursuant to Section 4.1.3, COMPANY shall have no further obligation to EMPLOYEE under the Agreement except to distribute to EMPLOYEE any unpaid compensation and reimbursable expenses, less applicable withholdings, owed to EMPLOYEE prior to the date of termination of this Agreement.
- 4.2.4 Termination With Cause. Upon termination of EMPLOYEE's employment for Cause pursuant to Section 4.1.4, COMPANY shall have no further obligation to EMPLOYEE under this Agreement except to distribute to EMPLOYEE:
 - i. Any compensation and reimbursable expenses owed to EMPLOYEE by COMPANY through the termination date, less applicable withholdings; and
 - ii. Severance compensation as provided for in

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COMPANY's Severance Policy, if any, less applicable withholdings.

- 4.2.5 Termination Without Cause. Upon termination of EMPLOYEE's employment by COMPANY without cause pursuant to Section 4.1.5, COMPANY shall have no further obligation to EMPLOYEE under this Agreement except to distribute to EMPLOYEE:
- i. Any compensation and reimbursable expenses owed by COMPANY to EMPLOYEE through the termination date, less applicable withholdings;
 - ii. Severance compensation totaling three- (3) month's base pay, plus one (1) month base pay for each full year of service, determined at EMPLOYEE's then-current rate of base pay. In consideration for this severance compensation, EMPLOYEE, on behalf of himself, his agents, heirs, executors, administrators, and assigns, expressly releases and forever discharges COMPANY and its successors and assigns, and all of its respective agents, directors, officers, partners, employees, representatives, insurers, attorneys, parent companies, subsidiaries, affiliates, and joint ventures, and each of them, from any and all claims based upon acts or events that occurred on or before the date on which EMPLOYEE accepts the severance compensation, including any claim arising under any state or federal statute or common law, including, but not limited to, Title VII of the Civil Rights Act of 1964, 42 U.S.C. " 2000e, et seq., the Americans with Disabilities Act, 42 U.S.C. " 12101, et seq., the Age Discrimination in Employment Act, 29 U.S.C. " 623, et. seq., the Worker Adjustment and Retraining Notification Act, 29 U.S.C. " 2101, et. seq., and the California Fair Employment and Housing Act, Cal. Gov't Code " 12940, et seq. EMPLOYEE acknowledges that he is familiar with section 1542 of the California Civil Code, which reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

EMPLOYEE expressly acknowledges and agrees that he is releasing all known and unknown claims, and that he is waiving all rights he has or may have under Civil Code Section 1542 or under any other statute or common law principle of similar effect. EMPLOYEE acknowledges that the benefits he is receiving in exchange for this Release are more than the benefits to which he otherwise would have been entitled, and that such benefits constitute valid and adequate consideration for this Release. EMPLOYEE further acknowledges that he has read this Release, understands all of its terms, and has consulted with counsel of his choosing before signing this Agreement.

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Severance compensation pursuant to this paragraph shall be in lieu of any other severance benefit to which EMPLOYEE would otherwise be entitled under COMPANY's policies in effect on the date of execution of this Agreement. Severance compensation shall be paid upon termination of EMPLOYEE's employment and in one lump sum payment at the date of termination, less applicable withholdings.

4.2.6 Termination Due to Change Of Control. If employment is terminated within twelve (12) months upon any of the events delineated in Section 4.1.6 of this Agreement ("Change of Control"), COMPANY shall have no further obligation to EMPLOYEE under this Agreement except to distribute to EMPLOYEE:

i. Any compensation and reimbursable expenses owed by COMPANY to EMPLOYEE through the termination date, less applicable withholdings;

ii. A pro-rated share of the cash incentive bonus that would be due to EMPLOYEE if EMPLOYEE had remained employed with COMPANY through the last day of the fiscal year for which the cash incentive bonus is calculated, less applicable withholdings; and

iii. Severance compensation totaling twelve (12) months base pay, plus one (1) month base pay for each full year of service, determined at EMPLOYEE's then-current rate of base pay. In consideration for this severance compensation, EMPLOYEE, on behalf of himself, his agents, heirs, executors, administrators, and assigns, expressly releases and forever discharges COMPANY and its successors and assigns, and all of its respective agents, directors, officers, partners, employees, representatives, insurers, attorneys, parent companies, subsidiaries, affiliates, and joint ventures, and each of them, from any and all claims based upon acts or events that occurred on or before the date on which EMPLOYEE accepts the severance compensation, including any claim arising under any state or federal statute or common law, including, but not limited to, Title VII of the Civil Rights Act of 1964, 42 U.S.C. ' ' 2000e, et seq., the Americans with Disabilities Act, 42 U.S.C. ' ' 12101, et seq., the Age Discrimination in Employment Act, 29 U.S.C. ' ' 623, et seq., the Worker Adjustment and Retraining Notification Act, 29 U.S.C. ' ' 2101, et seq., and the California Fair Employment and Housing Act, Cal. Gov't Code ' ' 12940, et seq. EMPLOYEE acknowledges that he is familiar with section 1542 of the California Civil Code, which reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM

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MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

EMPLOYEE expressly acknowledges and agrees that he is releasing all known and unknown claims, and that he is waiving all rights he has or may have under Civil Code Section 1542 or under any other statute or common law principle of similar effect. EMPLOYEE acknowledges that the benefits he is receiving in exchange for this Release are more than the benefits to which he otherwise would have been entitled, and that such benefits constitute valid and adequate consideration for this Release. EMPLOYEE further acknowledges that he has read this Release, understands all of its terms, and has consulted with counsel of his choosing before signing this Agreement.

Severance compensation pursuant to this paragraph shall be in lieu of any other severance benefit to which EMPLOYEE would otherwise be entitled under COMPANY's policies in effect on the date of execution of this Agreement. Severance compensation shall be paid upon termination of EMPLOYEE's employment and in one lump sum payment at the date of termination, less applicable withholdings.

5. REPRESENTATIONS AND WARRANTIES

5.1 Representations of EMPLOYEE. EMPLOYEE represents and warrants that EMPLOYEE has all right, power, authority and capacity, and is free to enter into this Agreement; that by doing so, EMPLOYEE will not violate or interfere with the rights of any other person or entity; and that EMPLOYEE is not subject to any contract, understanding or obligation that will or might prevent, interfere with or impair the performance of this Agreement by EMPLOYEE. EMPLOYEE shall indemnify and hold COMPANY harmless with respect to any losses, liabilities, demands, claims, fees, expenses, damages and costs (including attorneys' fees and court costs) resulting from or arising out of any claim or action based upon EMPLOYEE's entering into this Agreement.

5.2 Representations of COMPANY. COMPANY represents and warrants that it has all right, power and authority, without the consent of any other person, to execute and deliver, and perform its obligations under, this Agreement. All corporate and other actions required to be taken by COMPANY to authorize the execution, delivery and performance of this Agreement and the consummation of all transactions contemplated hereby have been duly and properly taken. This Agreement is the lawful, valid and legally binding obligation of COMPANY enforceable in accordance with its terms.

5.3 Materiality of Representations. The representations, warranties and covenants set forth in this Agreement shall be deemed to be material and to have been relied upon by the parties hereto.

6. COVENANTS

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6.1 Nondisclosure and Invention Assignment. EMPLOYEE acknowledges that, as a result of performing the Services, EMPLOYEE shall have access to confidential and sensitive information concerning COMPANY's business including, but not limited to, their business operations, sales and marketing data, and manufacturing processes. EMPLOYEE also acknowledges that in the course of performing the Services, EMPLOYEE may develop new product ideas or inventions as a result of COMPANY's information. Accordingly, to preserve COMPANY's confidential information and to assure it the full benefit of that information, EMPLOYEE shall, as a condition of employment with COMPANY, execute COMPANY's standard form of Employee Confidentiality Agreement attached hereto as Exhibit A, and execute updated versions of the Employee Confidentiality Agreement as it may be modified from time to time by COMPANY and as may be required of similarly-situated executives of COMPANY. The Employee Confidentiality Agreement is incorporated herein by this reference. EMPLOYEE's obligations under the Employee Confidentiality Agreement continue beyond the termination of this Agreement.

6.2 Covenant Not to Compete. In addition to the provisions of the Employee Confidentiality Agreement, EMPLOYEE shall abide by the following covenant not to compete if COMPANY, at its option upon the termination of this Agreement (regardless of the reason for the termination), exercises this Covenant Not to Compete. COMPANY shall notify EMPLOYEE within ten (10) days of termination of this Agreement of its intention to exercise this option and make an additional payment to EMPLOYEE of six (6) months' base pay determined at EMPLOYEE's last rate of pay with COMPANY. EMPLOYEE agrees that for a period of one (1) year following the termination of this Agreement, he shall not directly or indirectly for EMPLOYEE, or as a member of a partnership, or as an officer, director, stockholder, employee, or representative of any other entity or individual, engage, directly or indirectly, in any business activity which is the same or similar to work engaged in by EMPLOYEE on behalf of COMPANY within the same geographic territory as EMPLOYEE's work for COMPANY and which is directly competitive with the business conducted or to EMPLOYEE's knowledge, contemplated by COMPANY at the time of termination of this Agreement, as defined in the Employee Confidentiality Agreement incorporated into this Agreement by reference. EMPLOYEE may accept employment with an entity competing with COMPANY only if the business of that entity is diversified and EMPLOYEE is employed solely with respect to a separately-managed and separately-operated part of that entity's business that does not compete with COMPANY. Prior to accepting such employment, EMPLOYEE and the prospective employer entity shall provide COMPANY with written assurances reasonably satisfactory to COMPANY that EMPLOYEE will not render services directly or indirectly to any part of that entity's business that competes with the business of COMPANY.

6.3 Covenant to Deliver Records. All memoranda, notes, records and other documents made or compiled by EMPLOYEE, or made available to EMPLOYEE during the term of this Agreement concerning the business of COMPANY, shall be and remain COMPANY's property and shall be delivered to COMPANY upon

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the termination of this Agreement or at any other time on request.

6.4 Covenant Not To Recruit. EMPLOYEE shall not, during the term of this Agreement and for a period of one (1) year following termination of this Agreement, directly or indirectly, either on EMPLOYEE's own behalf, or on behalf of any other individual or entity, solicit, interfere with, induce (or attempt to induce) or endeavor to entice away any employee associated with COMPANY to become affiliated with him or any other individual or entity.

7. CERTAIN RIGHTS OF COMPANY

7.1 Announcement. COMPANY shall have the right to make public announcements concerning the execution of this Agreement and certain terms thereof.

7.2 Use of Name, Likeness and Biography. COMPANY shall have the right (but not the obligation) to use, publish and broadcast, and to authorize others to do so, the name, approved likeness and approved biographical material of EMPLOYEE to advertise, publicize and promote the business of COMPANY and its affiliates, but not for the purposes of direct endorsement without EMPLOYEE's consent. An "approved likeness" and "approved biographical material" shall be, respectively, any photograph or other depiction of EMPLOYEE, or any biographical information or life story concerning the professional career of EMPLOYEE.

7.3 Right to Insure. COMPANY shall have the right to secure in its own name, or otherwise, and at its own expense, life, health, accident or other insurance covering EMPLOYEE, and EMPLOYEE shall have no right, title or interest in and to such insurance. EMPLOYEE shall assist COMPANY in procuring such insurance by submitting to examinations and by signing such applications and other instruments as may be required by the insurance carriers to which application is made for any such insurance.

8. ASSIGNMENT

Neither party may assign or otherwise dispose of its rights or obligations under this Agreement without the prior written consent of the other party except as provided in this Section. COMPANY may assign and transfer this Agreement, or its interest in this Agreement, to any affiliate of COMPANY or to any entity that is a party to a merger, reorganization, or consolidation with COMPANY, or to a subsidiary of COMPANY, or to any entity that acquires substantially all of the assets of COMPANY or of any division with respect to which EMPLOYEE is providing services (providing such assignee assumes COMPANY's obligations under this Agreement). EMPLOYEE shall, if requested by COMPANY, perform EMPLOYEE's duties and Services, as specified in this Agreement, for the benefit of any subsidiary or other affiliate of COMPANY. Upon assignment, acquisition, merger, consolidation or reorganization, the term "COMPANY" as used herein shall be deemed to refer to such assignee or successor entity. EMPLOYEE shall not have the right to assign EMPLOYEE's interest in this Agreement, any rights under this Agreement, or any duties imposed under this Agreement, nor shall EMPLOYEE or his spouse, heirs, beneficiaries, executors or administrators have the right to

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pledge, hypothecate or otherwise encumber EMPLOYEE's right to receive compensation hereunder without the express written consent of COMPANY.

9. RESOLUTION OF DISPUTES

In the event of any dispute arising out of or in connection with this Agreement or in any way relating to the employment of EMPLOYEE which leads to the filing of a lawsuit, the parties agree that venue and jurisdiction shall be in Santa Barbara County, California. The prevailing party in any such litigation shall be entitled to an award of costs and reasonable attorneys' fees to be paid by the losing party.

10. GENERAL PROVISIONS

10.1 Notices. Notice under this Agreement shall be sufficient only if personally delivered by a major commercial paid delivery courier service or mailed by certified or registered mail (return receipt requested and postage pre-paid) to the other party at its address set forth in the signature block below or to such other address as may be designated by either party in writing. If not received sooner, notices by mail shall be deemed received five (5) days after deposit in the United States mail.

10.2 Agreement Controls. Unless otherwise provided for in this Agreement, the COMPANY's policies, procedures and practices shall govern the relationship between EMPLOYEE and COMPANY. If, however, any of COMPANY's policies, procedures and/or practices conflict with this Agreement (together with any amendments hereto), this Agreement (and any amendments hereto) shall control.

10.3 Amendment and Waiver. Any provision of this Agreement may be amended or modified and the observance of any provision may be waived (either retroactively or prospectively) only by written consent of the parties. Either party's failure to enforce any provision of this Agreement shall not be construed as a waiver of that party's right to enforce such provision.

10.4 Governing Law. This Agreement and the performance hereunder shall be interpreted under the substantive laws of the State of California.

10.5 Force Majeure. Either party shall be temporarily excused from performing under this Agreement if any force majeure or other occurrence beyond the reasonable control of either party makes such performance impossible, except a Disability as defined in this Agreement, provided that the party subject to the force majeure provides notice of such force majeure at the first reasonable opportunity. Under such circumstances, performance under this Agreement which related to the delay shall be suspended for the duration of the delay provided the delayed party shall resume performance of its obligations with due diligence once the delaying event subsides. In case of any such suspension, the parties shall use their best efforts to overcome the cause and effect of such suspension.

10.6 Remedies. EMPLOYEE acknowledges that because of the

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nature of COMPANY's business, and the fact that the services to be performed by EMPLOYEE pursuant to this Agreement are of a special, unique, unusual, extraordinary, and intellectual character which give them a peculiar value, a breach of this Agreement shall cause substantial injury to COMPANY for which money damages cannot reasonably be ascertained and for which money damages would be inadequate. EMPLOYEE therefore agrees that COMPANY shall have the right to obtain injunctive relief, including the right to have the provisions of this Agreement specifically enforced by any court having equity jurisdiction, in addition to any other remedies that COMPANY may have.

10.7 Severability. If any term, provision, covenant, paragraph, or condition of this Agreement is held to be invalid, illegal, or unenforceable by any court of competent jurisdiction, that provision shall be limited or eliminated to the minimum extent necessary so this Agreement shall otherwise remain enforceable in full force and effect.

10.8 Construction. Headings and captions are only for convenience and shall not affect the construction or interpretation of this Agreement. Whenever the context requires, words, used in the singular shall be construed to include the plural and vice versa, and pronouns of any gender shall be deemed to include the masculine, feminine, or neuter gender.

10.9 Counterpart Copies. This Agreement may be signed in counterpart copies, each of which shall represent an original document, and all of which shall constitute a single document.

10.10 No Adverse Construction. The rule that a contract is to be construed against the party drafting the contract is hereby waived, and shall have no applicability in construing this Agreement or the terms hereof.

10.11 Entire Agreement. With respect to its subject matter, namely, the employment by COMPANY of EMPLOYEE, this Agreement (including the documents expressly incorporated therein, such as the Employee Confidentiality Agreement), contains the entire understanding between the parties, and supersedes any prior agreements, understandings, and communications between the parties, whether oral, written, implied or otherwise, including, but not limited to, the original offer of employment letter.

10.12 Assistance of Counsel. EMPLOYEE expressly acknowledges that he was given the right to be represented by counsel of his own choosing in connection with the terms of this Agreement.

The parties execute this Agreement as of the date stated above:

EUGENE GLOVER

MENTOR CORPORATION

/s/EUGENE GLOVER

/s/CHRISTOPHER J. CONWAY

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Eugene Glover

Christopher J. Conway
President and CEO

NOTICE ADDRESS:
1564 Ramona Lane
Santa Barbara, CA 93108

NOTICE ADDRESS:
201 Mentor Drive
Santa Barbara, CA 93111

EXHIBIT 10(b)
EMPLOYMENT AGREEMENT

This Employment Agreement, dated November 28, 2000, is by and between MENTOR Corporation ("COMPANY"), with its executive offices at 201 Mentor Drive, Santa Barbara, California 93111, and Ramona Schwab ("EMPLOYEE") of 4050 Via Laguna, Santa Barbara, California 93110.

RECITALS

COMPANY is in the business of manufacturing and selling medical devices and related products. EMPLOYEE has experience in this business and possesses valuable skills and experience, which will be used in advancing COMPANY's interests. EMPLOYEE is willing to be engaged by COMPANY and COMPANY is willing to engage EMPLOYEE in an executive capacity responsible for the Human Resources operations of COMPANY, upon the terms and conditions set forth in this Agreement.

AGREEMENT

EMPLOYEE and COMPANY, intending to be legally bound, agree as follows:

1. SERVICES

1.1 General Services.

1.1.1 Company shall employ EMPLOYEE as Vice President, Human Resources. EMPLOYEE shall perform the duties customarily performed by one holding such position in a similar business as that engaged in by COMPANY. To the extent that they do not reduce the scope of the responsibilities described above, EMPLOYEE's duties may change from time to time on reasonable notice, based on the needs of COMPANY and EMPLOYEE's skills as determined by COMPANY. These duties shall hereinafter be referred to as "Services." EMPLOYEE shall report directly to the Chairman of the Board, President and Chief Executive Officer of Mentor Corporation.

1.1.2 As Vice President, Human Resources of COMPANY, EMPLOYEE shall also be an officer of COMPANY and shall serve in such capacity without further compensation. In the event that EMPLOYEE shall from time to time serve COMPANY as a director or shall serve in any other office during the term of this Agreement; EMPLOYEE shall serve in such capacities without further compensation. If EMPLOYEE is, for any reason, removed as an officer or director of the COMPANY by the Board of Directors of COMPANY, such removal shall be without prejudice to EMPLOYEE's contractual rights

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under this Agreement.

1.1.3. EMPLOYEE shall devote his entire working time, attention, and energies to the business of COMPANY, and shall not, during the term of this Agreement, be engaged in any other business activity whether or not such business activity is pursued for gain, profit or other pecuniary advantage, without the prior written consent of the Board of Directors of COMPANY. This shall not be construed as preventing EMPLOYEE from investing his assets in a form or manner that does not require any services on the part of EMPLOYEE in the operation or affairs of the entities in which such investments are made, or from engaging in such civic, charitable, religious, or political activities that do not interfere with the performance of EMPLOYEE's duties hereunder.

1.2 Best Abilities. EMPLOYEE shall serve COMPANY faithfully and to the best of EMPLOYEE's ability. EMPLOYEE shall use EMPLOYEE's best abilities to perform the Services. Employee shall act at all times according to what EMPLOYEE reasonably believes is in the best interests of COMPANY.

1.3 Corporate Authority. Employee, as an executive officer, shall comply with all laws and regulations applicable to EMPLOYEE as a result of this Agreement including, but not limited to, the Securities Act of 1933 and Securities Act of 1934. Prior to the execution of this Agreement, EMPLOYEE has received and reviewed COMPANY's Policies and Procedures and COMPANY's Employee Handbook. EMPLOYEE shall comply with COMPANY's Policies and Procedures, and practices now in effect or as later amended or adopted by COMPANY, as required of similarly-situated executives of COMPANY.

2. TERM

This Agreement shall commence upon the execution of this Agreement and shall continue until terminated as provided in Section 4 of this Agreement.

3. COMPENSATION AND BENEFITS

3.1 Compensation. EMPLOYEE's total compensation consists of base salary, bonus potential, stock options, and medical and other benefits generally provided to employees of COMPANY. Any compensation paid to EMPLOYEE shall be pursuant to COMPANY's policies and practices for exempt employees and shall be subject to all applicable laws and requirements regarding the withholding of federal, state and/or local taxes. Compensation provided in this Agreement is full payment for Services and EMPLOYEE shall receive no additional compensation for extraordinary services unless otherwise authorized. EMPLOYEE's entire compensation package will be reviewed annually by the Compensation Committee of the Board of Directors, a practice which is consistent with COMPANY's Executive Compensation Program.

3.1.1 Base Compensation. COMPANY agrees to pay EMPLOYEE an annualized base salary of One Hundred Eighty Thousand Dollars and No Cents (\$180,000.00),

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less applicable withholdings, payable in equal installments no less frequently than semi-monthly.

3.1.4 Cash Incentive Bonus. EMPLOYEE shall be eligible for a cash incentive bonus of up to Forty Percent of your annual base salary, subject to applicable withholdings and subject to approval by COMPANY's Compensation Committee and Board of Directors. Any cash incentive bonus shall accrue and become payable to EMPLOYEE only if EMPLOYEE is employed with COMPANY on the last day of the fiscal year for which the cash incentive bonus is calculated.

3.1.5 Stock Options. EMPLOYEE shall be granted an option for 20,000 shares of COMPANY's common stock subject to a four (4) year vesting schedule one (1) year after grant at the rate of twenty-five percent (25%) per year. Options are exercisable for a period of ten (10) years after vesting and shall be exercised in accordance with the Mentor Corporation 1991 Stock Option Plan ("Plan"), as amended from time to time. EMPLOYEE shall execute the Option Agreement and otherwise comply with the terms of the Plan with regard to the options being granted by this Agreement. This provision is subject to applicable state and federal securities laws. Based upon satisfactory performance, under the Plan, COMPANY expects that EMPLOYEE will qualify for additional grants of options to acquire common stock of COMPANY subject to determination by the Board of Directors, of an amount which is consistent with COMPANY's Executive Compensation Program. Subsequent grants, if any, shall also be subject to performance considerations as well as the determination of the Board of Directors.

3.2 Business Expenses. COMPANY shall reimburse EMPLOYEE for business expenses reasonably incurred in performing Services according to COMPANY's Expense Reimbursement Policy.

3.3 Additional Benefits. COMPANY shall provide EMPLOYEE those additional benefits normally granted by COMPANY to its employees subject to eligibility requirements applicable to each benefit. COMPANY has no obligation to provide any other benefits unless provided for in this Agreement. Currently COMPANY provides major medical, dental, life, salary continuation, long term disability benefits and eligibility to participate in COMPANY's 401(k) plan.

3.4 Vacation. Employee shall accrue vacation equal to fifteen (15) days per year during the first five years of service, at the rate of 1.25 days per month. Thereafter, vacation will accrue at twenty (20) days per year, at the rate of approximately 1.67 days per month. The time or times for such vacation shall be selected by EMPLOYEE and approved by the Chairman of the Board, President and Chief Executive Officer of COMPANY.

4. TERMINATION

4.1 Circumstances Of Termination. This Agreement and the employment relationship between COMPANY and EMPLOYEE may be terminated as follows:

4.1.1 Death. This Agreement shall terminate upon

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EMPLOYEE's death, effective as of the date of EMPLOYEE's death.

4.1.3 Disability. COMPANY may, at its option, either suspend compensation payments or terminate this Agreement due to EMPLOYEE's Disability if EMPLOYEE is incapable, even with reasonable accommodation by COMPANY, of performing the Services because of accident, injury, or physical or mental illness for sixty (60) consecutive days, or is unable or shall have failed to perform the Services for a total period of ninety (90) within a twelve (12) month period, regardless of whether such days are consecutive. If COMPANY suspends compensation payments because of EMPLOYEE's Disability, COMPANY shall resume compensation payments when EMPLOYEE resumes performance of the Services. If COMPANY elects to terminate this Agreement due to EMPLOYEE's Disability, it must first give EMPLOYEE three (3) days advance written notice.

4.1.3 Discontinuance Of Business. If COMPANY discontinues operating its business, this Agreement shall terminate as of the last day of the month on which COMPANY ceases its entire operations with the same effect as if that last date were originally established as termination date of this Agreement.

4.1.4 For Cause. COMPANY may terminate this Agreement without advance notice for Cause. For the purpose of this Agreement, "Cause" shall mean any failure to comply in any material respect with this Agreement or any Agreement incorporated herein; personal or professional misconduct by EMPLOYEE (including, but not limited to, criminal activity or gross or willful neglect of duty); breach of EMPLOYEE's fiduciary duty to the COMPANY; conduct which threatens public health or safety, or threatens to do immediate or substantial harm to COMPANY's business or reputation; or any other misconduct, deficiency, failure of performance, breach or default, reasonably capable of being remedied or corrected by EMPLOYEE. To the extent that a breach pursuant to this Section 4.1.4 is curable by EMPLOYEE without harm to COMPANY and/or its reputation, COMPANY shall, instead of immediately terminating EMPLOYEE pursuant to this Agreement, provide EMPLOYEE with notice of such breach, specifying the actions required to cure such breach, and EMPLOYEE shall have ten (10) days to cure such breach by performing the actions so specified. If EMPLOYEE fails to cure such breach within the ten (10) day period, COMPANY may terminate this Agreement without further notice. COMPANY's exercise of its right to terminate under this section shall be without prejudice to any other remedy to which COMPANY may be entitled at law, in equity, or under this Agreement.

4.1.7. For Convenience Of Party. This Agreement and employment relationship is terminable by either party, for convenience, with or without cause, at any time upon thirty (30) days' advance written notice to the other party.

4.1.8. Change of Control. If employment is terminated within twelve (12) months upon any of the following events EMPLOYEE

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shall be entitled to severance compensation pursuant to Section 4.2.6 (i) and (ii) and (iii):

- (i) the sale, lease or other disposition of all or substantially all of Company's assets to a single purchaser or group of related purchasers;
- (ii) the sale, lease or other disposition, in one transaction or a series of related transactions of the majority of COMPANY's outstanding capital stock; or,
- (iii) the merger or consolidation of COMPANY into or with another corporation in which the stockholders of COMPANY shall own less than fifty (50%) percent of the voting securities of the surviving corporation (all of which events shall be referred to as a Change in Control).

4.2 EMPLOYEE's Rights Upon Termination

- 4.2.1 Death. Upon termination of this Agreement because of death of EMPLOYEE pursuant to Section 4.1.1 above, COMPANY shall have no further obligation to EMPLOYEE under the Agreement except to distribute to EMPLOYEE's estate or designated beneficiary any unpaid compensation and reimbursable expenses, less applicable withholdings, owed to EMPLOYEE prior to the date of EMPLOYEE's death.
- 4.2.2 Disability. Upon termination of this Agreement because of Disability of EMPLOYEE pursuant to Sections 4.1.2 above, COMPANY shall have no further obligation to EMPLOYEE under the Agreement except to distribute to EMPLOYEE's estate or designated beneficiary any unpaid compensation and reimbursable expenses, less applicable withholdings, owed to EMPLOYEE prior to the date of EMPLOYEE's termination due to Disability.
- 4.2.4 Discontinuance Of Business. Upon termination of this Agreement because of discontinuation of COMPANY's business pursuant to Section 4.1.3, COMPANY shall have no further obligation to EMPLOYEE under the Agreement except to distribute to EMPLOYEE any unpaid compensation and reimbursable expenses, less applicable withholdings, owed to EMPLOYEE prior to the date of termination of this Agreement.
- 4.2.4 Termination With Cause. Upon termination of EMPLOYEE's employment for Cause pursuant to Section 4.1.4, COMPANY shall have no further obligation to EMPLOYEE under this Agreement except to distribute to EMPLOYEE:
 - i. Any compensation and reimbursable expenses owed to EMPLOYEE by COMPANY through the termination date, less applicable withholdings; and

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ii. Severance compensation as provided for in COMPANY's Severance Policy, if any, less applicable withholdings.

4.2.5 Termination Without Cause. Upon termination of EMPLOYEE's employment by COMPANY without cause pursuant to Section 4.1.5, COMPANY shall have no further obligation to EMPLOYEE under this Agreement except to distribute to EMPLOYEE:

iii. Any compensation and reimbursable expenses owed by COMPANY to EMPLOYEE through the termination date, less applicable withholdings;

iv. Severance compensation totaling three- (3) month's base pay, plus one (1) month base pay for each full year of service, determined at EMPLOYEE's then-current rate of base pay. In consideration for this severance compensation, EMPLOYEE, on behalf of himself, his agents, heirs, executors, administrators, and assigns, expressly releases and forever discharges COMPANY and its successors and assigns, and all of its respective agents, directors, officers, partners, employees, representatives, insurers, attorneys, parent companies, subsidiaries, affiliates, and joint ventures, and each of them, from any and all claims based upon acts or events that occurred on or before the date on which EMPLOYEE accepts the severance compensation, including any claim arising under any state or federal statute or common law, including, but not limited to, Title VII of the Civil Rights Act of 1964, 42 U.S.C. " 2000e, et seq., the Americans with Disabilities Act, 42 U.S.C. " 12101, et seq., the Age Discrimination in Employment Act, 29 U.S.C. " 623, et. seq., the Worker Adjustment and Retraining Notification Act, 29 U.S.C. "2101, et. seq., and the California Fair Employment and Housing Act, Cal. Gov't Code " 12940, et seq. EMPLOYEE acknowledges that he is familiar with section 1542 of the California Civil Code, which reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

EMPLOYEE expressly acknowledges and agrees that he is releasing all known and unknown claims, and that he is waiving all rights he has or may have under Civil Code Section 1542 or under any other statute or common law principle of similar effect. EMPLOYEE acknowledges that the benefits he is receiving in exchange for this Release are more than the benefits to which he otherwise would have been entitled, and that such benefits constitute valid and adequate consideration for this Release. EMPLOYEE further acknowledges that he has read this Release, understands all of its terms, and has consulted with counsel of his choosing

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before signing this Agreement.

Severance compensation pursuant to this paragraph shall be in lieu of any other severance benefit to which EMPLOYEE would otherwise be entitled under COMPANY's policies in effect on the date of execution of this Agreement. Severance compensation shall be paid upon termination of EMPLOYEE's employment and in one lump sum payment at the date of termination, less applicable withholdings.

4.2.7 Termination Due to Change Of Control. If employment is terminated within twelve (12) months upon any of the events delineated in Section 4.1.6 of this Agreement ("Change of Control"), COMPANY shall have no further obligation to EMPLOYEE under this Agreement except to distribute to EMPLOYEE:

i. Any compensation and reimbursable expenses owed by COMPANY to EMPLOYEE through the termination date, less applicable withholdings;

ii. A pro-rated share of the cash incentive bonus that would be due to EMPLOYEE if EMPLOYEE had remained employed with COMPANY through the last day of the fiscal year for which the cash incentive bonus is calculated, less applicable withholdings; and

iii. Severance compensation totaling twelve (12) months base pay, plus one (1) month base pay for each full year of service, determined at EMPLOYEE's then-current rate of base pay. In consideration for this severance compensation, EMPLOYEE, on behalf of himself, his agents, heirs, executors, administrators, and assigns, expressly releases and forever discharges COMPANY and its successors and assigns, and all of its respective agents, directors, officers, partners, employees, representatives, insurers, attorneys, parent companies, subsidiaries, affiliates, and joint ventures, and each of them, from any and all claims based upon acts or events that occurred on or before the date on which EMPLOYEE accepts the severance compensation, including any claim arising under any state or federal statute or common law, including, but not limited to, Title VII of the Civil Rights Act of 1964, 42 U.S.C. ' ' 2000e, et seq., the Americans with Disabilities Act, 42 U.S.C. ' ' 12101, et seq., the Age Discrimination in Employment Act, 29 U.S.C. ' ' 623, et seq., the Worker Adjustment and Retraining Notification Act, 29 U.S.C. ' ' 2101, et seq., and the California Fair Employment and Housing Act, Cal. Gov't Code ' ' 12940, et seq. EMPLOYEE acknowledges that he is familiar with section 1542 of the California Civil Code, which reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT

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TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

EMPLOYEE expressly acknowledges and agrees that he is releasing all known and unknown claims, and that he is waiving all rights he has or may have under Civil Code Section 1542 or under any other statute or common law principle of similar effect. EMPLOYEE acknowledges that the benefits he is receiving in exchange for this Release are more than the benefits to which he otherwise would have been entitled, and that such benefits constitute valid and adequate consideration for this Release. EMPLOYEE further acknowledges that he has read this Release, understands all of its terms, and has consulted with counsel of his choosing before signing this Agreement.

Severance compensation pursuant to this paragraph shall be in lieu of any other severance benefit to which EMPLOYEE would otherwise be entitled under COMPANY's policies in effect on the date of execution of this Agreement. Severance compensation shall be paid upon termination of EMPLOYEE's employment and in one lump sum payment at the date of termination, less applicable withholdings.

5. REPRESENTATIONS AND WARRANTIES

5.1 Representations of EMPLOYEE. EMPLOYEE represents and warrants that EMPLOYEE has all right, power, authority and capacity, and is free to enter into this Agreement; that by doing so, EMPLOYEE will not violate or interfere with the rights of any other person or entity; and that EMPLOYEE is not subject to any contract, understanding or obligation that will or might prevent, interfere with or impair the performance of this Agreement by EMPLOYEE. EMPLOYEE shall indemnify and hold COMPANY harmless with respect to any losses, liabilities, demands, claims, fees, expenses, damages and costs (including attorneys' fees and court costs) resulting from or arising out of any claim or action based upon EMPLOYEE's entering into this Agreement.

5.2 Representations of COMPANY. COMPANY represents and warrants that it has all right, power and authority, without the consent of any other person, to execute and deliver, and perform its obligations under, this Agreement. All corporate and other actions required to be taken by COMPANY to authorize the execution, delivery and performance of this Agreement and the consummation of all transactions contemplated hereby have been duly and properly taken. This Agreement is the lawful, valid and legally binding obligation of COMPANY enforceable in accordance with its terms.

5.3 Materiality of Representations. The representations, warranties and covenants set forth in this Agreement shall be deemed to be material and to have been relied upon by the parties hereto.

6. COVENANTS

6.1 Nondisclosure and Invention Assignment. EMPLOYEE acknowledges that, as a result of performing the Services, EMPLOYEE shall have access to confidential and sensitive information concerning COMPANY's business including, but not limited to, their business operations, sales and marketing data, and manufacturing processes. EMPLOYEE also acknowledges that in the course of performing the Services, EMPLOYEE may develop new product ideas or inventions as a result of COMPANY's information. Accordingly, to preserve COMPANY's confidential information and to assure it the full benefit of that information, EMPLOYEE shall, as a condition of employment with COMPANY, execute COMPANY's standard form of Employee Confidentiality Agreement attached hereto as Exhibit A, and execute updated versions of the Employee Confidentiality Agreement as it may be modified from time to time by COMPANY and as may be required of similarly-situated executives of COMPANY. The Employee Confidentiality Agreement is incorporated herein by this reference. EMPLOYEE's obligations under the Employee Confidentiality Agreement continue beyond the termination of this Agreement.

6.2 Covenant Not to Compete. In addition to the provisions of the Employee Confidentiality Agreement, EMPLOYEE shall abide by the following covenant not to compete if COMPANY, at its option upon the termination of this Agreement (regardless of the reason for the termination), exercises this Covenant Not to Compete. COMPANY shall notify EMPLOYEE within ten (10) days of termination of this Agreement of its intention to exercise this option and make an additional payment to EMPLOYEE of six (6) months' base pay determined at EMPLOYEE's last rate of pay with COMPANY. EMPLOYEE agrees that for a period of one (1) year following the termination of this Agreement, he shall not directly or indirectly for EMPLOYEE, or as a member of a partnership, or as an officer, director, stockholder, employee, or representative of any other entity or individual, engage, directly or indirectly, in any business activity which is the same or similar to work engaged in by EMPLOYEE on behalf of COMPANY within the same geographic territory as EMPLOYEE's work for COMPANY and which is directly competitive with the business conducted or to EMPLOYEE's knowledge, contemplated by COMPANY at the time of termination of this Agreement, as defined in the Employee Confidentiality Agreement incorporated into this Agreement by reference. EMPLOYEE may accept employment with an entity competing with COMPANY only if the business of that entity is diversified and EMPLOYEE is employed solely with respect to a separately-managed and separately-operated part of that entity's business that does not compete with COMPANY. Prior to accepting such employment, EMPLOYEE and the prospective employer entity shall provide COMPANY with written assurances reasonably satisfactory to COMPANY that EMPLOYEE will not render services directly or indirectly to any part of that entity's business that competes with the business of COMPANY.

6.3 Covenant to Deliver Records. All memoranda, notes, records and other documents made or compiled by EMPLOYEE, or made available to EMPLOYEE during the term of this Agreement

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concerning the business of COMPANY, shall be and remain COMPANY's property and shall be delivered to COMPANY upon the termination of this Agreement or at any other time on request.

6.4 Covenant Not To Recruit. EMPLOYEE shall not, during the term of this Agreement and for a period of one (1) year following termination of this Agreement, directly or indirectly, either on EMPLOYEE's own behalf, or on behalf of any other individual or entity, solicit, interfere with, induce (or attempt to induce) or endeavor to entice away any employee associated with COMPANY to become affiliated with him or any other individual or entity.

7. CERTAIN RIGHTS OF COMPANY

7.1 Announcement. COMPANY shall have the right to make public announcements concerning the execution of this Agreement and certain terms thereof.

7.2 Use of Name, Likeness and Biography. COMPANY shall have the right (but not the obligation) to use, publish and broadcast, and to authorize others to do so, the name, approved likeness and approved biographical material of EMPLOYEE to advertise, publicize and promote the business of COMPANY and its affiliates, but not for the purposes of direct endorsement without EMPLOYEE's consent. An "approved likeness" and "approved biographical material" shall be, respectively, any photograph or other depiction of EMPLOYEE, or any biographical information or life story concerning the professional career of EMPLOYEE.

7.3 Right to Insure. COMPANY shall have the right to secure in its own name, or otherwise, and at its own expense, life, health, accident or other insurance covering EMPLOYEE, and EMPLOYEE shall have no right, title or interest in and to such insurance. EMPLOYEE shall assist COMPANY in procuring such insurance by submitting to examinations and by signing such applications and other instruments as may be required by the insurance carriers to which application is made for any such insurance.

8. ASSIGNMENT

Neither party may assign or otherwise dispose of its rights or obligations under this Agreement without the prior written consent of the other party except as provided in this Section. COMPANY may assign and transfer this Agreement, or its interest in this Agreement, to any affiliate of COMPANY or to any entity that is a party to a merger, reorganization, or consolidation with COMPANY, or to a subsidiary of COMPANY, or to any entity that acquires substantially all of the assets of COMPANY or of any division with respect to which EMPLOYEE is providing services (providing such assignee assumes COMPANY's obligations under this Agreement). EMPLOYEE shall, if requested by COMPANY, perform EMPLOYEE's duties and Services, as specified in this Agreement, for the benefit of any subsidiary or other affiliate of COMPANY. Upon assignment, acquisition, merger, consolidation or reorganization, the term "COMPANY" as used herein shall be deemed to refer to such assignee or successor entity. EMPLOYEE shall not have the right to assign EMPLOYEE's interest in this Agreement, any rights under this Agreement, or any duties imposed

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under this Agreement, nor shall EMPLOYEE or his spouse, heirs, beneficiaries, executors or administrators have the right to pledge, hypothecate or otherwise encumber EMPLOYEE's right to receive compensation hereunder without the express written consent of COMPANY.

9. RESOLUTION OF DISPUTES

In the event of any dispute arising out of or in connection with this Agreement or in any way relating to the employment of EMPLOYEE which leads to the filing of a lawsuit, the parties agree that venue and jurisdiction shall be in Santa Barbara County, California. The prevailing party in any such litigation shall be entitled to an award of costs and reasonable attorneys' fees to be paid by the losing party.

10. GENERAL PROVISIONS

10.1 Notices. Notice under this Agreement shall be sufficient only if personally delivered by a major commercial paid delivery courier service or mailed by certified or registered mail (return receipt requested and postage pre-paid) to the other party at its address set forth in the signature block below or to such other address as may be designated by either party in writing. If not received sooner, notices by mail shall be deemed received five (5) days after deposit in the United States mail.

10.2 Agreement Controls. Unless otherwise provided for in this Agreement, the COMPANY's policies, procedures and practices shall govern the relationship between EMPLOYEE and COMPANY. If, however, any of COMPANY's policies, procedures and/or practices conflict with this Agreement (together with any amendments hereto), this Agreement (and any amendments hereto) shall control.

10.3 Amendment and Waiver. Any provision of this Agreement may be amended or modified and the observance of any provision may be waived (either retroactively or prospectively) only by written consent of the parties. Either party's failure to enforce any provision of this Agreement shall not be construed as a waiver of that party's right to enforce such provision.

10.4 Governing Law. This Agreement and the performance hereunder shall be interpreted under the substantive laws of the State of California.

10.5 Force Majeure. Either party shall be temporarily excused from performing under this Agreement if any force majeure or other occurrence beyond the reasonable control of either party makes such performance impossible, except a Disability as defined in this Agreement, provided that the party subject to the force majeure provides notice of such force majeure at the first reasonable opportunity. Under such circumstances, performance under this Agreement which related to the delay shall be suspended for the duration of the delay provided the delayed party shall resume performance of its obligations with due diligence once the delaying event subsides. In case of any such suspension, the parties shall use their best efforts to overcome the cause and effect of such suspension.

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10.6 Remedies. EMPLOYEE acknowledges that because of the nature of COMPANY's business, and the fact that the services to be performed by EMPLOYEE pursuant to this Agreement are of a special, unique, unusual, extraordinary, and intellectual character which give them a peculiar value, a breach of this Agreement shall cause substantial injury to COMPANY for which money damages cannot reasonably be ascertained and for which money damages would be inadequate. EMPLOYEE therefore agrees that COMPANY shall have the right to obtain injunctive relief, including the right to have the provisions of this Agreement specifically enforced by any court having equity jurisdiction, in addition to any other remedies that COMPANY may have.

10.7 Severability. If any term, provision, covenant, paragraph, or condition of this Agreement is held to be invalid, illegal, or unenforceable by any court of competent jurisdiction, that provision shall be limited or eliminated to the minimum extent necessary so this Agreement shall otherwise remain enforceable in full force and effect.

10.8 Construction. Headings and captions are only for convenience and shall not affect the construction or interpretation of this Agreement. Whenever the context requires, words, used in the singular shall be construed to include the plural and vice versa, and pronouns of any gender shall be deemed to include the masculine, feminine, or neuter gender.

10.9 Counterpart Copies. This Agreement may be signed in counterpart copies, each of which shall represent an original document, and all of which shall constitute a single document.

10.10 No Adverse Construction. The rule that a contract is to be construed against the party drafting the contract is hereby waived, and shall have no applicability in construing this Agreement or the terms hereof.

10.11 Entire Agreement. With respect to its subject matter, namely, the employment by COMPANY of EMPLOYEE, this Agreement (including the documents expressly incorporated therein, such as the Employee Confidentiality Agreement), contains the entire understanding between the parties, and supersedes any prior agreements, understandings, and communications between the parties, whether oral, written, implied or otherwise, including, but not limited to, the original offer of employment letter.

10.12 Assistance of Counsel. EMPLOYEE expressly acknowledges that he was given the right to be represented by counsel of his own choosing in connection with the terms of this Agreement.

The parties execute this Agreement as of the date stated above:

RAMONA E. SCHWAB

MENTOR CORPORATION

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/s/RAMONA E. SCHWAB
Ramona E. Schwab

/s/CHRISTOPHER J. CONWAY
Christopher J. Conway
President and CEO

NOTICE ADDRESS:
4050 Via Laguna
Santa Barbara, CA 93110

NOTICE ADDRESS:
201 Mentor Drive
Santa Barbara, CA 93111

EXHIBIT 10(c)
EMPLOYMENT AGREEMENT

This Employment Agreement, dated November 28, 2000, is by and between MENTOR Corporation ("COMPANY"), with its executive offices at 201 Mentor Drive, Santa Barbara, California 93111, and Bobby Purkait ("EMPLOYEE") of 2995 East Valley Road, Santa Barbara, California 93108.

RECITALS

COMPANY is in the business of manufacturing and selling medical devices and related products. EMPLOYEE has experience in this business and possesses valuable skills and experience, which will be used in advancing COMPANY's interests. EMPLOYEE is willing to be engaged by COMPANY and COMPANY is willing to engage EMPLOYEE in an executive capacity responsible for the Science & Technology operations of COMPANY, upon the terms and conditions set forth in this Agreement.

AGREEMENT

EMPLOYEE and COMPANY, intending to be legally bound, agree as follows:

1. SERVICES

1.1 General Services.

1.1.1 Company shall employ EMPLOYEE as Senior Vice President, Science & Technology. EMPLOYEE shall perform the duties customarily performed by one holding such position in a similar business as that engaged in by COMPANY. To the extent that they do not reduce the scope of the responsibilities described above, EMPLOYEE's duties may change from time to time on reasonable notice, based on the needs of COMPANY and EMPLOYEE's skills as determined by COMPANY. These duties shall hereinafter be referred to as "Services." EMPLOYEE shall report directly to the Chairman of the Board, President and Chief Executive Officer of Mentor Corporation.

1.1.2 As Senior Vice President, Science & Technology of COMPANY, EMPLOYEE shall also be an officer of COMPANY and shall serve in such capacity without further compensation. In the event that EMPLOYEE shall from time to time serve COMPANY as a director or shall serve in any other office during the term of this Agreement; EMPLOYEE shall serve in such capacities without further compensation. If EMPLOYEE is, for any reason, removed as an officer or director of the COMPANY by the Board of

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Directors of COMPANY, such removal shall be without prejudice to EMPLOYEE's contractual rights under this Agreement.

1.1.3. EMPLOYEE shall devote his entire working time, attention, and energies to the business of COMPANY, and shall not, during the term of this Agreement, be engaged in any other business activity whether or not such business activity is pursued for gain, profit or other pecuniary advantage, without the prior written consent of the Board of Directors of COMPANY. This shall not be construed as preventing EMPLOYEE from investing his assets in a form or manner that does not require any services on the part of EMPLOYEE in the operation or affairs of the entities in which such investments are made, or from engaging in such civic, charitable, religious, or political activities that do not interfere with the performance of EMPLOYEE's duties hereunder.

1.2 Best Abilities. EMPLOYEE shall serve COMPANY faithfully and to the best of EMPLOYEE's ability. EMPLOYEE shall use EMPLOYEE's best abilities to perform the Services. Employee shall act at all times according to what EMPLOYEE reasonably believes is in the best interests of COMPANY.

1.3 Corporate Authority. Employee, as an executive officer, shall comply with all laws and regulations applicable to EMPLOYEE as a result of this Agreement including, but not limited to, the Securities Act of 1933 and Securities Act of 1934. Prior to the execution of this Agreement, EMPLOYEE has received and reviewed COMPANY's Policies and Procedures and COMPANY's Employee Handbook. EMPLOYEE shall comply with COMPANY's Policies and Procedures, and practices now in effect or as later amended or adopted by COMPANY, as required of similarly-situated executives of COMPANY.

2. TERM

This Agreement shall commence upon the execution of this Agreement and shall continue until terminated as provided in Section 4 of this Agreement.

3. COMPENSATION AND BENEFITS

3.1 Compensation. EMPLOYEE's total compensation consists of base salary, bonus potential, stock options, and medical and other benefits generally provided to employees of COMPANY. Any compensation paid to EMPLOYEE shall be pursuant to COMPANY's policies and practices for exempt employees and shall be subject to all applicable laws and requirements regarding the withholding of federal, state and/or local taxes. Compensation provided in this Agreement is full payment for Services and EMPLOYEE shall receive no additional compensation for extraordinary services unless otherwise authorized. EMPLOYEE's entire compensation package will be reviewed annually by the Compensation Committee of the Board of Directors, a practice which is consistent with COMPANY's Executive Compensation Program.

3.1.1 Base Compensation. COMPANY agrees to pay

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EMPLOYEE an annualized base salary of Two Hundred Fifty Thousand Dollars and No Cents (\$250,000.00), less applicable withholdings, payable in equal installments no less frequently than semi-monthly.

3.1.6 Cash Incentive Bonus. EMPLOYEE shall be eligible for a cash incentive bonus of up to Forty Percent of your annual base salary, subject to applicable withholdings and subject to approval by COMPANY's Compensation Committee and Board of Directors. Any cash incentive bonus shall accrue and become payable to EMPLOYEE only if EMPLOYEE is employed with COMPANY on the last day of the fiscal year for which the cash incentive bonus is calculated.

3.1.7 Stock Options. Based upon satisfactory performance, under the Plan, COMPANY expects that EMPLOYEE will qualify for additional grants of options to acquire common stock of COMPANY subject to determination by the Board of Directors, of an amount which is consistent with COMPANY's Executive Compensation Program. Subsequent grants, if any, shall also be subject to performance considerations as well as the determination of the Board of Directors.

3.2 Business Expenses. COMPANY shall reimburse EMPLOYEE for business expenses reasonably incurred in performing Services according to COMPANY's Expense Reimbursement Policy.

3.3 Additional Benefits. COMPANY shall provide EMPLOYEE those additional benefits normally granted by COMPANY to its employees subject to eligibility requirements applicable to each benefit. COMPANY has no obligation to provide any other benefits unless provided for in this Agreement. Currently COMPANY provides major medical, dental, life, salary continuation, long term disability benefits and eligibility to participate in COMPANY's 401(k) plan.

3.4 Vacation. Employee shall accrue vacation equal to twenty (20) days per year, at the rate of approximately 1.67 days per month. The time or times for such vacation shall be selected by EMPLOYEE and approved by the Chairman of the Board, President and Chief Executive Officer of COMPANY.

4. TERMINATION

4.1 Circumstances Of Termination. This Agreement and the employment relationship between COMPANY and EMPLOYEE may be terminated as follows:

4.1.1 Death. This Agreement shall terminate upon EMPLOYEE's death, effective as of the date of EMPLOYEE's death.

4.1.4 Disability. COMPANY may, at its option, either suspend compensation payments or terminate this Agreement due to EMPLOYEE's Disability if EMPLOYEE is incapable, even with reasonable accommodation by COMPANY, of performing the Services because of accident, injury, or physical or mental illness for sixty (60) consecutive days, or is unable or shall have failed to perform the Services for a total period of ninety (90) within a twelve (12) month period, regardless of whether such days are

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consecutive. If COMPANY suspends compensation payments because of EMPLOYEE's Disability, COMPANY shall resume compensation payments when EMPLOYEE resumes performance of the Services. If COMPANY elects to terminate this Agreement due to EMPLOYEE's Disability, it must first give EMPLOYEE three (3) days advance written notice.

4.1.3 Discontinuance Of Business. If COMPANY discontinues operating its business, this Agreement shall terminate as of the last day of the month on which COMPANY ceases its entire operations with the same effect as if that last date were originally established as termination date of this Agreement.

4.1.4 For Cause. COMPANY may terminate this Agreement without advance notice for Cause. For the purpose of this Agreement, "Cause" shall mean any failure to comply in any material respect with this Agreement or any Agreement incorporated herein; personal or professional misconduct by EMPLOYEE (including, but not limited to, criminal activity or gross or willful neglect of duty); breach of EMPLOYEE's fiduciary duty to the COMPANY; conduct which threatens public health or safety, or threatens to do immediate or substantial harm to COMPANY's business or reputation; or any other misconduct, deficiency, failure of performance, breach or default, reasonably capable of being remedied or corrected by EMPLOYEE. To the extent that a breach pursuant to this Section 4.1.4 is curable by EMPLOYEE without harm to COMPANY and/or its reputation, COMPANY shall, instead of immediately terminating EMPLOYEE pursuant to this Agreement, provide EMPLOYEE with notice of such breach, specifying the actions required to cure such breach, and EMPLOYEE shall have ten (10) days to cure such breach by performing the actions so specified. If EMPLOYEE fails to cure such breach within the ten (10) day period, COMPANY may terminate this Agreement without further notice. COMPANY's exercise of its right to terminate under this section shall be without prejudice to any other remedy to which COMPANY may be entitled at law, in equity, or under this Agreement.

4.1.9. For Convenience Of Party. This Agreement and employment relationship is terminable by either party, for convenience, with or without cause, at any time upon thirty (30) days' advance written notice to the other party.

4.1.10. Change of Control. If employment is terminated within twelve (12) months upon any of the following events EMPLOYEE shall be entitled to severance compensation pursuant to Section 4.2.6 (I) and (ii) and (iii):

(ii) the sale, lease or other disposition of all or substantially all of

Company's assets to a single purchaser or group of related purchasers;

(ii) the sale, lease or other disposition, in one transaction or a series of related transactions of the majority of COMPANY's outstanding capital stock; or,

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(iii) the merger or consolidation of COMPANY into or with another corporation in which the stockholders of COMPANY shall own less than fifty (50%) percent of the voting securities of the surviving corporation (all of which events shall be referred to as a Change in Control).

4.2 EMPLOYEE's Rights Upon Termination

- 4.2.1 **Death.** Upon termination of this Agreement because of death of EMPLOYEE pursuant to Section 4.1.1 above, COMPANY shall have no further obligation to EMPLOYEE under the Agreement except to distribute to EMPLOYEE's estate or designated beneficiary any unpaid compensation and reimbursable expenses, less applicable withholdings, owed to EMPLOYEE prior to the date of EMPLOYEE's death.
- 4.2.2 **Disability.** Upon termination of this Agreement because of Disability of EMPLOYEE pursuant to Sections 4.1.2 above, COMPANY shall have no further obligation to EMPLOYEE under the Agreement except to distribute to EMPLOYEE's estate or designated beneficiary any unpaid compensation and reimbursable expenses, less applicable withholdings, owed to EMPLOYEE prior to the date of EMPLOYEE's termination due to Disability.
- 4.2.5 **Discontinuance Of Business.** Upon termination of this Agreement because of discontinuation of COMPANY's business pursuant to Section 4.1.3, COMPANY shall have no further obligation to EMPLOYEE under the Agreement except to distribute to EMPLOYEE any unpaid compensation and reimbursable expenses, less applicable withholdings, owed to EMPLOYEE prior to the date of termination of this Agreement.
- 4.2.4 **Termination With Cause.** Upon termination of EMPLOYEE's employment for Cause pursuant to Section 4.1.4, COMPANY shall have no further obligation to EMPLOYEE under this Agreement except to distribute to EMPLOYEE:
- i. Any compensation and reimbursable expenses owed to EMPLOYEE by COMPANY through the termination date, less applicable withholdings; and
 - ii. Severance compensation as provided for in COMPANY's Severance Policy, if any, less applicable withholdings.
- 4.2.5 **Termination Without Cause.** Upon termination of EMPLOYEE's employment by COMPANY without cause pursuant to Section 4.1.5, COMPANY shall have no further obligation to EMPLOYEE under this Agreement except to distribute to EMPLOYEE:
- v. Any compensation and reimbursable expenses owed by COMPANY

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to EMPLOYEE through the termination date, less applicable withholdings;

- vi. Severance compensation totaling three- (3) month's base pay, plus one (1) month base pay for each full year of service, determined at EMPLOYEE's then-current rate of base pay. In consideration for this severance compensation, EMPLOYEE, on behalf of himself, his agents, heirs, executors, administrators, and assigns, expressly releases and forever discharges COMPANY and its successors and assigns, and all of its respective agents, directors, officers, partners, employees, representatives, insurers, attorneys, parent companies, subsidiaries, affiliates, and joint ventures, and each of them, from any and all claims based upon acts or events that occurred on or before the date on which EMPLOYEE accepts the severance compensation, including any claim arising under any state or federal statute or common law, including, but not limited to, Title VII of the Civil Rights Act of 1964, 42 U.S.C. " 2000e, et seq., the Americans with Disabilities Act, 42 U.S.C. " 12101, et seq., the Age Discrimination in Employment Act, 29 U.S.C. " 623, et. seq., the Worker Adjustment and Retraining Notification Act, 29 U.S.C. "2101, et. seq., and the California Fair Employment and Housing Act, Cal. Gov't Code " 12940, et seq. EMPLOYEE acknowledges that he is familiar with section 1542 of the California Civil Code, which reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

EMPLOYEE expressly acknowledges and agrees that he is releasing all known and unknown claims, and that he is waiving all rights he has or may have under Civil Code Section 1542 or under any other statute or common law principle of similar effect. EMPLOYEE acknowledges that the benefits he is receiving in exchange for this Release are more than the benefits to which he otherwise would have been entitled, and that such benefits constitute valid and adequate consideration for this Release. EMPLOYEE further acknowledges that he has read this Release, understands all of its terms, and has consulted with counsel of his choosing before signing this Agreement.

Severance compensation pursuant to this paragraph shall be in lieu of any other severance benefit to which EMPLOYEE would otherwise be entitled under COMPANY's policies in effect on the date of execution of this Agreement. Severance compensation shall be paid upon termination of EMPLOYEE's employment and in one lump sum payment at the date of termination, less applicable withholdings.

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4.2.8 Termination Due to Change Of Control. If employment is terminated within twelve (12) months upon any of the events delineated in Section 4.1.6 of this Agreement ("Change of Control"), COMPANY shall have no further obligation to EMPLOYEE under this Agreement except to distribute to EMPLOYEE:

ii. Any compensation and reimbursable expenses owed by COMPANY to EMPLOYEE through the termination date, less applicable withholdings;

ii. A pro-rated share of the cash incentive bonus that would be due to EMPLOYEE if EMPLOYEE had remained employed with COMPANY through the last day of the fiscal year for which the cash incentive bonus is calculated, less applicable withholdings; and

iii. Severance compensation totaling twelve (12) months base pay, plus one (1) month base pay for each full year of service, determined at EMPLOYEE's then-current rate of base pay. In consideration for this severance compensation, EMPLOYEE, on behalf of himself, his agents, heirs, executors, administrators, and assigns, expressly releases and forever discharges COMPANY and its successors and assigns, and all of its respective agents, directors, officers, partners, employees, representatives, insurers, attorneys, parent companies, subsidiaries, affiliates, and joint ventures, and each of them, from any and all claims based upon acts or events that occurred on or before the date on which EMPLOYEE accepts the severance compensation, including any claim arising under any state or federal statute or common law, including, but not limited to, Title VII of the Civil Rights Act of 1964, 42 U.S.C. ' ' 2000e, et seq., the Americans with Disabilities Act, 42 U.S.C. ' ' 12101, et seq., the Age Discrimination in Employment Act, 29 U.S.C. ' ' 623, et seq., the Worker Adjustment and Retraining Notification Act, 29 U.S.C. ' ' 2101, et seq., and the California Fair Employment and Housing Act, Cal. Gov't Code ' ' 12940, et seq. EMPLOYEE acknowledges that he is familiar with section 1542 of the California Civil Code, which reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

EMPLOYEE expressly acknowledges and agrees that he is releasing all known and unknown claims, and that he is waiving all rights he has or may have under Civil Code Section 1542 or under any other statute or common law principle of similar effect. EMPLOYEE acknowledges that the benefits he is receiving in exchange for this Release are more than the benefits to which he otherwise would have

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been entitled, and that such benefits constitute valid and adequate consideration for this Release. EMPLOYEE further acknowledges that he has read this Release, understands all of its terms, and has consulted with counsel of his choosing before signing this Agreement.

Severance compensation pursuant to this paragraph shall be in lieu of any other severance benefit to which EMPLOYEE would otherwise be entitled under COMPANY's policies in effect on the date of execution of this Agreement. Severance compensation shall be paid upon termination of EMPLOYEE's employment and in one lump sum payment at the date of termination, less applicable withholdings.

5. REPRESENTATIONS AND WARRANTIES

5.1 Representations of EMPLOYEE. EMPLOYEE represents and warrants that EMPLOYEE has all right, power, authority and capacity, and is free to enter into this Agreement; that by doing so, EMPLOYEE will not violate or interfere with the rights of any other person or entity; and that EMPLOYEE is not subject to any contract, understanding or obligation that will or might prevent, interfere with or impair the performance of this Agreement by EMPLOYEE. EMPLOYEE shall indemnify and hold COMPANY harmless with respect to any losses, liabilities, demands, claims, fees, expenses, damages and costs (including attorneys' fees and court costs) resulting from or arising out of any claim or action based upon EMPLOYEE's entering into this Agreement.

5.2 Representations of COMPANY. COMPANY represents and warrants that it has all right, power and authority, without the consent of any other person, to execute and deliver, and perform its obligations under, this Agreement. All corporate and other actions required to be taken by COMPANY to authorize the execution, delivery and performance of this Agreement and the consummation of all transactions contemplated hereby have been duly and properly taken. This Agreement is the lawful, valid and legally binding obligation of COMPANY enforceable in accordance with its terms.

5.3 Materiality of Representations. The representations, warranties and covenants set forth in this Agreement shall be deemed to be material and to have been relied upon by the parties hereto.

6. COVENANTS

6.1 Nondisclosure and Invention Assignment. EMPLOYEE acknowledges that, as a result of performing the Services, EMPLOYEE shall have access to confidential and sensitive information concerning COMPANY's business including, but not limited to, their business operations, sales and marketing data, and manufacturing processes. EMPLOYEE also acknowledges that in the course of performing the Services, EMPLOYEE may develop new product ideas or inventions as a result of COMPANY's information. Accordingly, to preserve COMPANY's confidential information and to assure it the full

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benefit of that information, EMPLOYEE shall, as a condition of employment with COMPANY, execute COMPANY's standard form of Employee Confidentiality Agreement attached hereto as Exhibit A, and execute updated versions of the Employee Confidentiality Agreement as it may be modified from time to time by COMPANY and as may be required of similarly-situated executives of COMPANY. The Employee Confidentiality Agreement is incorporated herein by this reference. EMPLOYEE's obligations under the Employee Confidentiality Agreement continue beyond the termination of this Agreement.

6.2 Covenant Not to Compete. In addition to the provisions of the Employee Confidentiality Agreement, EMPLOYEE shall abide by the following covenant not to compete if COMPANY, at its option upon the termination of this Agreement (regardless of the reason for the termination), exercises this Covenant Not to Compete. COMPANY shall notify EMPLOYEE within ten (10) days of termination of this Agreement of its intention to exercise this option and make an additional payment to EMPLOYEE of six (6) months' base pay determined at EMPLOYEE's last rate of pay with COMPANY. EMPLOYEE agrees that for a period of one (1) year following the termination of this Agreement, he shall not directly or indirectly for EMPLOYEE, or as a member of a partnership, or as an officer, director, stockholder, employee, or representative of any other entity or individual, engage, directly or indirectly, in any business activity which is the same or similar to work engaged in by EMPLOYEE on behalf of COMPANY within the same geographic territory as EMPLOYEE's work for COMPANY and which is directly competitive with the business conducted or to EMPLOYEE's knowledge, contemplated by COMPANY at the time of termination of this Agreement, as defined in the Employee Confidentiality Agreement incorporated into this Agreement by reference. EMPLOYEE may accept employment with an entity competing with COMPANY only if the business of that entity is diversified and EMPLOYEE is employed solely with respect to a separately-managed and separately-operated part of that entity's business that does not compete with COMPANY. Prior to accepting such employment, EMPLOYEE and the prospective employer entity shall provide COMPANY with written assurances reasonably satisfactory to COMPANY that EMPLOYEE will not render services directly or indirectly to any part of that entity's business that competes with the business of COMPANY.

6.3 Covenant to Deliver Records. All memoranda, notes, records and other documents made or compiled by EMPLOYEE, or made available to EMPLOYEE during the term of this Agreement concerning the business of COMPANY, shall be and remain COMPANY's property and shall be delivered to COMPANY upon the termination of this Agreement or at any other time on request.

6.4 Covenant Not To Recruit. EMPLOYEE shall not, during the term of this Agreement and for a period of one (1) year following termination of this Agreement, directly or indirectly, either on EMPLOYEE's own behalf, or on behalf of any other individual or entity, solicit, interfere with, induce (or attempt to induce) or endeavor to entice away any employee associated with COMPANY to become affiliated with him or any other individual or entity.

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7.2 Use of Name, Likeness and Biography. COMPANY shall have the right (but not the obligation) to use, publish and broadcast, and to authorize others to do so, the name, approved likeness and approved biographical material of EMPLOYEE to advertise, publicize and promote the business of COMPANY and its affiliates, but not for the purposes of direct endorsement without EMPLOYEE's consent. An "approved likeness" and "approved biographical material" shall be, respectively, any photograph or other depiction of EMPLOYEE, or any biographical information or life story concerning the professional career of EMPLOYEE.

7.3 Right to Insure. COMPANY shall have the right to secure in its own name, or otherwise, and at its own expense, life, health, accident or other insurance covering EMPLOYEE, and EMPLOYEE shall have no right, title or interest in and to such insurance. EMPLOYEE shall assist COMPANY in procuring such insurance by submitting to examinations and by signing such applications and other instruments as may be required by the insurance carriers to which application is made for any such insurance.

8. ASSIGNMENT

Neither party may assign or otherwise dispose of its rights or obligations under this Agreement without the prior written consent of the other party except as provided in this Section. COMPANY may assign and transfer this Agreement, or its interest in this Agreement, to any affiliate of COMPANY or to any entity that is a party to a merger, reorganization, or consolidation with COMPANY, or to a subsidiary of COMPANY, or to any entity that acquires substantially all of the assets of COMPANY or of any division with respect to which EMPLOYEE is providing services (providing such assignee assumes COMPANY's obligations under this Agreement). EMPLOYEE shall, if requested by COMPANY, perform EMPLOYEE's duties and Services, as specified in this Agreement, for the benefit of any subsidiary or other affiliate of COMPANY. Upon assignment, acquisition, merger, consolidation or reorganization, the term "COMPANY" as used herein shall be deemed to refer to such assignee or successor entity. EMPLOYEE shall not have the right to assign EMPLOYEE's interest in this Agreement, any rights under this Agreement, or any duties imposed under this Agreement, nor shall EMPLOYEE or his spouse, heirs, beneficiaries, executors or administrators have the right to pledge, hypothecate or otherwise encumber EMPLOYEE's right to receive compensation hereunder without the express written consent of COMPANY.

9. RESOLUTION OF DISPUTES

In the event of any dispute arising out of or in connection with this Agreement or in any way relating to the employment of EMPLOYEE which leads to the filing of a lawsuit, the parties agree that venue and jurisdiction shall be in Santa Barbara County, California. The prevailing party in any such litigation

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shall be entitled to an award of costs and reasonable attorneys' fees to be paid by the losing party.

10. GENERAL PROVISIONS

10.1 Notices. Notice under this Agreement shall be sufficient only if personally delivered by a major commercial paid delivery courier service or mailed by certified or registered mail (return receipt requested and postage pre-paid) to the other party at its address set forth in the signature block below or to such other address as may be designated by either party in writing. If not received sooner, notices by mail shall be deemed received five (5) days after deposit in the United States mail.

10.2 Agreement Controls. Unless otherwise provided for in this Agreement, the COMPANY's policies, procedures and practices shall govern the relationship between EMPLOYEE and COMPANY. If, however, any of COMPANY's policies, procedures and/or practices conflict with this Agreement (together with any amendments hereto), this Agreement (and any amendments hereto) shall control.

10.3 Amendment and Waiver. Any provision of this Agreement may be amended or modified and the observance of any provision may be waived (either retroactively or prospectively) only by written consent of the parties. Either party's failure to enforce any provision of this Agreement shall not be construed as a waiver of that party's right to enforce such provision.

10.4 Governing Law. This Agreement and the performance hereunder shall be interpreted under the substantive laws of the State of California.

10.5 Force Majeure. Either party shall be temporarily excused from performing under this Agreement if any force majeure or other occurrence beyond the reasonable control of either party makes such performance impossible, except a Disability as defined in this Agreement, provided that the party subject to the force majeure provides notice of such force majeure at the first reasonable opportunity. Under such circumstances, performance under this Agreement which related to the delay shall be suspended for the duration of the delay provided the delayed party shall resume performance of its obligations with due diligence once the delaying event subsides. In case of any such suspension, the parties shall use their best efforts to overcome the cause and effect of such suspension.

10.6 Remedies. EMPLOYEE acknowledges that because of the nature of COMPANY's business, and the fact that the services to be performed by EMPLOYEE pursuant to this Agreement are of a special, unique, unusual, extraordinary, and intellectual character which give them a peculiar value, a breach of this Agreement shall cause substantial injury to COMPANY for which money damages cannot reasonably be ascertained and for which money damages would be inadequate. EMPLOYEE therefore agrees that COMPANY shall have the right to obtain injunctive relief, including the right to have the provisions of this Agreement specifically enforced by any court having equity jurisdiction, in addition to any other

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remedies that COMPANY may have.

10.7 Severability. If any term, provision, covenant, paragraph, or condition of this Agreement is held to be invalid, illegal, or unenforceable by any court of competent jurisdiction, that provision shall be limited or eliminated to the minimum extent necessary so this Agreement shall otherwise remain enforceable in full force and effect.

10.8 Construction. Headings and captions are only for convenience and shall not affect the construction or interpretation of this Agreement. Whenever the context requires, words, used in the singular shall be construed to include the plural and vice versa, and pronouns of any gender shall be deemed to include the masculine, feminine, or neuter gender.

10.9 Counterpart Copies. This Agreement may be signed in counterpart copies, each of which shall represent an original document, and all of which shall constitute a single document.

10.10 No Adverse Construction. The rule that a contract is to be construed against the party drafting the contract is hereby waived, and shall have no applicability in construing this Agreement or the terms hereof.

10.11 Entire Agreement. With respect to its subject matter, namely, the employment by COMPANY of EMPLOYEE, this Agreement (including the documents expressly incorporated therein, such as the Employee Confidentiality Agreement), contains the entire understanding between the parties, and supersedes any prior agreements, understandings, and communications between the parties, whether oral, written, implied or otherwise, including, but not limited to, the original offer of employment letter.

10.12 Assistance of Counsel. EMPLOYEE expressly acknowledges that he was given the right to be represented by counsel of his own choosing in connection with the terms of this Agreement.

The parties execute this Agreement as of the date stated above:

BOBBY PURKAIT

MENTOR CORPORATION

/s/BOBBY PURKAIT
Bobby Purkait

/s/CHRISTOPHER J. CONWAY
Christopher J. Conway
President and CEO

NOTICE ADDRESS:
2995 E. Valley Road
Santa Barbara, CA 93108

NOTICE ADDRESS:
201 Mentor Drive
Santa Barbara, CA 93111