**For Immediate Release** **News Release**

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# Mentor Graphics Reports Third Quarter Results

**WILSONVILLE, Ore., November 29, 2007** – Mentor Graphics Corporation (NASDAQ: MENT) today announced third quarter revenue of $186.3 million. On a GAAP basis, earnings were a loss of ($.10) per share. On a non-GAAP basis, earnings were break-even. Bookings were up over 10% year over year. These results reflect the change in the fiscal year with the third quarter running from August 1 to October 31.

"Bookings were strong in the quarter, and were, in fact, a record for any non-fourth quarter. Contract renewals among our ten largest orders increased 50% over the corresponding prior contract. We were pleased in particular with the performance of our new Olympus-SoC™ and Veloce® product lines both of which performed quite well in the quarter," said Walden C. Rhines, chairman and CEO of Mentor Graphics. "Unfortunately, revenue timing issues on certain key orders impacted results for the quarter."

Compared to the prior year third quarter, Scalable Verification bookings were up 25%, New and Emerging bookings were up 35%, Integrated Systems Design bookings were flat, and IC Design to Silicon bookings were down 5%. New and Emerging product line strength was largely driven by new TestKompress® tool adoptions, though there was also

strength in embedded systems and electronic system level tools. Year on year bookings for Pacific Rim were up 35%, for North America were up 25%, for Japan were up 5%, and for Europe were down 15%.

"Mentor again reaffirms its guidance for fiscal 2008 and 2009," said Gregory K. Hinckley, president of Mentor Graphics. "We see mixed economic signals. From our industry perspective, we see positive forward indicators like venture company funding to fabless semiconductor startups up sharply in the third quarter to the highest level since 2001, our consulting bookings up 50%, training bookings up 95% and new customer logos up 10%. Nonetheless, our actual results highly depend upon the condition of the U.S. economy where risks in recent weeks seem to be growing. If the U.S. economy slows in the fourth quarter, our ability to meet guidance will be challenged."

## Guidance

For the full fiscal year 2008, the company expects revenue of $860 million, GAAP earnings per share of about $.50 and non-GAAP earnings per share of approximately $1.02.

Preliminary guidance for fiscal 2009 is for revenues of $920 million, GAAP earnings per share of about $.78 and non-GAAP earnings per share of $1.22.

**Discussion of Non-GAAP Financial Measures**

Mentor Graphics management evaluates and makes operating decisions using various performance measures. In addition to our GAAP results, we also consider adjusted gross margin, operating margin and net income (loss), which we refer to as non-GAAP gross margin, operating margin and net income (loss), respectively. These non-GAAP measures are derived from the revenues of our product, maintenance and services business operations and the costs directly related to the generation of those revenues, such as cost of revenue, research and development, sales and marketing and general and administrative expenses, that management considers in evaluating our ongoing core operating performance. These non-GAAP measures exclude amortization of purchased intangible assets, in-process research and development, special charges, stock-based compensation expenses and charges and gains which management does not consider reflective of our core operating business.

Purchased intangible assets consist primarily of purchased technology, backlog, trade names, customer relationships and employment agreements. In-process research and development charges represent products in development that had not reached technological feasibility at the time of acquisition. Special charges

consist of post-acquisition rebalance costs including severance and benefits, excess facilities and asset-related charges, and also include strategic reallocations or reductions of personnel resources. Stock-based compensation expenses represent the fair value of all share-based payments to employees, including grants of employee stock options, as required under SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R). For purposes of comparability across other periods and against other companies in our industry, non-GAAP net income (loss) is adjusted by the amount of additional taxes or tax benefit that the company would accrue using a normalized effective tax rate applied to the non-GAAP results.

During the nine months ended October 31, 2007 and September 30, 2006, $452 thousand and $6.23 million, respectively of interest expense attributable to net retirement premiums and write-offs of debt issuance costs related to the refinancing or repurchase of certain convertible debt was excluded as management does not consider these transactions a part of its core operating performance.

In certain instances our GAAP results of operations may not be profitable when our corresponding non-GAAP results are profitable or vice versa. The number of shares on which our non-GAAP EPS is calculated may therefore differ from the GAAP presentation due to the anti-dilutive effect of stock options in a loss situation.

Non-GAAP gross margin, operating margin and net income (loss) are supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. Moreover, they should not be considered as an alternative to any performance measure derived in accordance with GAAP, or as an alternative to cash flow from operating activities as a measure of our liquidity. We present non-GAAP gross margin, operating margin and net income (loss) because we consider them to be important supplemental measures of our operating performance and profitability trends, and because we believe they give investors useful information on period-to-period performance as evaluated by management.

Management excludes from its non-GAAP measures certain recurring items to facilitate its review of the comparability of our core operating performance on a period-to-period basis because such items are not related to our ongoing core operating performance as viewed by management. Management considers our core operating performance to be that which can be affected by our managers in any particular period through their management of the resources that affect our underlying revenue and profit generating operations during that period. Management uses this view of its operating performance for purposes of comparison with its business plan and individual operating budgets and allocation of resources. Additionally, when evaluating potential acquisitions, management excludes the items described above from its consideration of target performance and valuation. More specifically management adjusts for the excluded items for the following reasons:

- Amortization charges for our purchased intangible assets are inconsistent in amount and frequency and are significantly impacted by the timing and magnitude of our acquisition transactions. We therefore consider our operating results without these charges when evaluating our core performance. Generally, the most significant impact to inter-period comparability of the our net income (loss) is in the first twelve months following the acquisition.

- Special charges are primarily severance related and are due to our reallocation or reduction of personnel resources driven by modifications of business strategy or business emphasis and by assimilation of acquired businesses. These costs are originated based on the particular facts and circumstances of business decisions and can vary in size. Special charges also include excess facility and asset-related restructuring charges. These charges are not specifically included in our annual operating plan and related budget due to the rapidly changing technology and competitive environment in our industry. We therefore exclude them when evaluating our managers' performance internally.

- In-process research and development charges are largely disregarded as acquisition decisions are made, as they often result in charges that vary significantly in size and amount. Management

excludes these charges when evaluating the impact of an acquisition transaction and our ongoing performance.

- Management supplementally considers performance without the impact of stock-based compensation charges and believes this information is useful to investors to compare our performance to the performance of other companies in our industry who present non-GAAP results adjusted to exclude stock compensation expense. We view stock-based compensation as a key element of our employee retention and long-term incentives, not as an expense that should be an element of evaluating core operations in any given period. We therefore exclude these charges for purposes of evaluating our core performance.

- Income tax expense (benefit) is adjusted by the amount of additional tax expense or benefit that we would accrue if we used non-GAAP results instead of GAAP results in the calculation of our tax liability, taking into consideration our long-term tax structure. We use a normalized effective tax rate of 17%, which reflects the weighted average tax rate applicable under the various tax jurisdictions in which we operate. This non-GAAP weighted average tax rate is subject to change over time for various reasons, including changes in the geographic business mix and changes in statutory tax rates. Our GAAP tax rate for the nine months ended October 31, 2007 is 9% after consideration of discrete items. Without discrete items of $1,676 thousand, our GAAP tax rate is 31%. Inclusive of discrete items, our full fiscal year 2008 GAAP tax rate is projected to be 35%. The GAAP tax rate considers certain mandatory and other non-scalable tax costs which may adversely or beneficially affect our tax rate depending upon our level of profitability.

Non-GAAP net income (loss) also facilitates comparison with other companies in our industry, which use similar financial measures to supplement their GAAP results. However, non-GAAP net income (loss) has limitations as an analytical tool, and you should not consider this measure in isolation or as a substitute for analysis of our results as reported under GAAP. In the future we expect to continue to incur expenses similar to the non-GAAP adjustments described above and exclusion of these items in our non-GAAP presentation should not be construed as an inference that these costs are unusual, infrequent or non-recurring. Some of the limitations in relying on non-GAAP net income (loss) are:

- Amortization of purchased intangibles, though not directly affecting our current cash position, represents the loss in value as the technology in our industry evolves, is advanced or is replaced over time. The expense associated with this loss in value is not included in the non-GAAP net income (loss) presentation and therefore does not reflect the full economic effect of the ongoing cost of maintaining our current technological position in our competitive industry, which is addressed through our research and development program.

- We regularly engage in acquisition and assimilation activities as part of our ongoing business and therefore we will continue to experience special charges and merger and acquisition charges on a regular basis. These costs also directly impact our available funds.

- Our stock option and stock purchase plans are important components of our incentive compensation arrangements and will be reflected as expenses in our GAAP results for the foreseeable future under SFAS 123R.

- Our income tax expense (benefit) will be ultimately based on our GAAP taxable income and actual tax rates in effect, which often differ significantly from the 17% rate assumed in our non-GAAP presentation.

- Other companies, including other companies in our industry, may calculate non-GAAP net income (loss) differently than we do, limiting its usefulness as a comparative measure.

## About Mentor Graphics

Mentor Graphics Corporation (NASDAQ: MENT) is a world leader in electronic hardware and software design solutions, providing products, consulting services and award-winning support for the world's most successful electronics and semiconductor companies. Established in 1981, the company reported revenues over the last 12 months of over $825 million and employs approximately 4,300 people worldwide. Corporate headquarters are located at 8005 S.W. Boeckman Road, Wilsonville, Oregon 97070-7777. World Wide Web site: http://www.mentor.com/.

(Mentor Graphics, TestKompress and Veloce are registered trademarks and Olympus-SoC is a trademark of Mentor Graphics Corporation. All other company or product names are the registered trademarks or trademarks of their respective owners.)

Statements in this press release regarding the company's guidance for future periods constitute "forward-looking" statements based on current expectations within the meaning of section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry results to be materially different from any results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: (i) the company's ability to successfully offer products and services that compete in the highly competitive EDA industry; (ii) product bundling or discounting of products and services by competitors, which could force the company to lower its prices or offer other more favorable terms to customers; (iii) reductions in the spending on the company's products by its customers due to cyclical downturns; (iv) effects of the increasing volatility of foreign currency fluctuations on the company's business and operating results; (v) changes in accounting or reporting rules or interpretations; (vi) the impact of tax audits by the IRS or other taxing authorities, or changes in the tax laws, regulations or enforcement practices where the company does business; (vii) effects of unanticipated shifts in product mix on gross margin; (viii) effects of customer seasonal purchasing patterns and the timing of significant orders may negatively or positively impact the company's quarterly results of operations; and (ix) weakness in the US or other economies, all as may be discussed in more detail under the heading "Risk Factors" in the company's most recent Form 10-K or Form 10-Q. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. In addition, statements regarding guidance do not reflect potential impacts of mergers or acquisitions that have not been announced or closed as of the time the statements are made. Mentor Graphics disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements to reflect future events or developments.

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**MENTOR GRAPHICS CORPORATION**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
(In thousands, except earnings per share data - Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **October 31, 2007** | **September 30, 2006** | **October 31, 2007** | **September 30, 2006** |
| **Revenues:** | | | | |
| System and software | $ 104,215 | $ 114,461 | $ 341,764 | $ 318,627 |
| Service and support | 82,096 | 76,174 | 240,750 | 226,763 |
| Total revenues | 186,311 | 190,635 | 582,514 | 545,390 |
| **Cost of revenues: (1)** | | | | |
| System and software | 4,706 | 4,664 | 16,548 | 12,538 |
| Service and support | 24,453 | 21,072 | 69,703 | 62,122 |
| Amortization of purchased technology | 2,139 | 3,286 | 7,513 | 9,942 |
| Total cost of revenues | 31,298 | 29,022 | 93,764 | 84,602 |
| Gross margin | 155,013 | 161,613 | 488,750 | 460,788 |
| **Operating expenses:** | | | | |
| Research and development (2) | 64,034 | 60,448 | 188,692 | 170,804 |
| Marketing and selling (3) | 74,580 | 72,192 | 222,279 | 208,497 |
| General and administration (4) | 24,183 | 22,822 | 71,080 | 66,617 |
| Amortization of intangible assets (5) | 2,704 | 1,168 | 6,361 | 3,415 |
| Special charges (6) | 1,115 | 359 | 5,160 | 6,512 |
| In-process research and development (7) | - | - | 4,100 | 180 |
| Total operating expenses | 166,616 | 156,989 | 497,672 | 456,025 |
| **Operating income (loss):** | (11,603) | 4,624 | (8,922) | 4,763 |
| Other income, net (8) | 5,026 | 5,508 | 16,397 | 11,836 |
| Interest expense (9) | (5,053) | (5,645) | (15,112) | (23,403) |
| Income (loss) before income taxes | (11,630) | 4,487 | (7,637) | (6,804) |
| Income tax expense (benefit) (10) | (2,480) | 1,957 | (684) | (3,026) |
| Net income (loss) | $ (9,150) | $ 2,530 | $ (6,953) | $ (3,778) |
| Net income (loss) per share: | | | | |
| Basic | $ (0.10) | $ 0.03 | $ (0.08) | $ (0.05) |
| Diluted | $ (0.10) | $ 0.03 | $ (0.08) | $ (0.05) |
| Weighted average number of shares outstanding: | | | | |
| Basic | 89,609 | 81,741 | 87,456 | 80,735 |
| Diluted | 89,609 | 83,347 | 87,456 | 80,735 |

Refer to following page for a description of footnotes.

Listed below are the items included in net income that management excludes in computing the non-GAAP financial measures referred to in the text of this press release. Items are further described under "Discussion of Non-GAAP Financial Measures".

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 31, 2007 | September 30, 2006 | October 31, 2007 | September 30, 2006 |
| **(1) Cost of revenues:** | | | | |
| Stock-based compensation | $ 281 | $ 200 | $ 642 | $ 653 |
| Amortization of purchased intangible assets | 2,139 | 3,286 | 7,513 | 9,942 |
| | $ 2,420 | $ 3,486 | $ 8,155 | $ 10,595 |
| **(2) Research and development:** | | | | |
| Stock-based compensation | $ 2,240 | $ 1,301 | $ 5,179 | $ 4,166 |
| | $ 2,240 | $ 1,301 | $ 5,179 | $ 4,166 |
| **(3) Marketing and selling:** | | | | |
| Stock-based compensation | $ 1,557 | $ 1,033 | $ 3,678 | $ 3,340 |
| | $ 1,557 | $ 1,033 | $ 3,678 | $ 3,340 |
| **(4) General and administration:** | | | | |
| Stock-based compensation | $ 892 | $ 430 | $ 2,987 | $ 1,360 |
| | $ 892 | $ 430 | $ 2,987 | $ 1,360 |
| **(5) Amortization of intangible assets:** | | | | |
| Amortization of purchased intangible assets | $ 2,704 | $ 1,168 | $ 6,361 | $ 3,415 |
| | $ 2,704 | $ 1,168 | $ 6,361 | $ 3,415 |
| **(6) Special charges:** | | | | |
| Rebalance and restructuring costs | $ 1,115 | $ 359 | $ 5,160 | $ 6,512 |
| | $ 1,115 | $ 359 | $ 5,160 | $ 6,512 |
| **(7) In-process research and development:** | | | | |
| In-process research and development | $ - | $ - | $ 4,100 | $ 180 |
| | $ - | $ - | $ 4,100 | $ 180 |
| **(8) Other income, net:** | | | | |
| Investment earnout payment receipt | $ - | $ (895) | $ - | $ (895) |
| | $ - | $ (895) | $ - | $ (895) |
| **(9) Interest expense:** | | | | |
| Debt retirement costs | $ 288 | $ 322 | $ 452 | $ 6,227 |
| | $ 288 | $ 322 | $ 452 | $ 6,227 |
| **(10) Income tax expense (benefit):** | | | | |
| Income tax effects | $ (2,410) | $ (30) | $ (5,518) | $ (7,802) |
| | $ (2,410) | $ (30) | $ (5,518) | $ (7,802) |

**MENTOR GRAPHICS CORPORATION**
**UNAUDITED RECONCILIATION OF NON-GAAP ADJUSTMENTS**
(In thousands, except earnings per share data)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 31, 2007 | September 30, 2006 | October 31, 2007 | September 30, 2006 |
| GAAP net income (loss) | $ (9,150) | $ 2,530 | $ (6,953) | $ (3,778) |
| Non-GAAP adjustments: | | | | |
| Stock-based compensation: (1) | | | | |
| Cost of revenues | 281 | 200 | 642 | 653 |
| Research and development (R&D) | 2,240 | 1,301 | 5,179 | 4,166 |
| Marketing and selling | 1,557 | 1,033 | 3,678 | 3,340 |
| General and administration | 892 | 430 | 2,987 | 1,360 |
| Acquisition - related items: | | | | |
| Amortization of purchased intangible assets | | | | |
| Cost of revenues (2) | 2,139 | 3,286 | 7,513 | 9,942 |
| Amortization of intangible assets (3) | 2,704 | 1,168 | 6,361 | 3,415 |
| In-process R&D (4) | - | - | 4,100 | 180 |
| Special charges (5) | 1,115 | 359 | 5,160 | 6,512 |
| Other income (6) | - | (895) | - | (895) |
| Interest expense (7) | 288 | 322 | 452 | 6,227 |
| Income tax effects (8) | (2,410) | (30) | (5,518) | (7,802) |
| Total of non-GAAP adjustments | 8,806 | 7,174 | 30,554 | 27,098 |
| Non-GAAP net income (loss) | $ (344) | $ 9,704 | $ 23,601 | $ 23,320 |
| GAAP weighted average shares (diluted) | 89,609 | 83,347 | 87,456 | 80,735 |
| Non-GAAP adjustment (9) | - | - | 2,293 | 1,071 |
| Non-GAAP weighted average shares (diluted) | 89,609 | 83,347 | 89,749 | 81,806 |
| GAAP net income (loss) per share (diluted) | $ (0.10) | $ 0.03 | $ (0.08) | $ (0.05) |
| Non-GAAP adjustments detailed above | 0.10 | 0.09 | 0.34 | 0.34 |
| Non-GAAP net income per share (diluted) | $ (0.00) | $ 0.12 | $ 0.26 | $ 0.29 |

**(1)** Equity plan-related compensation expense recognized in accordance with SFAS 123R, Share-Based Payment.

**(2)** Amount represents purchased intangible assets resulting from acquisition transactions. Purchased intangible assets are amortized over two to five years.

**(3)** Purchased other identified intangible assets are amortized to other operating expense over two to five years. Purchased other identified intangible assets includes tradenames, employment agreements, customer relationships and deferred compensation which are the result of acquisition transactions.

**(4)** *Nine months ended October 31, 2007:* Write off of $4,100 for in-process research and development related to the Sierra acquisition.

*Nine months ended September 30, 2006:* Write off of $180 for in-process research and development related to the Evercad acquisition.

**(5)** *Three months ended October 31, 2007:* Special charges consist of $1,115 of costs incurred for employee rebalances which includes severance benefits, notice pay and outplacement services.

*Three months ended September 30, 2006:* Special charges consist of $359 of costs incurred for employee rebalances which includes severance benefits, notice pay and outplacement services.

*Nine months ended October 31, 2007:* Special charges consist of (i) $5,798 of costs incurred for employee rebalances, which includes severance benefits, notice pay and outplacement services, (ii) $(721) related to reoccupation of a previously abandoned facility, (iii) $100 for a wind-up services agreement related to the liquidation of a subsidiary, and (iv) $(17) in other costs and adjustments, net.

*Nine months ended September 30, 2006:* Special charges consist of (i) $4,333 of costs incurred for employee rebalances, which includes severance benefits, notice pay and outplacement services, (ii) $1,625 related to the abandonment of excess leased facility space, the disposal of related assets and other costs related to discontinuation of one of the company's intellectual property product lines, and (iii) $554 in other costs incurred, which primarily includes non-cancelable lease payments for one facility in Europe.

**(6)** *Three and nine months ended September 30, 2006:* Non-operating gain related to investment earn out payment received from a sale of equity interest in 2003.

**(7)** *Three and nine months ended October 31, 2007:* Premium and unamortized debt costs related to the redemption of convertible debt.

*Three and nine months ended September 30, 2006*: Premium and unamortized debt costs related to the redemption of convertible debt.

**(8)** Non-GAAP income tax expense adjustment reflects the application of our assumed normalized effective 17% tax rate, instead of our GAAP tax rate, to our GAAP pre-tax income and the application of the 17% tax rate to our non-GAAP adjustments.

**(9)** Dilutive shares related to the stock options and employee stock purchase plan, which were antidilutive under GAAP.

**MENTOR GRAPHICS CORPORATION**
**UNAUDITED RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES**
(In thousands, except percentages)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 31, 2007 | September 30, 2006 | October 31, 2007 | September 30, 2006 |
| GAAP gross margin | $ 155,013 | $ 161,613 | $ 488,750 | $ 460,788 |
| Reconciling items to non-GAAP gross margin | | | | |
| Stock-based compensation | 281 | 200 | 642 | 653 |
| Amortization of purchased intangible assets | 2,139 | 3,286 | 7,513 | 9,942 |
| Non-GAAP gross margin | $ 157,433 | $ 165,099 | $ 496,905 | $ 471,383 |

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 31, 2007 | September 30, 2006 | October 31, 2007 | September 30, 2006 |
| GAAP gross margin as a percent of total revenue | 83% | 85% | 84% | 84% |
| Non-GAAP adjustments detailed above | 2% | 2% | 1% | 2% |
| Non-GAAP gross margin as a percent of total revenue | 85% | 87% | 85% | 86% |

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 31, 2007 | September 30, 2006 | October 31, 2007 | September 30, 2006 |
| GAAP operating expenses | $ 166,616 | $ 156,989 | $ 497,672 | $ 456,025 |
| Reconciling items to non-GAAP operating expenses | | | | |
| Stock-based compensation | (4,689) | (2,764) | (11,844) | (8,866) |
| Amortization of purchased intangible assets | (2,704) | (1,168) | (6,361) | (3,415) |
| Rebalance and restructuring costs | (1,115) | (359) | (5,160) | (6,512) |
| In-process research and development | - | - | (4,100) | (180) |
| Non-GAAP operating expenses | $ 158,108 | $ 152,698 | $ 470,207 | $ 437,052 |

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 31, 2007 | September 30, 2006 | October 31, 2007 | September 30, 2006 |
| GAAP operating income (loss) | $ (11,603) | $ 4,624 | $ (8,922) | $ 4,763 |
| Reconciling items to non-GAAP operating income (loss) | | | | |
| Stock-based compensation | 4,970 | 2,964 | 12,486 | 9,519 |
| Amortization of purchased intangible assets | | | | |
| Cost of revenues | 2,139 | 3,286 | 7,513 | 9,942 |
| Amortization of intangible assets | 2,704 | 1,168 | 6,361 | 3,415 |
| Rebalance and restructuring costs | 1,115 | 359 | 5,160 | 6,512 |
| In-process research and development | - | - | 4,100 | 180 |
| Non-GAAP operating income (loss) | $ (675) | $ 12,401 | $ 26,698 | $ 34,331 |

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 31, 2007 | September 30, 2006 | October 31, 2007 | September 30, 2006 |
| GAAP operating margin as a percent of total revenue | -6% | 2% | -2% | 1% |
| Non-GAAP adjustments detailed above | 6% | 5% | 7% | 5% |
| Non-GAAP operating margin as a percent of total revenue | 0% | 7% | 5% | 6% |

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 31, 2007 | September 30, 2006 | October 31, 2007 | September 30, 2006 |
| GAAP other income, net and interest expense | $ (27) | $ (137) | $ 1,285 | $ (11,567) |
| Reconciling items to non-GAAP other income, net and interest expense | | | | |
| Investment earnout payment receipt | - | (895) | - | (895) |
| Debt retirement costs | 288 | 322 | 452 | 6,227 |
| Non-GAAP other income, net and interest expense | $ 261 | $ (710) | $ 1,737 | $ (6,235) |

**MENTOR GRAPHICS CORPORATION**
**CONSOLIDATED BALANCE SHEETS**
(In thousands - Unaudited)

| | October 31, 2007 | December 31, 2006 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash, cash equivalents and short-term investments | $ 98,063 | $ 129,857 |
| Trade accounts receivable, net | 135,018 | 117,003 |
| Term receivables, short-term | 142,235 | 146,123 |
| Prepaid expenses and other | 38,496 | 29,679 |
| Deferred income taxes | 11,654 | 12,549 |
| Total current assets | 425,466 | 435,211 |
| **Property, plant and equipment, net** | 97,870 | 86,100 |
| **Term receivables, long term** | 116,390 | 162,157 |
| **Intangible assets, net** | 459,934 | 396,534 |
| **Other assets** | 55,719 | 46,237 |
| Total assets | $ 1,155,379 | $ 1,126,239 |
| **Liabilities and Stockholders' Equity** | | |
| **Current liabilities:** | | |
| Short-term borrowings | $ 7,687 | $ 7,181 |
| Accounts payable | 16,925 | 20,122 |
| Income taxes payable | 6 | 45,521 |
| Accrued payroll and related liabilities | 81,543 | 105,009 |
| Accrued liabilities | 35,054 | 34,938 |
| Deferred revenue | 119,654 | 110,639 |
| Total current liabilities | 260,869 | 323,410 |
| **Long-term notes payable** | 238,952 | 249,852 |
| **Other long-term liabilities** | 65,411 | 19,910 |
| Total liabilities | 565,232 | 593,172 |
| **Stockholders' equity:** | | |
| Common stock | 516,478 | 430,847 |
| Retained earnings | 35,426 | 72,728 |
| Accumulated other comprehensive income | 38,243 | 29,492 |
| Total stockholders' equity | 590,147 | 533,067 |
| Total liabilities and stockholders' equity | $ 1,155,379 | $ 1,126,239 |

**MENTOR GRAPHICS CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(In thousands - Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 31, 2007 | September 30, 2006 | October 31, 2007 | September 30, 2006 |
| **Operating activities** | | | | |
| Net income (loss) | $ (9,150) | $ 2,530 | $ (6,953) | $ (3,778) |
| Depreciation and amortization (1) | 12,702 | 11,120 | 36,153 | 35,842 |
| Other adjustments to reconcile: | | | | |
| Operating cash | 2,596 | 597 | 7,524 | 3,449 |
| Changes in working capital | 8,528 | (3,969) | (16,565) | 20,980 |
| Net cash provided by operating activities | 14,676 | 10,278 | 20,159 | 56,493 |
| **Investing activities** | | | | |
| Net cash provided by (used in) investing activities | 10,097 | 1,180 | (38,306) | (49,324) |
| **Financing activities** | | | | |
| Net cash provided by (used in) financing activities | (8,146) | 8,823 | 4,903 | 1,498 |
| Effect of exchange rate changes on cash and cash equivalents | 569 | 268 | 1,372 | 807 |
| Net change in cash and cash equivalents | 17,196 | 20,549 | (11,872) | 9,474 |
| Cash and cash equivalents at beginning of period | 66,164 | 63,578 | 95,232 | 74,653 |
| Cash and cash equivalents at end of period | $ 83,360 | $ 84,127 | $ 83,360 | $ 84,127 |

**(1)** Depreciation and amortization includes a write-off of note issuance costs in the amount of $119 and $147 for the three months ended October 31, 2007 and September 30, 2006, respectively, and $181 and $2,407 for the nine months ended October 31, 2007 and September 30, 2006, respectively.

**MENTOR GRAPHICS CORPORATION**
**SUPPLEMENTAL FINANCIAL AND OTHER INFORMATION**
(In thousands, except for percentages and days sales outstanding - Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 31, 2007 | September 30, 2006 | October 31, 2007 | September 30, 2006 |
| **Geographic revenue:** | | | | |
| North America | $ 76,611 | $ 85,975 | $ 278,216 | $ 229,339 |
| | 41.1% | 45.2% | 47.8% | 42.0% |
| Europe | 46,845 | $ 47,316 | $ 133,661 | $ 138,815 |
| | 25.2% | 24.8% | 22.9% | 25.5% |
| Japan | 35,963 | $ 34,197 | $ 85,090 | $ 98,003 |
| | 19.3% | 17.9% | 14.6% | 18.0% |
| Pac Rim | 26,892 | $ 23,147 | $ 85,547 | $ 79,233 |
| | 14.4% | 12.1% | 14.7% | 14.5% |
| **Other data:** | | | | |
| Capital expenditures | $ 9,154 | $ 6,886 | $ 29,308 | $ 19,380 |
| Days sales outstanding | 134 | 100 | - | - |

**MENTOR GRAPHICS CORPORATION**
**UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP**
**EARNINGS PER SHARE GUIDANCE**

The following table reconciles management's estimates of the specific items excluded from GAAP in the calculation of expected non-GAAP earnings per share for the periods shown below:

| | FY 2008 |
|---|---|
| Diluted GAAP net earnings per share | $ 0.50 |
| Non-GAAP Adjustments: | |
| Amortization of purchased intangible assets (1) | 0.11 |
| Amortization of other identified intangible assets (2) | 0.10 |
| Stock-based compensation (3) | 0.19 |
| Special Charges (4) | 0.06 |
| In-process R&D (5) | 0.04 |
| Expense associated with convertible debt (6) | 0.00 |
| Income tax effects (7) | 0.02 |
| Non-GAAP net income | $ 1.02 |

**(1)** Excludes amortization of purchased intangible assets resulting from acquisition transactions. Purchased intangible assets are amortized over two to five years. The guidance for fiscal year 2008 (FY2008) assumes no new acquisition transactions.

**(2)** Excludes amortization of other identified intangible assets including trade names, employment agreements and customer relationships resulting from acquisition transactions. Other identified intangible assets are amortized over two to five years.

**(3)** Excludes equity plan-related compensation expense recognized in accordance with SFAS 123R, Share-Based Payment.

**(4)** Excludes special charges incurred during the first nine months of FY2008 consisting primarily of costs incurred for employee rebalances, which included severance benefits, notice pay and outplacement services.

**(5)** Excludes write off of in-process research and development incurred during the first nine months of FY2008 related to the Sierra acquisition.

**(6)** Excludes amounts incurred during the first nine months of FY2008 for the write-off of previously capitalized convertible debt costs and net premium paid on the retirement of convertible debt.

**(7)** Non-GAAP income tax expense adjustment reflects the application of our assumed normalized effective 17% tax rate, instead of our GAAP tax rate, to our GAAP pre-tax income and the application of the 17% tax rate to our non-GAAP adjustments.

**MENTOR GRAPHICS CORPORATION**
**UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP**
**EARNINGS PER SHARE GUIDANCE**

The following table reconciles management's estimates of the specific items excluded from GAAP in the calculation of expected non-GAAP earnings per share for the periods shown below:

| | FY 2009 |
|---|---|
| Diluted GAAP net earnings per share | $ 0.78 |
| Non-GAAP Adjustments: | |
| Amortization of purchased intangible assets (1) | 0.08 |
| Amortization of other identified intangible assets (2) | 0.10 |
| Stock-based compensation (3) | 0.16 |
| Income tax effects (4) | 0.10 |
| Non-GAAP net income | $ 1.22 |

**(1)** Excludes amortization of purchased intangible assets resulting from acquisition transactions. Purchased intangible assets are amortized over two to five years. The guidance for fiscal year 2009 (FY2009) assumes no new acquisition transactions.

**(2)** Excludes amortization of other identified intangible assets including trade names, employment agreements and customer relationships resulting from acquisition transactions. Other identified intangible assets are amortized over two to five years.

**(3)** Excludes equity plan-related compensation expense recognized in accordance with SFAS 123R, Share-Based Payment.

**(4)** Non-GAAP income tax expense adjustment reflects the application of our assumed normalized effective 17% tax rate, instead of our GAAP tax rate, to our GAAP pre-tax income and the application of the 17% tax rate to our non-GAAP adjustments.